INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

OCTOBER 27, 2011

Jan Goodwin, Executive Director

Securing financial futures
NMERB
since 1957
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Meeting Outline:

- Introductions
- ERB’s Current Actuarial Situation
- Possible Solutions
- Public Comment

ERB’s Mission:

The New Mexico Educational Retirement Board is a statutory entity that provides secure retirement benefits for our active and retired members from school districts, higher education and educational agencies. We strive to make our members' retirement experience optimal by:

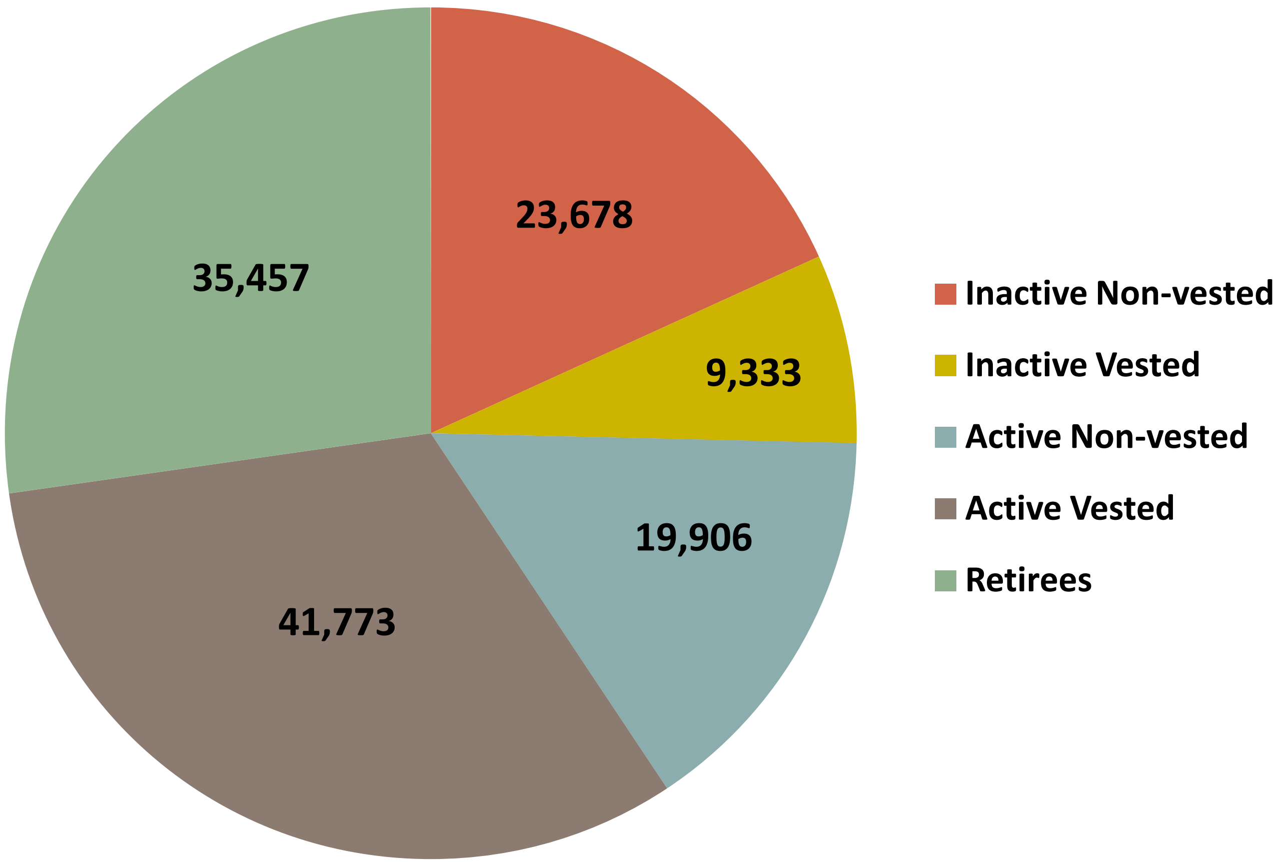
- Prudently managing the assets of the fund;
- Providing prompt, courteous and accurate responses to members’ inquiries;
- Counseling members on an individual basis related to retirement issues;
- Educating members about both the financial and personal aspects of retirement;
- Soliciting member input for improving services;

We are constantly building the skills, capacities and competencies of our employees in order to provide our members caring and quality service.

