Investments and Pensions Oversight Committee

Thursday, November 7, 2013

Jan Goodwin

NMERB Executive Director

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Actuarial Valuation Report
as of June 30, 2013

Presented to Board of Trustees on November 1, 2013

R. Ryan Falls, Senior Consultant
Mark Randall, Executive Vice President

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com

Actuarial Valuation

- Prepared as of June 30, 2013, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods
- Purposes:
  - Measure the actuarial liabilities
  - Determine adequacy of current statutory contributions
  - Provide other information for reporting
    - CAFR (Consolidated Annual Financial Report)
  - Explain changes in actuarial condition of ERB
  - Track changes over time
  - Provide early warning on new trends

Key Results

- The actuarial funded ratio declined from 60.7% to 60.1%
- Unfunded Actuarial Accrued Liability (UAAL) increased from $6.2 billion to $6.5 billion
- The funding period changed from infinite to 95.1 years
- The normal cost rate decreased from 13.79% of pay to 13.16% of pay, primarily due to the assumption changes adopted following the experience study
- *These above valuation results are determined as of a single point in time. The calculated funding period does not reflect:*
  - *Scheduled increases in contribution rates*
  - *Lower normal cost for future members*
  - *Future COLAs less than 2%*

Recent Events

- The return on the market value of assets was 10.8%
- The return on the actuarial (smoothed) value of assets was 5.6%
  - All of FY 2009 asset loss now reflected in actuarial value of assets
  - The 5.6% return on the actuarial value of assets created an actuarial loss of $207 million
- Experience gains (mostly due to salary increases less than assumed) totaled $107 million
- Valuation reflects the changes adopted following the experience study for the six-year period ending 2012:
  - Updated mortality
  - Revisions to retirement and termination assumptions
  - Decreased wage inflation from 4.75% to 4.25%
  - Decreased payroll growth from 3.75% to 3.50%

Key Changes - Legislative

- SB 115 was signed into law on March 29, 2013
  - Contributions have increased for members with annual salary over $20,000
    - 10.10% during the fiscal year ending June 30, 2014
    - 10.70%, thereafter
  - Members hired after June 30, 2013 have minimum unreduced retirement age of 55 and COLA deferred until age 67
  - COLAs reduced until ERB attains 100% funded status
    - Disabled retirees not impacted
    - All non-disability retirements will receive reduced COLA until ERB attains a 100% funded status
    - Non-disability retirements with at least 25 years of service at retirement and whose annuity is less than the median benefit from the prior year will receive a smaller reduction

Key Changes

- In accordance with HB 628 (2011 Regular Session) and SB 115 (2013 Regular Session), employer and member contributions are scheduled as follows:

