

New Mexico Educational Retirement Board Basics and Update

Investments and Pensions Oversight Committee
Representative Tomás Salazar, Chair
George Muñoz, Vice-Chair
June 20, 2017

Jan Goodwin, Executive Director
Bob Jacksha, CIO
Mary Lou Cameron, Board Chair
H. Russell Goff, Board Vice-Chair



Mission

- Providing secure retirement benefits for New Mexico's educational employees- past, present and future

Vision

- To be an effective and trusted manager of New Mexico's Educational retirement system

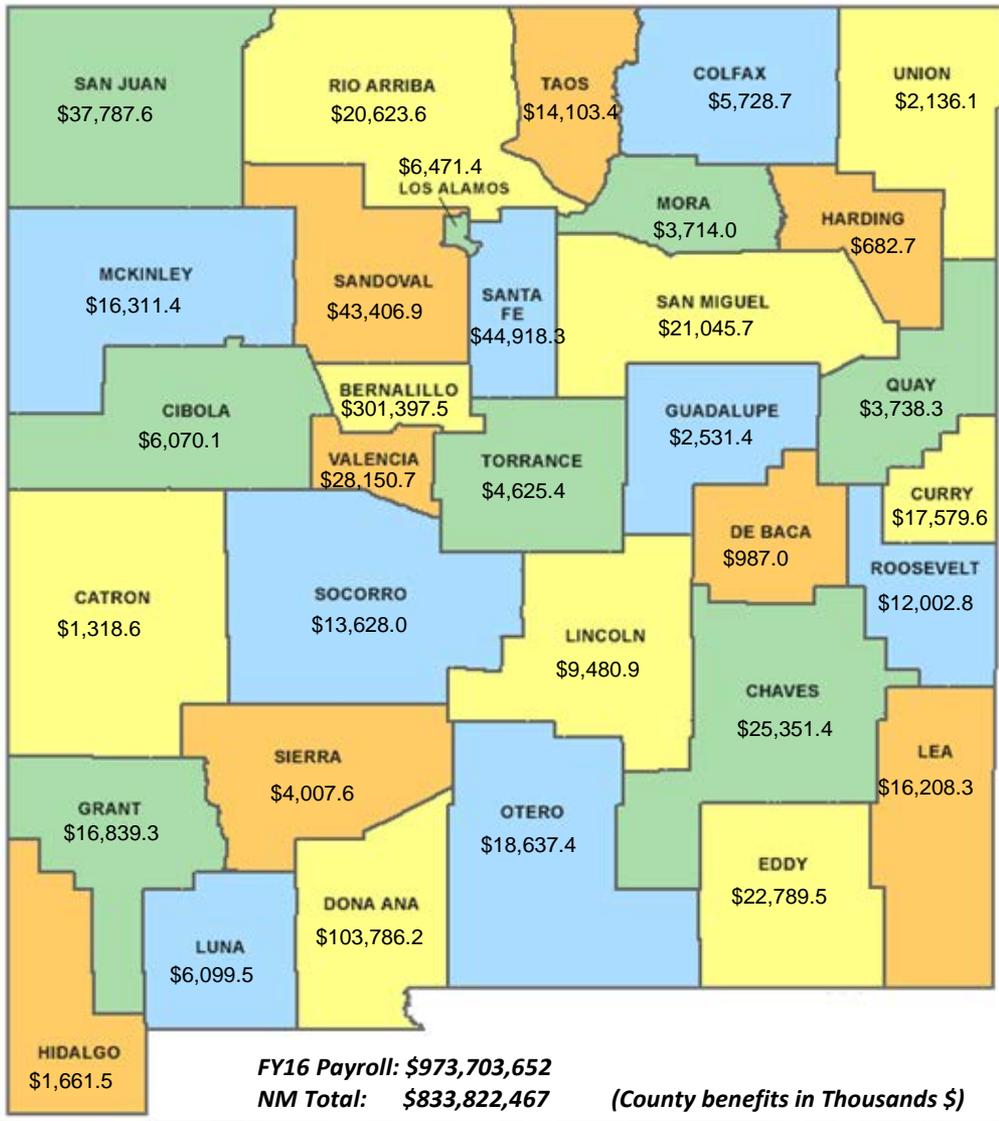
Values

- Innovation, Integrity, Quality, Respect, Service, Stewardship and Transparency

Active and retired employees of New Mexico's:

- Public schools
- Institutions of higher learning
- Certain employees of state agencies who work in educational programs

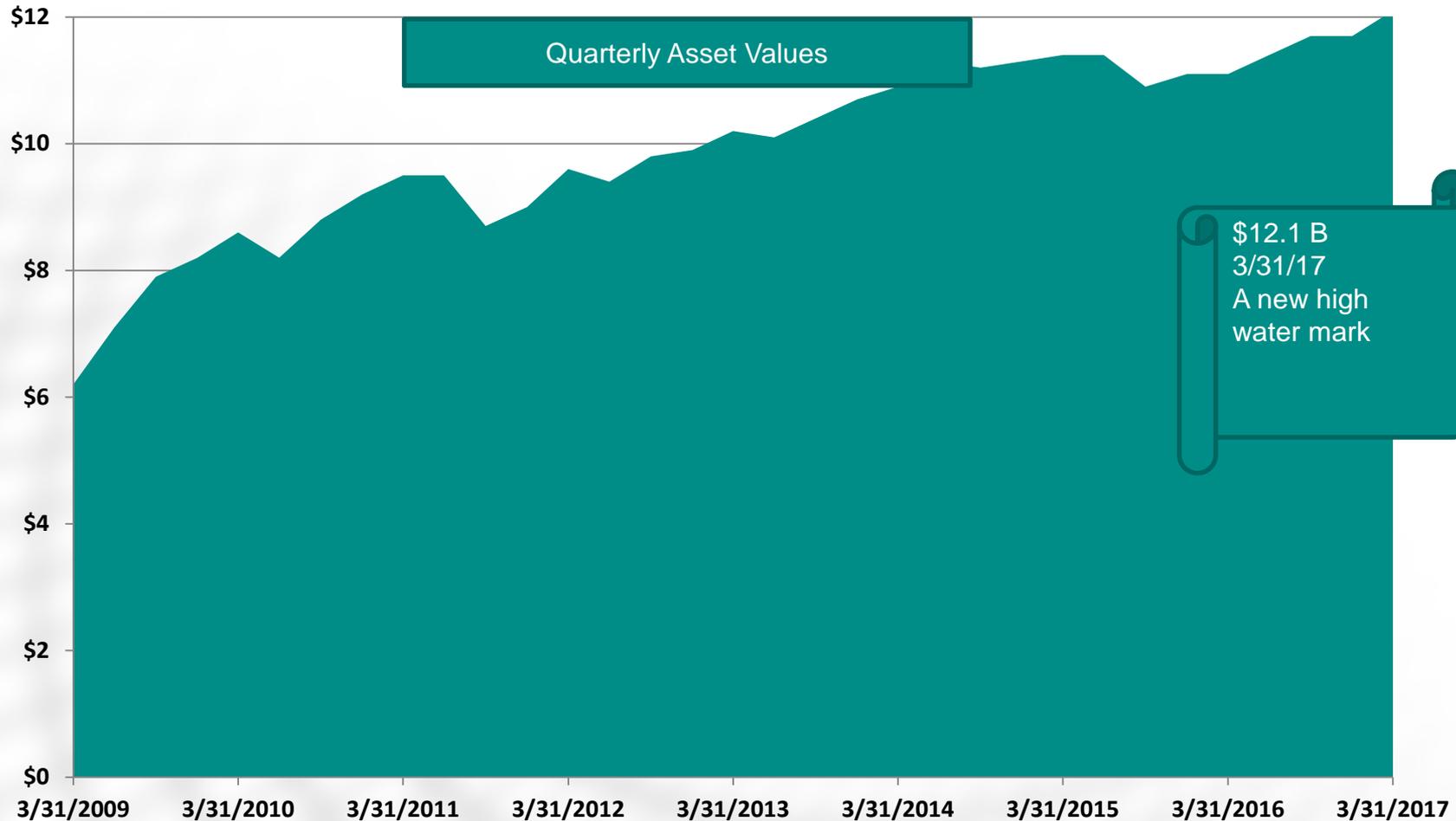
Fiscal Year 2016 Retiree Benefits by County



ERB Highlights as of June 30, 2016

Active ERB Members	60,057
Retirees and Beneficiaries	45,797
Retiree Payroll	\$973,703,652
Member Contributions	\$295,946,396
Employer Contributions	\$396,988,557
Member Contribution Refunds	\$39,027,078
Active Member Payroll	\$2,612,044,476
Participating Employers	218
ERB Net Assets	\$11.5 billion
Average Benefit	\$21,972
Average Age at Retirement	61.51

March 2017 – A New High in Assets!