Why Sustainability Must be Addressed NOW!

- Magnitude of Educational Employment throughout New Mexico
- Economic Impact of ERB Benefit Payments
- Economic Impact of ERB Payments by County
- ERB is a Fund for the Generations
- Defined Benefit is the Most Efficient Way to Fund Retirement Benefits
- ERB Benefits are Designed to be Prepaid

Membership Data as of June 30, 2011



Total ERB Membership as of 06/30/11 was 130,147

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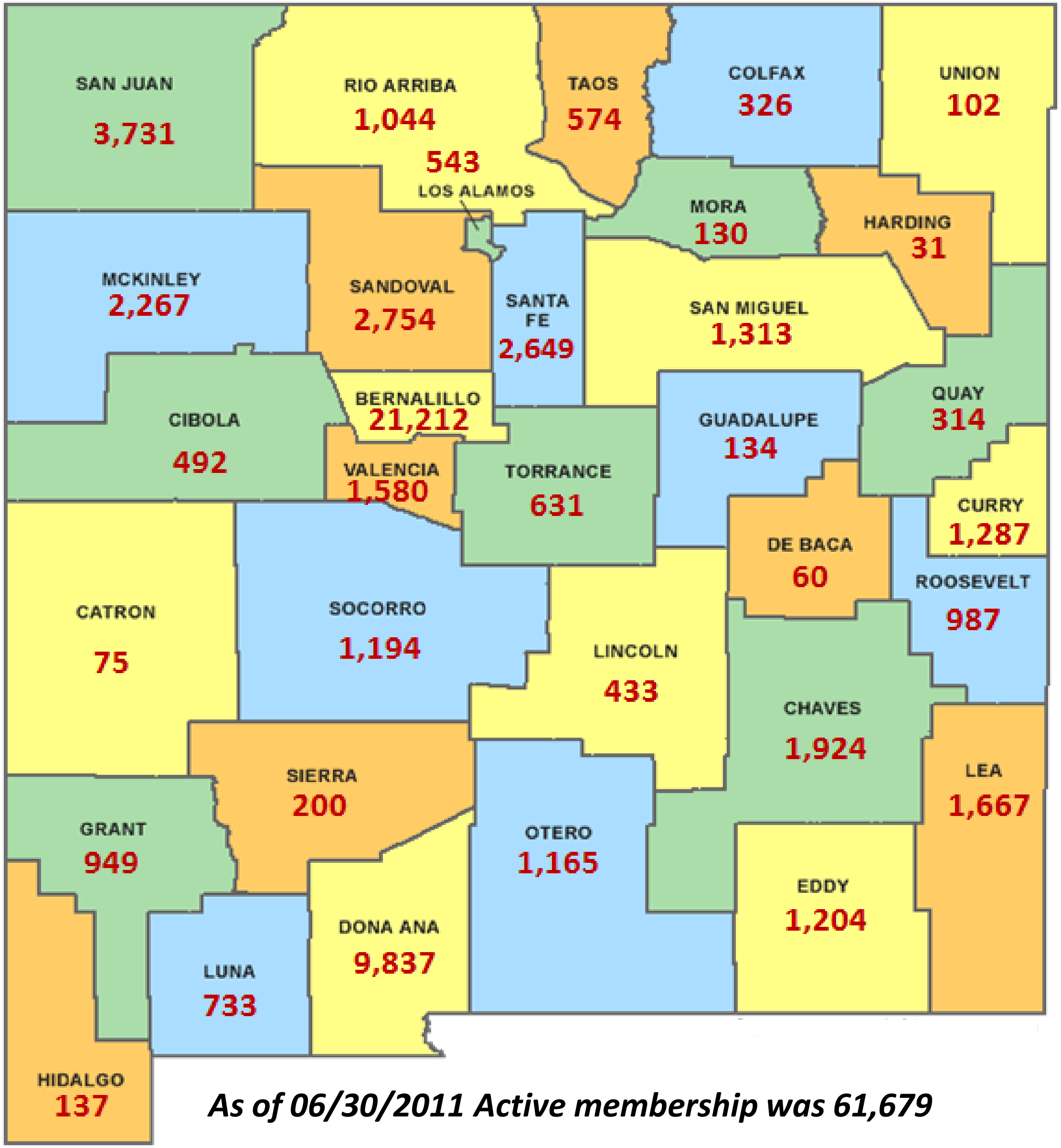
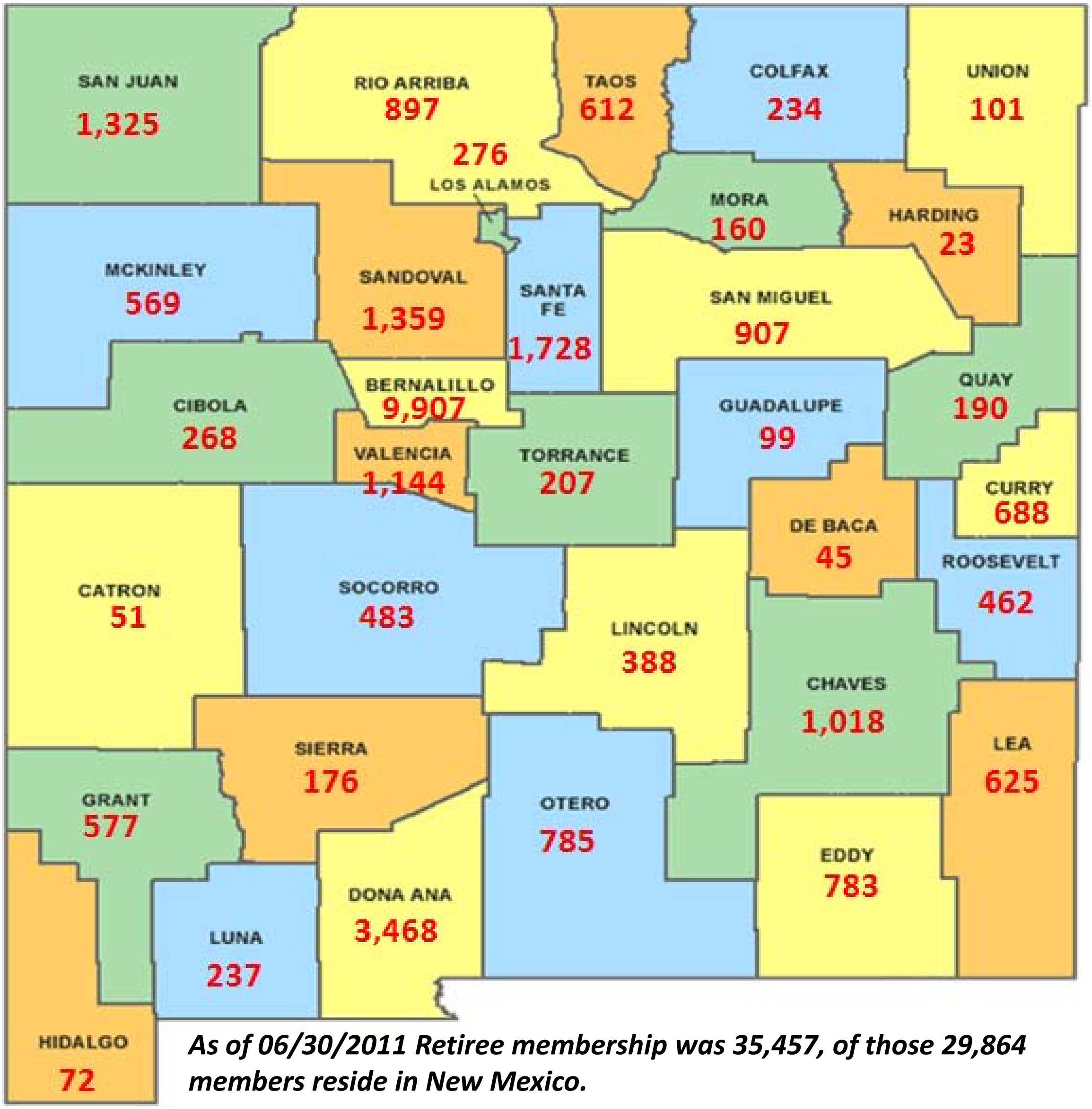
ERB Employment by County