For employees making more than $20,000/less than $20,000 per year

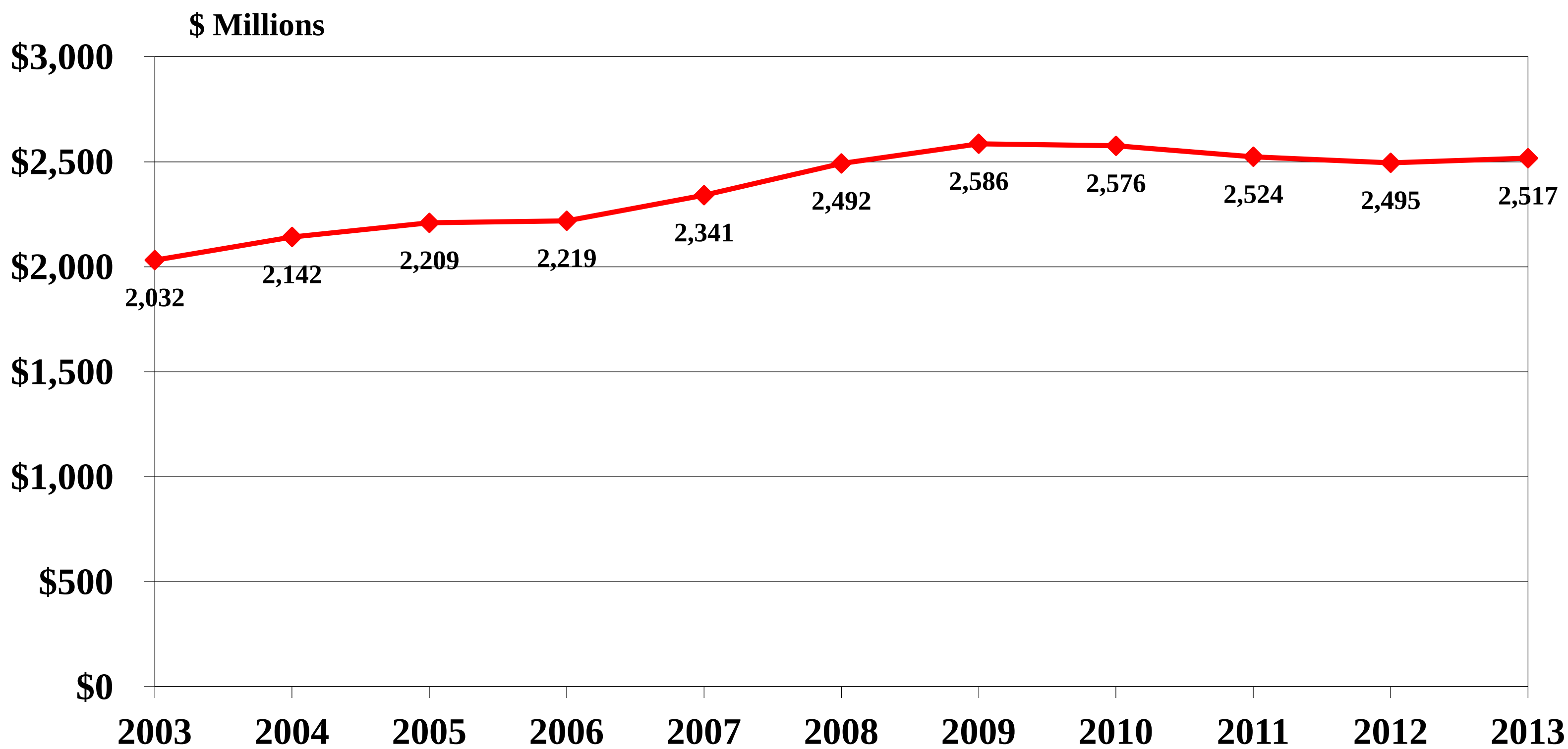
Fiscal Year End	Employer Contribution Rate	Employee Contribution Rate
2013	10.90%/12.40%	9.40%/7.90%
2014	13.15%/13.15%	10.10%/7.90%
2015 and thereafter	13.90%/13.90%	10.70%/7.90%

Demographic Summary

Membership – Actives

- The number of active members increased from 60,855 to 61,177, an increase of 0.5%
  - Tier 1 member decreased from 51,255 to 47,259
  - Tier 2 members increased from 9,600 to 13,918
- Total payroll of active members increased from $2,495 million to $2,517 million, an increase of 0.9%
  - Total payroll has increased an average of 2.2% per year over the last ten years

