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August 30, 2011

Mr. Terry Slattery, Executive Director
Public Employees Retirement Association
of New Mexico
33 Plaza La Prensa
Santa Fe, NM 87507

Re: Analysis of the Long-Term Solvency of PERA

Dear Terry:

As requested, we are providing the results of our analysis of the long-term solvency of PERA. Our analysis is based upon current active and retired members of the 5 divisions within PERA (excluding the Legislative Division). This type of analysis is called a "closed group" projection as it does not explicitly include in the analysis the impact of members hired after the measurement date of the analysis (June 30, 2010). A more meaningful analysis would be an "open group" projection which explicitly includes future members as replacements of active members exiting employment in future years and then performs annual valuations for each future year of the projection period. Time did not permit performing an open group projection and we recommend that such analysis be performed after completion of the June 30, 2011 actuarial valuations to provide additional and more definitive information on the expected long-term actuarial condition of PERA.

In our analysis we compare PERA's projected solvency under the current plan provisions of each Division to the projected solvency assuming the "Ideal" plan is implemented and affects only those hired after June 30, 2010. The table below provides a comparison of the normal cost rates from the June 30, 2010 valuation as compared to the expected normal cost rate for members hired after June 30, 2010 under the current plan with the recent change to retirement eligibility and the normal cost rate of the Ideal plan.

	Normal Cost Rates for:		
		Hired after July 1, 2010	
Division	June 30, 2010 Valuation	Current Plan*	Ideal Plan*
State General	19.22%	18.64%	13.79%
State Police	31.26%	32.08%	29.86%
Municipal General	17.18%	16.69%	13.16%
Municipal Police	30.50%	30.89%	25.02%
Municipal Fire	30.68%	31.00%	24.59%
PERA Total	20.65%	20.30%	15.89%

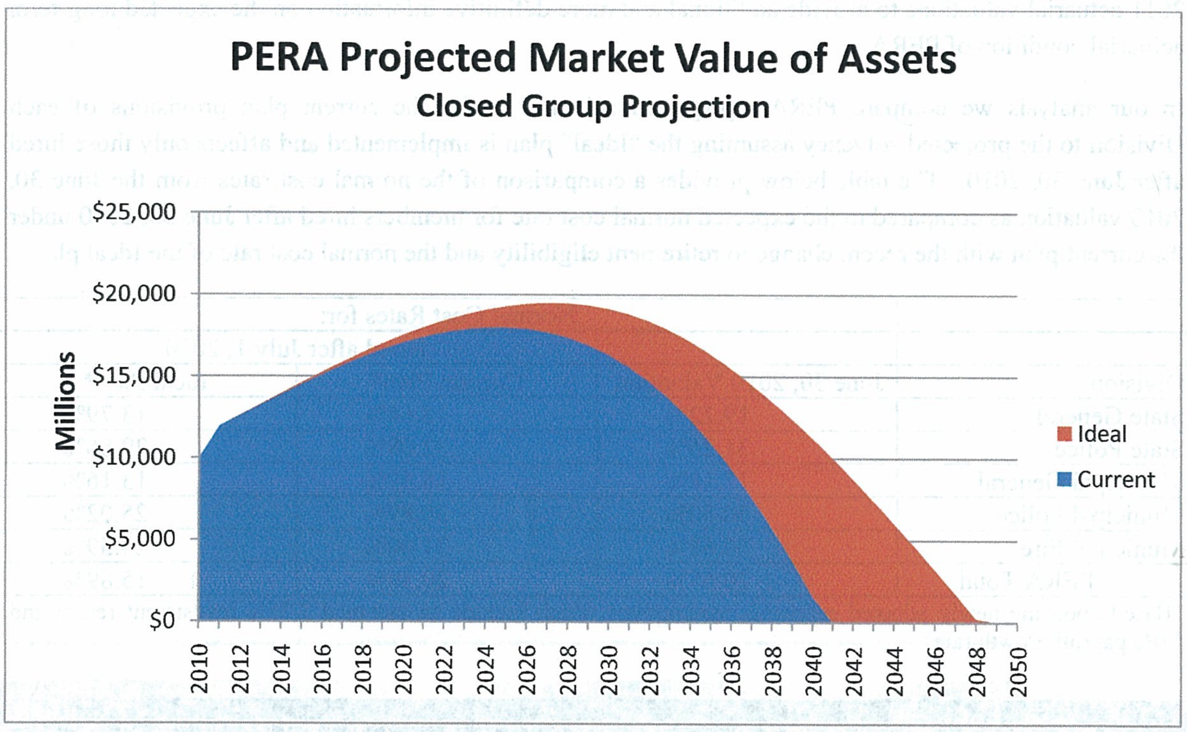
*Based upon the newly adopted economic assumptions which include an assumed 7.75% investment return and 4.0% payroll growth rate.