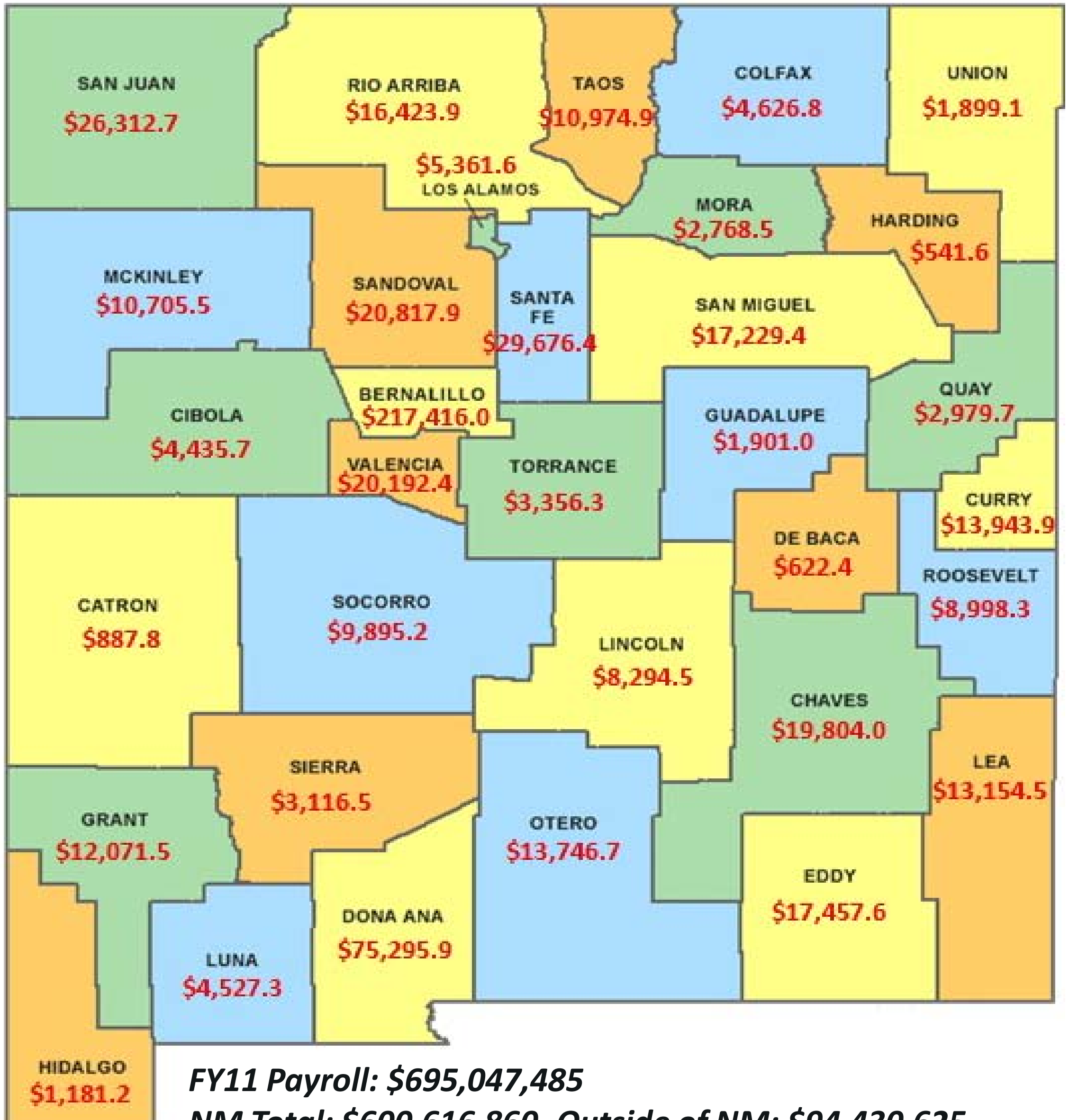
As of 06/30/2011 Active membership was 61,679