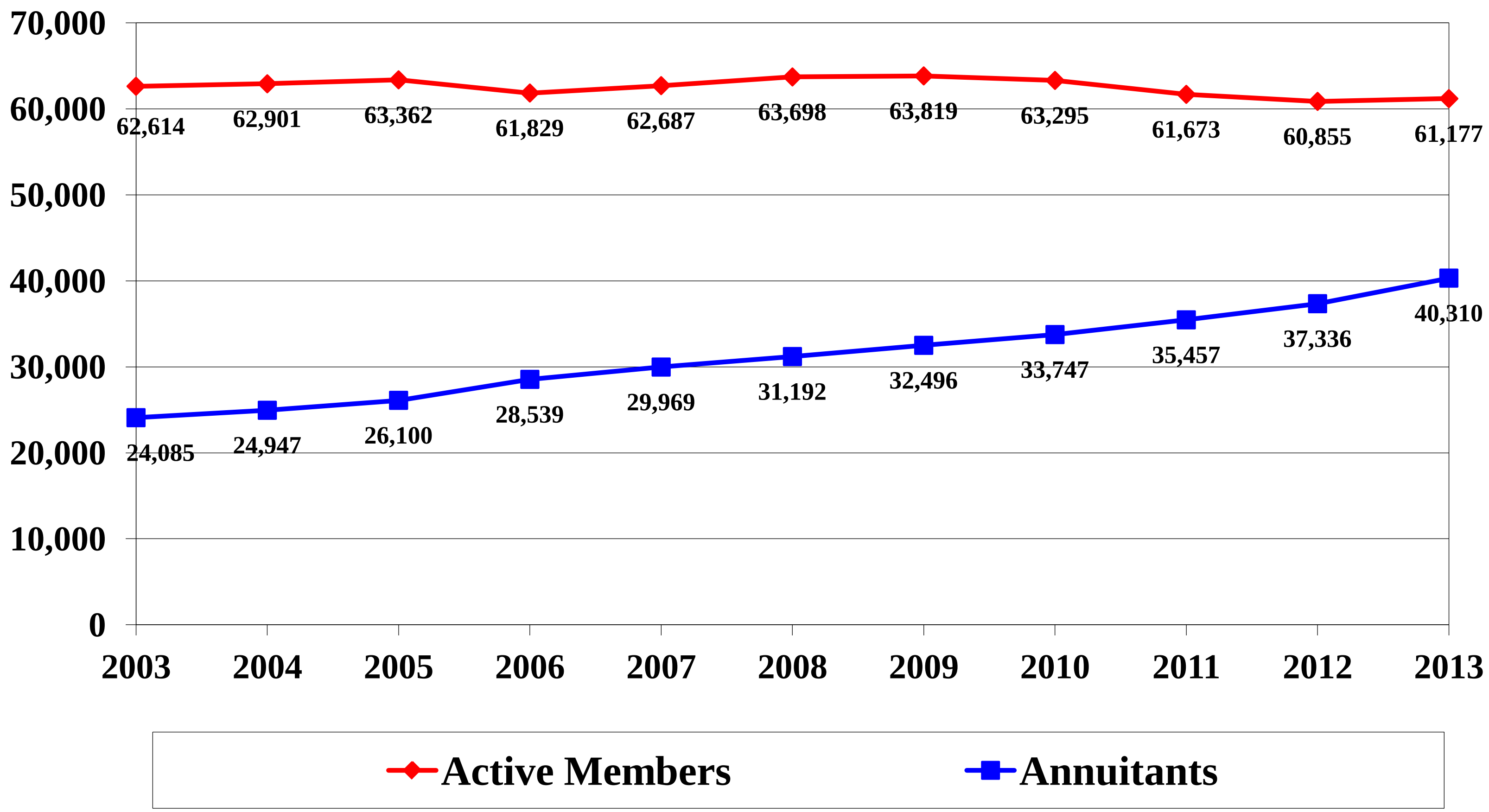
Active Payroll



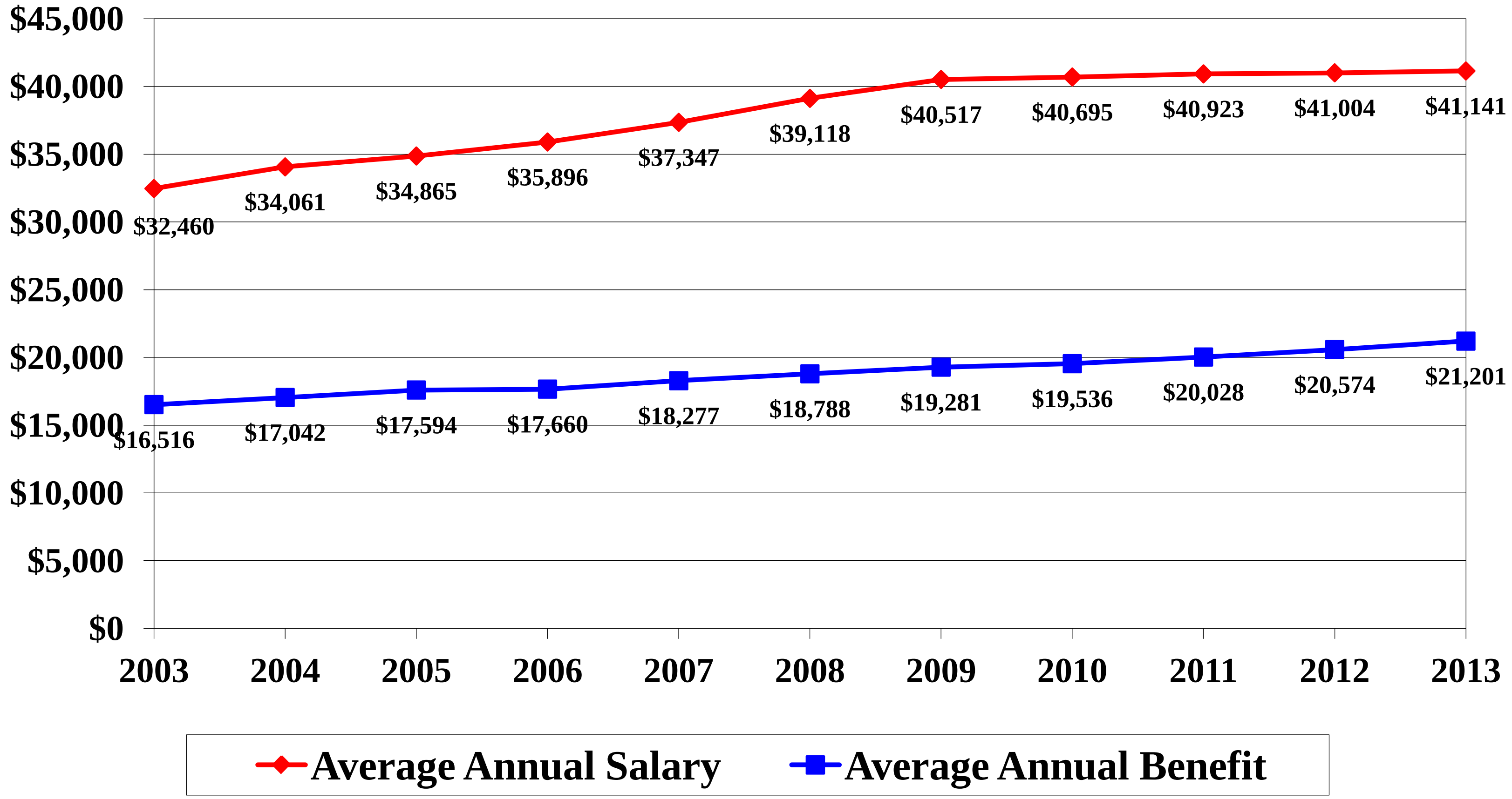
Membership – Annuitants

- The number of annuitants increased from 37,336 to 40,310, an 8.0% increase
  - Annuitants include service retirees, disabled retirees, and beneficiaries receiving benefits
  - Over the last ten years, the number of annuitants has grown an average of 5.3% per year
- Average annual benefit is $21,201
  - This reflects cost-of-living increase for July 1, 2013
  - Over the last ten years, the average annual benefit has grown an average of 2.5% per year
- There are 1.5 active members for each annuitant
  - Ratio is decreasing, was 2.6 ten years ago