Since the decrease to the normal cost rates only affect those hired after June 30, 2010, it is expected to take approximately 23 to 28 years for the current normal cost rates to decline to those levels.

Analysis of PERA Solvency

Our analysis focused on the expected period that PERA remains solvent. Solvency, for the purpose of this analysis, is defined as having sufficient market value of assets to pay for the annual benefits expected to be paid to current members in each future year. On this basis, the value of the assets is increased by the expected investment return (currently 7.75% annually net of expenses) and the amount contributed by active members and employers. The value of the assets is decreased by the expected amount of benefits expected to be paid in each future year. Since this is based upon only the current retired and active members as of July 1, 2010, it is assumed that the amount contributed by employees and employers to cover the Plan's normal cost for future active members is sufficient to fully fund their benefit accruals and does not add or subtract to the value of plan assets. Any amounts of employer contributions for future active members in excess of the employer's share of the normal cost, is added to the plan assets as these amounts represent the percent of payroll contribution used to amortize the existing unfunded actuarial liability.

We have assumed that the current statutory contribution rates remain in effect for all future years and that the current contribution shift sunsets after the fiscal year ending 2013. Additionally, we have used the latest information for the market value of assets as of June 30, 2011. The chart below provides the projected market value of assets under the basis of the study for the projection period.



Under the current plan which includes the recent change to retirement eligibility for those hired on and after July 1, 2010, the closed group projection results in the market value of assets being depleted in 2041. The Plan's solvency is extended by 8 years (to 2049) with the implementation of the Ideal plan. It is evident that the Ideal plan does significantly extend PERA's solvency; however, it is also apparent that the current market value of assets together with expected future contributions is not expected to be sufficient to fully fund the benefits expected to be paid to current members.

The following table provides the impact to solvency of each Division in PERA.

Division	Years of Expected Solvency		Years Increased
	Current Plan	Ideal Plan	
State General	27	31	4
State Police	50+	50+	N/A
Municipal General	37	50+	13+
Municipal Police	31	35	4
Municipal Fire	30	33	3
PERA Total	31	39	8

Additional Consideration

The State Police Division, based on the June 30, 2010 valuation, had a funding surplus of approximately $106 million and remains solvent over the projection period under both the current plan design as well as with the Ideal plan implemented. Under the implementation of the Ideal plan, the Municipal General Plan remains solvent throughout the 50 year period of our analysis. However, the other three divisions (State General, Municipal Police and Municipal Fire) are not sufficiently impacted by the implementation of the Ideal plan to ensure the long-term solvency of these divisions. These three divisions together represent approximately 65% of the liabilities of PERA. The degree of reduction to the benefits provided to future members hired after July 1, 2010 would need to be far greater in order for the normal cost attributable to those members to be reduced enough for these divisions to maintain solvency throughout the projection period. If solvency is to be sustained through a change in benefits for future employees only, the resulting benefit design for those employees would likely be in the bottom tier of plans in the country considering the benefit earned in relation to the amount contributed by the members. Absent such a drastic decrease in benefits for future employees, the sources available to improve solvency must also consider the benefits paid to current members and/or increases in contributions.

Considering the State General Division, by itself nearly 45% of PERA liabilities, the Ideal plan would only increase the period of solvency on the basis of our analysis by four years. Similarly, solvency is extended for Municipal Police and Municipal Fire Divisions by 4 and 3 years respectively. We suggest considering application of the COLA provisions of the Ideal plan to all current members (active and retired) as the basis for determining the future annual adjustments. Based upon the closed group projections, it would appear that such a change, provided the CPI is similar to historical levels, would sufficiently reduce the expected benefit payments in order to reestablish long-term solvency for the State General Division. Solvency would be improved for the Municipal Police and Municipal Fire but there would still need to be further consideration of additional changes to the benefits provided to future employees and/or increases to contribution rates to re-establish long-term solvency..

The full open group projections that are scheduled to follow the delivery of 2011 valuation reports will provide better information on the projected valuation results for the next 50 years as well as the expected cash flow and long-term solvency. It would also be a better tool to assess further changes to be considered.

Please let us know if you have any questions.

Sincerely,

John Garrett, ASA, MAAA, FCA
Principal and Consulting Actuary

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