ERB Retirees by County



As of 06/30/2011 Retiree membership was 35,457, of those 29,864 members reside in New Mexico.

Fiscal Year 2011 Retiree Payroll by County



FY11 Payroll: $695,047,485

NM Total: $600,616,860, Outside of NM: $94,430,625

Need for Balance

For a pension plan to be sustainable, the Actuarial Equation must be true:

$$C + I = B + E$$

Contributions plus Investment Income

MUST EQUAL

Benefits plus Plan Expenses

ERB Actuarials at a Glance

	06/30/09	06/30/10	06/30/11 Estimated
UAAL	$4.9 B	$5.3 B	$5.9 B
Funded Ratio	66.4%	63.8%	61.6%
Funding Period	Infinite	Infinite	Infinite

Based on 7.75% Investment Earnings Rate

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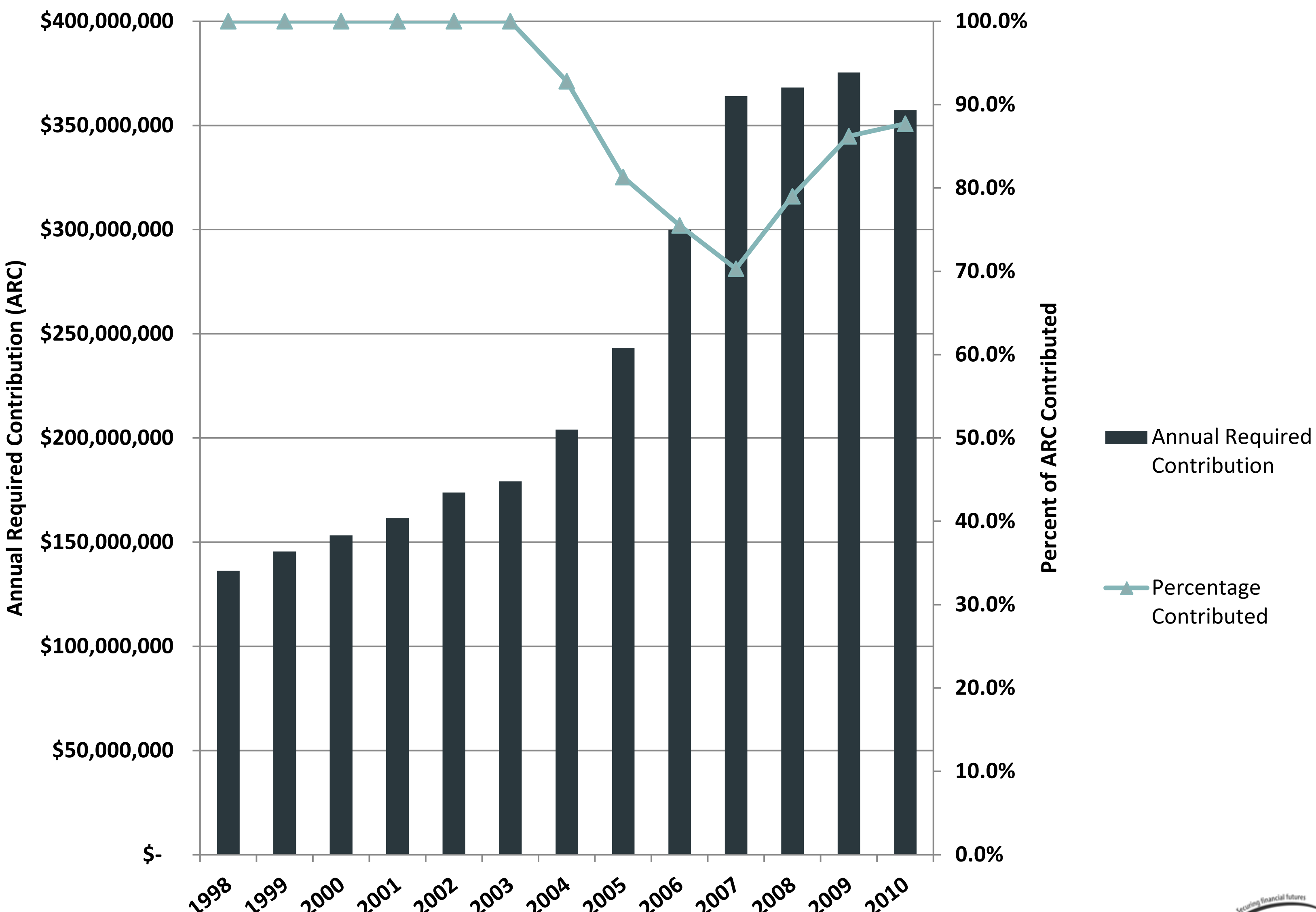
Reasons for Growth in Unfunded Liability: 2004 - 2011