March 31, 2017 Investment Returns

<u>Returns*</u>	<u>FYTD</u>	<u>1 Years</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>	<u>30 Years</u>
Portfolio	8.9%	11.8%	6.5%	7.9%	5.4%	8.7%
Policy Index	9.1%	11.3%	5.7%	7.1%	4.6%	7.6%
Value Add	(0.2%)	0.5%	0.8%	0.8%	0.8%	1.3%
Universe Ranking	69	43	6	34	30	1

*All returns in this presentation are presented net of external manager fees.

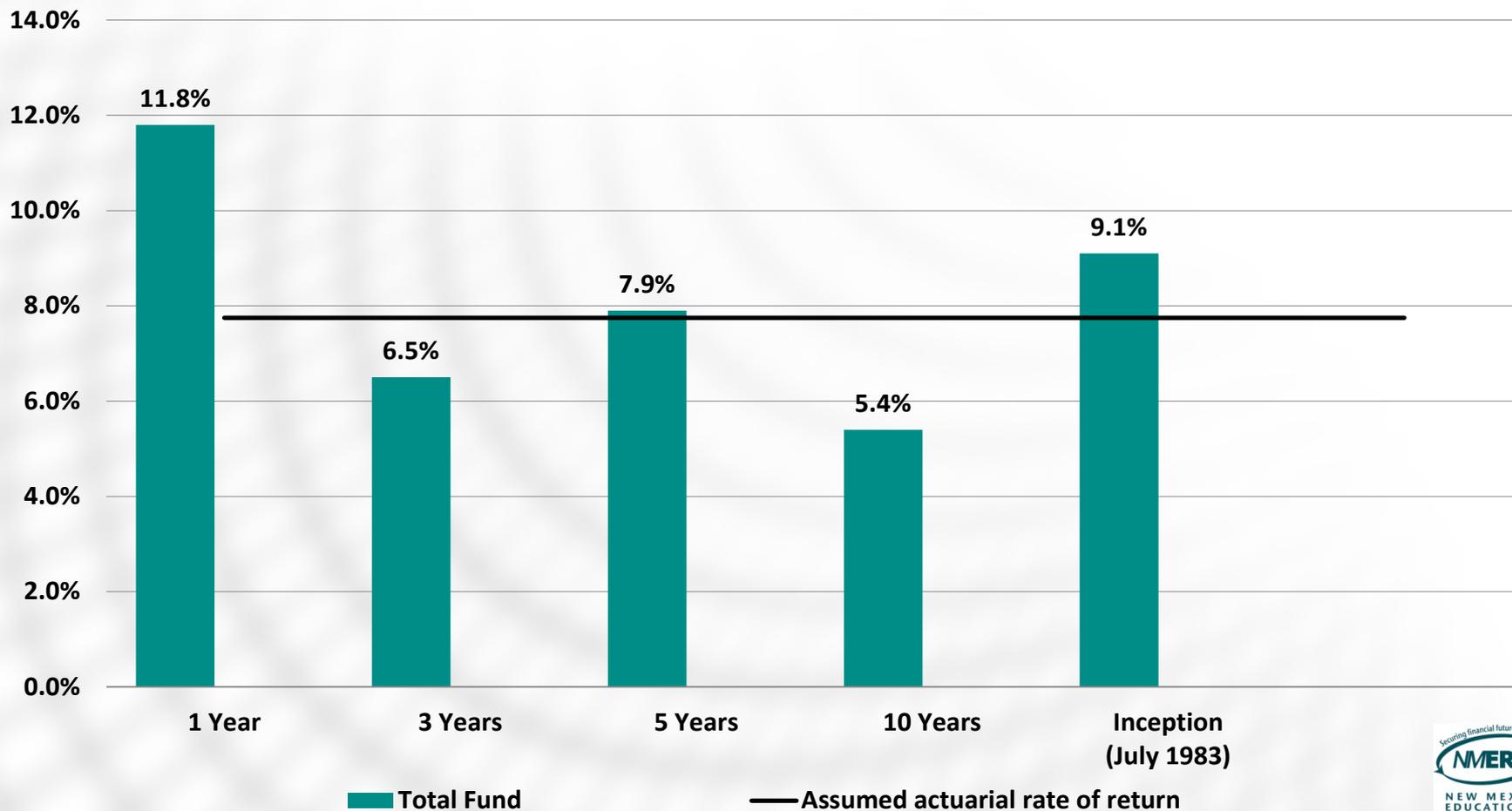
Cumulative Value Added vs. Index

Quarterly and Cumulative Excess Performance



Return vs. 7.75% Target

**NMERB Annualized Returns
As of March 31, 2017
Net of Fees**



April 30, 2017 Investment Returns

<u>Returns</u>	<u>FYTD</u>	<u>1 Years</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>	<u>Since Inception</u> July 1983
Portfolio	10.3%	11.9%	6.6%	8.1%	5.2%	9.1%
Policy Index	10.0%	11.3%	5.8%	7.2%	4.4%	N/A
Value Add	0.3%	0.6%	0.8%	0.9%	0.8%	N/A

April 30, 2017 Asset Value: \$12.2 Billion

SB 28- Senator Gay Kernan

Statutory clean up:

Align statute with business practices

Areas of change:

- Provisional membership
- Disability benefits
- Clarifying and technical changes

Status:

Passed both houses, signed by Governor

SB 29- Senator Stuart Ingle

Compensation and classification of investment staff

Areas of change:

- Provide agency director authority to hire and set salaries for some investment staff (8 employees)
- Agency director will develop, with Board approval, salary classifications and ranges modeled on GovEx ranges

Status:

Awaiting hearing in Senate Finance

Last summer we presented our goals for increasing disclosures in our financial statements.

SB2 during the 2017 session was modelled on our plan.

Our FY16 financial statements included these disclosures:

- More details on investment expenses
- More details on in-house investing
- More details on administrative expenses

ERB Retirement Eligibility: Tier Structure

Tier 1: ERB Membership Prior to July 1, 2010

- * “25 and Out” – Earned service credits + allowed service credits = 25 or more years. There is no minimum age required.
