



Public Employees
Retirement Association
of New Mexico

Report on Actuarial Soundness of the Public Employees Retirement Association (PERA) Pension Fund and Recent Pension Performance

Investments Oversight Committee

June 9, 2011

Presented by

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PERA's Actuarial Soundness

□ Valuation Data as of June 30, 2010 (All PERA Divisions)

- ✓ \$15.601 Billion Actuarial Accrued Liability
- ✓ \$12.243 Billion Actuarial Valuation of Assets
- ✓ \$10.2 Billion Market Value of Assets
- ✓ 78.5% Funded Ratio
- ✓ \$3.357 Billion Unfunded Actuarial Accrued Liability

NOTE: PERA's valuation as of June 30, 2011 will be provided by the actuaries in October 2011 and distributed to IOC committee members at that time. The valuation information cited above is almost a year old and does not accurately reflect the fund's status.



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PERA's Actuarial Soundness

□ **Phased-In Recognition of Market Losses**

PERA “smooths” its market gains and losses over a four-year period.

PERA's funding status has recognized two years of losses to be smoothed and has two more years of recognizing losses before all of the losses in the market downturn are recognized. Gains above the assumed rate of 8% earned since 2009 are also being smoothed in over four years. Beginning with the June 30, 2013 valuation report, the recognition of these gains will improve PERA's funded status significantly absent future losses.



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PERA's Actuarial Soundness

□ **PROJECTED ACTUARIAL ASSUMPTIONS FOR FY 2011**

- ✓ Actuarial value of assets as of June 30, 2011 will post gains above 8%.
- ✓ The fund's amortization period will continue to be infinite.
- ✓ It is projected that PERA's funded ratio will drop to around 72% next valuation assuming a \$12 billion fund market value.
- ✓ The funded ratio may bottom out in the high 60th percentile with two more years of smoothing losses which more than offset gains since 2009.
- ✓ Additional contributions above those shown on the 2010 valuation will be required.



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PERA's Actuarial Soundness

□ **PERA Board's Recommendations to Recoup Fund Losses**

In the 2011 legislative session, the PERA Board supported the following legislation to address the funding issues:

Increased Employee / Employer Contributions – Short-term Solvency

As a short-term funding fix, the PERA Board crafted legislation introduced by Sen. George K. Munoz (SB 87) to address the underfunding of State General Member Coverage Plan 3; Municipal Police Member Coverage Plans 1, 2, 3, 4 and 5 and Municipal Fire Member Coverage Plans 1, 2, 3, 4 and 5.

In the bill, PERA requested an increase of 2% in contribution rates per year for four consecutive years beginning July 1, 2011, for a total increase of 8%. The proposed 2% annual contribution was split as one-third employee contribution and two-thirds employer contribution.



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PERA's Actuarial Soundness

□ **PERA Board's Recommendations to Recoup Fund Losses**

In the 2011 legislative session, the PERA Board supported the following legislation to address the funding issues:

PERA Ideal Plan – Long-term Solvency

PERA Board members addressed the issue of long-term plan solvency by proposing its “Ideal Plan.” Sen. Steven Neville introduced SB 268 which would have provided a second tier of member coverage plans with reduced benefit structures for new members hired on or after July 1, 2011.

Public Safety special interests opposed any changes to their 20-year retirement plans with 3.5% pension factors even though these plans are underfunded.

Legislative initiatives proposed by PERA for plan solvency were not given serious consideration during the legislative session.