- Investment losses
- Contributions less than the Annual Required Contributions (ARC)
- Earlier retirement higher than assumed
- Longer life expectancy than assumed
- Salary increases higher than assumed
- Total payroll growth lower than assumed

Employer Contributions as Required by GASB #27 Haven't Been Made



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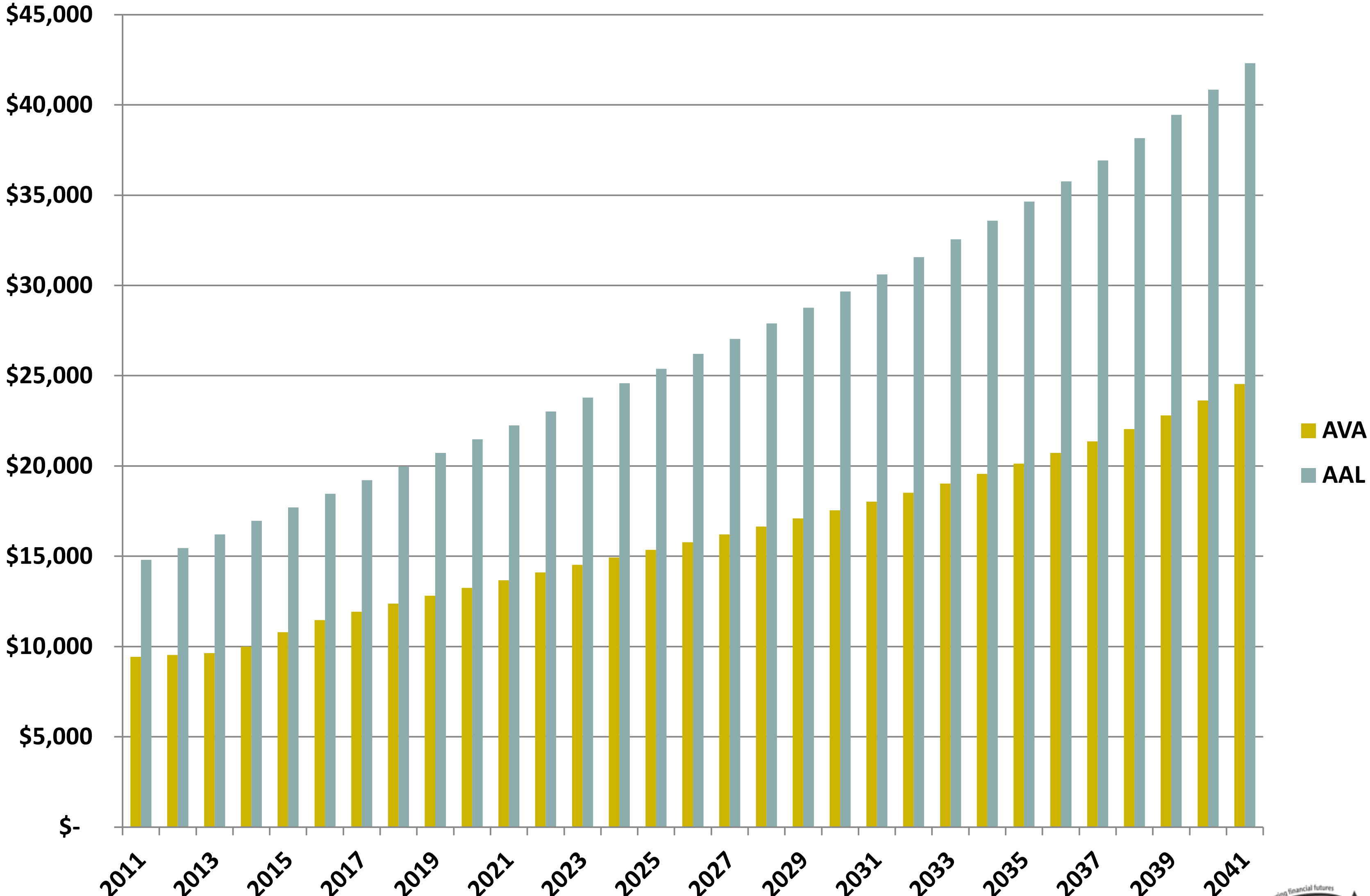
Actuarial Accrued Liability (AAL) vs: Actuarial Value of Assets (AVA)