- * “Rule of 75” – Your age + earned service credits = 75 or more. Under the Rule of 75, allowed service credits are used to calculate retirement benefit but do not count toward eligibility. There are permanent and significant reductions if you are under age 60, and even more if you are under age 55.
- “65 and 5” – If you are at least 65 years old and have at least five years of earned service credit, you are eligible for retirement.

Tier 2: ERB Membership Beginning on or after July 1, 2010, but prior to July 1, 2013

- * “30 and Out” – Earned service credits + allowed service credits = 30 or more years. There is no minimum age required.
- * “Rule of 80” – Your age + earned service credits = 80 or more. As with the Rule of 75, allowed service credits are used to calculate retirement benefit but do not count toward eligibility. There are permanent and significant reductions if you are under age 65, and even more if you are under age 60.
- * “67 and 5” – If you are at least 67 years old and have at least five years of earned service credit, you are eligible for retirement.

Tier 3: ERB Membership Beginning on or after July 1, 2013

- * Same retirement eligibilities as immediately above. If member receives pension benefit before age 55 with 30 and Out retirement eligibility, benefit will be actuarially reduced.
- * Cost of Living Adjustment (COLA) begins at age 67 or on July 1 of the year following member’s effective retirement date, whichever is later.



ERB Benefit Structure

- * Final average salary (FAS) x service credit x .0235 = annual benefit
- * Cost Of Living Adjustment (COLA) available on July 1 of the year in which you reach age 65 or on July 1 of the year following member's effective retirement date, whichever is later for Tier 1 and Tier 2 members. For Tier 3 members, COLA begins at age 67 or on July 1 of the year following member's effective retirement date, whichever is later. The amount depends on the annual change in the Consumer Price Index (CPI). The average COLA over time has been 2%. COLA was reduced as part of the 2013 sustainability bill until ERB is 100% funded.
- * Five year vesting period
 - No minimum retirement age (with exception of reductions in Rule of 75 and Rule of 80)

Examples of retirement percentage rates:

25 years x .0235 = 58.75% 30 years x .0235 = 70.5% 35 years x .0235 = 82.25%

History of ERB Retirement Benefits

YEAR	RETIREMENT ELIGIBILITY	MULTIPLIER	COLA
1962	30 years of service with actuarial reduction if younger than age 60 Age 60 with 15 years of service	1.5% first \$4,000 of Final Average Salary (FAS) and 1% thereafter	Ad Hoc
1965	30 years of service with actuarial reduction if younger than age 60 Age 60 with 15 years' service Age 65 with 10 years of service	SAME	Ad Hoc
1971	35 years of service 30 years of service with actuarial reduction if younger than age 60 Age 60 with 15 years of service Age 65 with 5 years of service	1.50%	Ad Hoc
1974	35 years of service Rule of 75 with reduction if younger than age 60 Age 65 with 5 years of service	1.5% for years before July 1, 1957 2% for years after July 1, 1957	Ad Hoc
1979	SAME	SAME	Based on change in CPI, capped at 2%. Can decrease - but not below original retirement benefit. Begins after 4 years of retirement.
1981	30 years of service Rule of 75 with reduction if younger than age 60 Age 65 with 5 years of service	SAME	SAME
1984	25 years of service Rule of 75 with reduction if younger than age 60 Age 65 with 5 years of service	SAME	Based on change in CPI, capped at 4%. On average, 2%. Begins the later of age 65 or one year following retirement.
1987	SAME	2.15%	SAME
1991	SAME	2.35%	SAME
2010	SAME	SAME	Elimination of negative COLA
2010	Hired prior to 7/1/2010: SAME Hired after 7/1/2010: 30 years of service Rule of 80 with reduction if younger than 65 Age 67 with 5 years of service	SAME	SAME
2010	Hired after 7/1/2013: Actuarially reduced benefit is member retires with 30 years of service and is younger than age 55	SAME	Hired after 7/1/2013: COLA begins at later of age 67 or one year following retirement Until ERB is > 90% funded: Retirees with benefits at or below the median AND with 25 or more years' service have a 10% COLA reduction from statutory COLA formula. All other retirees have a 20% COLA reduction. ERB Funding >90% <100% Retirees with benefits at or below the median AND with 25 or more years' service have a 5% COLA reduction from statutory COLA formula. All other retirees have a 10% COLA reduction. ERB Funding=100% COLA reductions cease.



ERB Schedule of Contribution Rates

Fiscal Year	wage category	Date Range	Member Rate	Employer Rate	Total	% Employee Pays
58-59		7/1/1957 -6/30/1959	3.00%	4.00%	7.00%	42.86%
60-74		7/1/1959 -6/30/1974	4.00%	6.50%	10.50%	38.10%
75-79		7/1/1974 -6/30/1979	5.50%	6.50%	12.00%	45.83%
80-81		7/1/1979 -6/30/1981	6.50%	6.50%	13.00%	50.00%
82-84		7/1/1981 -6/30/1984	6.80%	6.80%	13.60%	50.00%
85-93		7/1/1984 -6/30/1993	7.60%	7.60%	15.20%	50.00%
94-2005		7/1/1993 -6/30/2005	7.60%	8.65%	16.25%	46.77%
2006		7/1/2005 -6/30/2006	7.675%	9.40%	17.075%	44.95%
2007		7/1/2006 -6/30/2007	7.75%	10.15%	17.90%	43.30%
2008		7/1/2007 -6/30/2008	7.825%	10.90%	18.725%	41.79%
2009		7/1/2008 -6/30/2009	7.90%	11.65%	19.55%	40.41%
2010 & 2011	\$20k or less	7/1/2009 -6/30/2011	7.90%	12.40%	20.30%	38.92%
2010 & 2011	Over \$20K	7/1/2009 -6/30/2011	9.40%	10.90%	20.30%	46.31%
2012	\$20k or less	7/1/2011 - 6/30/2012	7.90%	12.40%	20.30%	38.92%
2012	Over \$20K	7/1/2011 - 6/30/2012	11.15%	9.15%	20.30%	54.93%
2013	\$20k or less	7/1/2012 - 6/30/2013	7.90%	12.40%	20.30%	38.92%
2013	Over \$20K	7/1/2012 - 6/30/2013	9.40%	10.90%	20.30%	46.31%
2014	\$20k or less	7/1/2013 - 6/30/2014	7.90%	13.15%	21.05%	37.53%
2014	Over \$20K	7/1/2013 - 6/30/2014	10.10%	13.15%	23.25%	43.44%
2015	\$20k or less	7/1/2014 - future	7.90%	13.90%	21.80%	36.24%
2015	Over \$20K	7/1/2014 - future	10.70%	13.90%	24.60%	43.50%

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