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August 20, 2012

Mr. Wayne Propst, Executive Director
Public Employees Retirement Association
of New Mexico
33 Plaza la Prensa
Santa Fe, New Mexico 87507

Re: Impact of Reducing COLA – Magistrate Retirement Fund

Dear Wayne:

As requested we completed our study to determine the impact of reducing the cost of living adjustment (COLA) from 3.0% per annum to 2.0% for the New Mexico Magistrate Retirement Fund. The results are based upon the June 30, 2011 actuarial valuation and contained in the following table:

Valuation Date – June 30, 2011	3% COLA	2% COLA
Actuarial Accrued Liability (AAL)		
Active and Deferred Vested Members	\$ 17,796,227	\$ 16,357,369
Retired Members and Survivors	<u>37,632,938</u>	<u>34,797,668</u>
Total	\$ 55,429,165	\$ 51,155,037
Actuarial Value of Assets	\$ 33,121,149	\$ 33,121,149
Funded Ratio	59.8 %	64.7 %
Unfunded Actuarial Accrued Liability (UAAL)	\$ 22,308,016	\$ 18,033,888
Total Normal Cost	31.08 %	28.70 %
UAAL 30-Year Amortization Rate	<u>34.77 %</u>	<u>28.11 %</u>
Total Required Contribution Rate	65.85 %	56.81 %
Total Required Contribution Amount	\$ 2,332,126	\$ 2,011,881
Employer Contribution Rate	7.75 %	7.75 %
Expected Docket Fees	16.21 %	16.21 %
Member Contribution Rate	<u>10.75 %</u>	<u>10.75 %</u>
Total Statutory Rate	34.71 %	34.71 %
Expected Statutory Amount	\$ 1,229,194	\$ 1,229,194
Deficiency in Statutory Rate	31.14%	22.10%
Deficiency in Expected Statutory Amount	\$ 1,102,932	\$ 782,687

3550 Busbee Pkwy, Suite 250, Kennesaw, GA 30144

Phone (678) 388-1700 • Fax (678) 388-1730

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In performing the study, we used the same data and assumptions that were used in the June 30, 2011 actuarial valuation with the exception of the COLA assumption which is the subject of the study. Reducing the COLA from 3% to 2% increases the funded ratio from 59.8% to 64.7% as well as reduces the unfunded actuarial accrued liability (UAAL) from \$22.3 million to \$18.0 million. The normal cost rate decreases from 31.08% of pay to 28.70 % of pay. These reductions result in the contribution deficiency decreasing from 31.14% of pay to 22.10% of pay.

The proposed COLA reduction does significantly reduce the costs of the Magistrate Retirement Fund but the statutory contribution rates are still far from the minimum required to satisfy the annual required contribution.

This is to certify that the undersigned are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the Fund.

Sincerely,

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

Jonathan T. Craven, ASA, EA, FCA, MAAA
Senior Actuary

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