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PERA Recent Investment

Performance

❑ **Assets**

- ✓ **\$12.4 Billion** Market Value as of 5/31/2011
- ✓ This balance represents a fiscal year-to-date gain of **24%**
- ✓ Down from a high of \$13.8 Billion on 10/29/07
- ✓ Up 60% from a low of \$7.6 Billion on 3/9/09

- ✓ **PERA's Actuarial Assumed Rate of Investment Return is 8%**



Pension Fund Performance – March 31,

	<u>March 2011</u>	<u>QE 3-31-11</u>	<u>FYTD</u>
NM PERA Total Fund	0.58%	4.05%	21.52%
Custom Benchmark	<u>0.27%</u>	<u>3.53%</u>	<u>19.53%</u>
	+0.31%	+0.84%	+2.37%
Peer* Percentile Rank		37 th %	19 th %
*All Public Plans >\$2 billion – population		61 plans	60 plans



Asset Class Composites – March 31, 2011

- U.S. Large Capitalization Equities
Composite Benchmark: Russell 1000 Index

QE 3-31-11 Return

7.01%
6.24%

NM PERA Large Cap Composite		
Lrg Cap Value - Active CS McKee Actual = 10.5% Target = 10%	Lrg Cap Core - Active INTECH Actual = 10.5% Target = 10%	Lrg Cap Growth R 1000- Active - New Mgr TBD Actual = 10% Target = 10%
Portable Alpha Program Actual = 25% Target = 22%		
Lrg Cap Core R1000 - Passive Actual = 44% Target = 48%		



Asset Class Composites – March 31, 2011

- U.S. Small and Mid Capitalization Equities QE 3-31-11 Return
8.77%

Composite Benchmark: Russell 2500 Index 8.70%

NM PERA Small/Mid Cap Composite		
<p>Sml/SMID R2000 Value - Active MetWest & DFA</p> <p>Actual = 40% Target = 40%</p>	<p>Small Cap R2500 Passive SSgA</p> <p>Actual = 20% Target = 20%</p>	<p>Sml/SMID R2000 Growth - Active TimeSquare, RBC & new Mgr</p> <p>Actual = 40% Target = 40%</p>



Asset Class Composites – March 31, 2011

QE 3-31-11 Return

- International (non-U.S.) Equities 2.93%
Composite Benchmark: MSCI AWCI ex-U.S. Index 3.49%

NM PERA International Equity Composite		
Developed Lrg Cap Value - Active KBC and MFS Actual = 8% Target = 7%	Developed Lrg Cap Core - Active Artio & State Street Actual = 20% Target = 21%	Developed Lrg Cap Growth - Active New Mgr TBD Actual = 7% Target = 7%
All Country World Ex-U.S. (ACWI Ex US) - Passive New Mgr TBD Actual = 46% Target = 42%		
Developed Sml Cap Core - Active Principal Global Investors Actual = 5% Target = 5%	Developed Sml Cap Core - Active New Mgr TBD Actual = 0% Target = 3%	
Emerging Markets Core - Active Eaton Vance, Aberdeen and Wellington Actual = 14% Target = 15%		



Asset Class Composites – March 31, 2011

- Fixed Income** QE 3-31-11 Return
1.18%
 Composite Benchmark: Barclay's Aggregate Bond Index 0.42%

NM PERA Fixed Income Composite			
Core Fixed Income Blackrock BGI Actual = 40% Target = 40%			
Core Plus Fixed Income PIMCO Actual = 19% Target = 20%	Core Plus Fixed Income Western Asset Actual = 17% Target = 17%	Core Plus Fixed Income Manulife (in transition) Actual = 9% Target = 8%	Global Fixed Income Franklin Templeton Actual = 15% Target = 15%



Asset Class Composites – March 31, 2011

- Alternative Assets

Composite Benchmark: 3-month LIBOR Index + 4%

QE 3-31-11 Return

4.20%

1.06%

NM PERA Alternative Asset Composite	
Hedge Funds 33 Partnerships Actual = 49% Interim Target 52.5%	
Private Equity 32 Partnerships Actual = 15.5% Interim Target = 17.5%	
Real Estate 8 Partnerships, 3 REITs Actual = 13% Interim Target = 10%	Real Assets 11 Partnerships* Actual = 22.5% Interim Target = 20%

* Includes Commodities & TIPS



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Questions?