As of 06/30/2011

ERB Board Efforts

- 2010: Public Comments

  Board Recommendation:

  80% Funding Goal within 30 years

  9.9% Employee contribution

  13.9% Employer contribution

- 2011: September Board Recommendation

  80% funding goal by 2030

  95% funding goal by 2040

- Listening Tour – October/November 2011
- Final Recommendation Vote – November 21, 2011

Establishing a Framework

- Shared Responsibility among Members, Retirees and Employers
- Intergenerational Equity
- Long-term Sustainability
- Preservation of Defined Benefit Plan
- Maintain Similar Benefit Structure Over Time

Contribution and Benefit Variable Levers

- Cost of Living Adjustment (COLA)
- Contribution Rates – Member & Employer
- Final Average Salary (FAS)
- Multiplier
- Minimum Retirement Age
- Vesting Period

Scenarios Selected by ERB for Consideration

#	COLA	FAS	Vesting	Minimum Retirement Age	Multiplier	Contribution Rate: Employer*	Contribution Rate: Employee*	Grand-father Period	Funded Ratio: 2030	Funded Ratio: 2040	Comments
Base-line	2%	5	5	None	2.35%	13.9%**	9.9%**	N/A	65.1%	71.2%	
1	2%, Age 67	5	5	55	2.35%	13.90%	9.90%	5 years	78.9%	97.6%	COLA would start at age 67. This change will apply to current retirees.
2	2%	7	5	55	2.35%	13.90%	9.90%	5 years	80.4%	100.9%	
3	1.50%	5	5	55	2.35%	13.90%	9.90%	10 years	78.2%	97.8%	Current retirees not affected by change in COLA. The COLA adjustment for members who retire after the effective date of the legislation would be 75% of the COLA that current retirees receive. For example, if current retirees were going to receive a 2% COLA, members who retired after the effective date would receive a 1.5% COLA.
4	2%	7	5	50	2.35%	13.90%	9.90%	5 years	78.4%	97.6%	
5	2%, Age 67	5	5	57	2.35%	13.90%	9.90%	10 years	78.0%	96.7%	COLA would start at age 67 for members who retired after the effective date of the legislative. No change for current retirees.
6	None	5	5	62	2.35%	9.15%	7.90%	10 years	79.6%	92.7%	Current retirees would no longer receive a COLA.

*****Beginning in FY15 contribution rates adjust, Employer rate = 13.9% and Employee = 7.9%. Current rates with 3.25% swap are 9.15% for Employer and 11.15% for Employee.***
**** Rate shown assumes no change in legislation.***

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Scenarios Selected by ERB for Consideration

Explanations:

Grandfather Period: All members who meet any of the retirement eligibility requirements either before or during the grandfather period would not be subject to the changes in retirement benefit calculation or minimum retirement age when they retire. However, the changes, if any, to the COLA will apply. Members who met one of the retirement eligibility requirements during the grandfather period do not have to retire during the grandfather period to be exempt from the changes. Those members would be able to retire at any time and have their retirement benefit calculated under current provisions, without being subject to the new minimum retirement age.

COLA: ERB retirees are generally eligible for a Cost of Living Adjustment (COLA) at age 65. The COLA is determined by the annual change in the Consumer Price Index (CPI). Currently, the COLA is calculated as follows: If the CPI change is less than 2%, the COLA is equal to the change in CPI. If the CPI change is greater than 2%, the COLA is one-half the amount with a minimum of 2% and a maximum of 4%.

FAS: Retirement benefits are based on three components - Final Average Salary (FAS), the member's years of service credit and the 2.35% multiplier. The FAS is the member's highest average annual earnings for any 20 consecutive quarters (5 years). In general, the longer the FAS period, the lower the retirement benefit.

Minimum Retirement Age: This would be the youngest age at which a member could receive retirement benefits. Although members would be able to stop working at an ERB employer once they satisfy one of the retirement eligibility requirements, they would have to wait until the minimum retirement age to receive a retirement benefit. Currently, ERB members do not have to reach a minimum retirement age to receive retirement benefits.

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ERB Plan Design Change Scenarios Member/Public Input

Please provide ERB with your email address to be used to send updates and other ERB material.
Email Address:
____
____
____

1. Check the box that best describes who you are: ☐ Active Member ☐ Retired Member ☐ Retiree ☐ General Public
Years of service you have completed: ☐ .25 - 5 ☐ 5 - 10 ☐ 15 - 20 ☐ 20 +

2. Below are six possible plan design change scenarios that the NM Educational Retirement Board will consider as proposals for the 2012 NM Legislative Session. Please rank them in order of preference with 1 being your most favorite and 6 being your least favorite. You may also write in your own scenario in space #7.

Rank your preference	#	COLA	FAS	Vesting	Minimum Retirement Age	Multiplier	Contribution Rate Employer*	Contribution Rate Employee*	Grandfather Period	Funded Ratio 2030	Funded Ratio 2040	Comments
	Baseline	2%	5	5	none	2.35%	13.9%**	9.9%**	n/a	65.1%	71.2%	COLA starts at age 65.
☐	1	2%, Age 67	5	5	55	2.35%	13.9%	9.9%	5 years	78.9%	97.6%	COLA would start at age 67. This change will apply to current retirees.
☐	2	2%	7	5	55	2.35%	13.9%	9.9%	5 years	80.4%	100.9%	
☐	3	1.5%	5	5	55	2.35%	13.9%	9.9%	10 years	78.2%	97.8%	Current retirees not affected by change in COLA. The COLA adjustment for members who retire after the effective date of the legislation would be 75% of the COLA that current retirees receive. For example, if current retirees were going to receive a 2% COLA, members who retired after the effective date would receive a 1.5% COLA.
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	7											

*** Beginning FY 15, contribution rates adjust: Employer Rate = 13.9% and Employee Rate = 7.9%. Current rates with 3.25% swap are 9.15% for Employer and 11.15% for Employee.*

**Rate shown assumes no change in legislation.*
Changes to current benefit or benefit calculation are shown in red. See reverse for explanations.