Active Members and Annuitants



Average Salary and Average Benefit



Assets

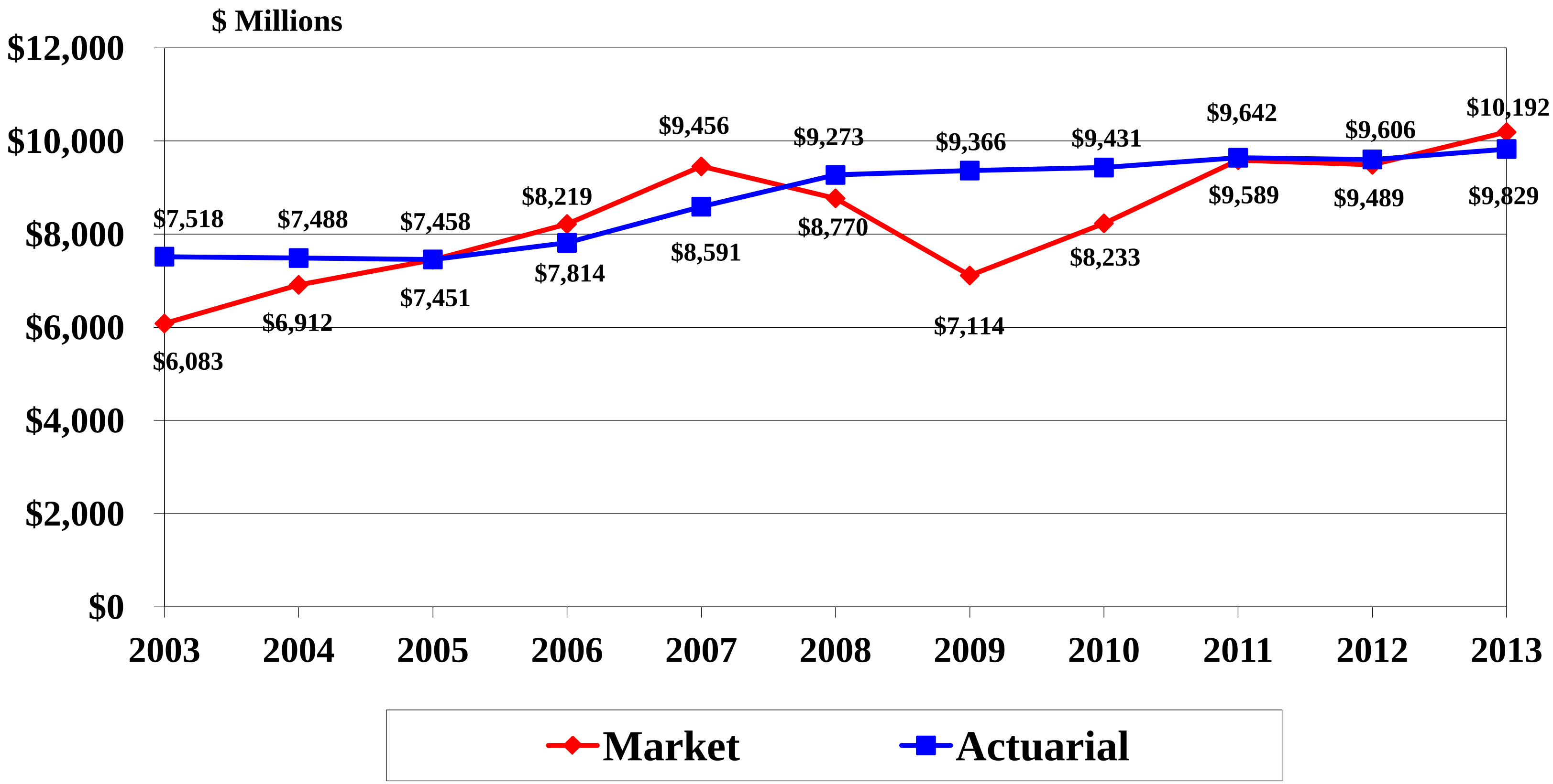
Assets

- Fair market value increased from $9,489 million to $10,192 million
- Contributions
  - Member contributions = $250 million, including service purchases
    - 9.40% in FY 2013; 10.10% in FY 2014
  - Employer contributions = $295 million
    - 10.90% in FY 2013; 13.15% in FY 2014
  - ARP contribution = $5 million (3% of ARP payroll)
- Total contributions of $550 million, compared to $546 million last year

Assets

- Total distributions—benefit payments, refunds and administrative expenses—totaled $864 million
- Therefore, net external cash flow was -$314 million, or -3.1% of market value of assets at end of year
  - Projected to stay at or below -4%
- Return of approximately 10.8% in FY 2013 (net of administrative and investment expenses)
  - Return was 1.6% in FY 2012
  - Average annual return for last ten years was 7.3%

Market and Actuarial Values of Assets



Funding Valuation Results

Funding Valuation Results

- Unfunded actuarial accrued liability (UAAL) increased from $6,231 million to $6,534 million
- Funded ratio (actuarial assets divided by actuarial accrued liability) decreased from 60.7% to 60.1%
  - Ratio using market value increased from 59.9% to 62.3%
- 13.15% employer contribution for FY 2014 comprised of:
  - Employer normal cost: 3.06%
  - Amortization payment: 10.09%

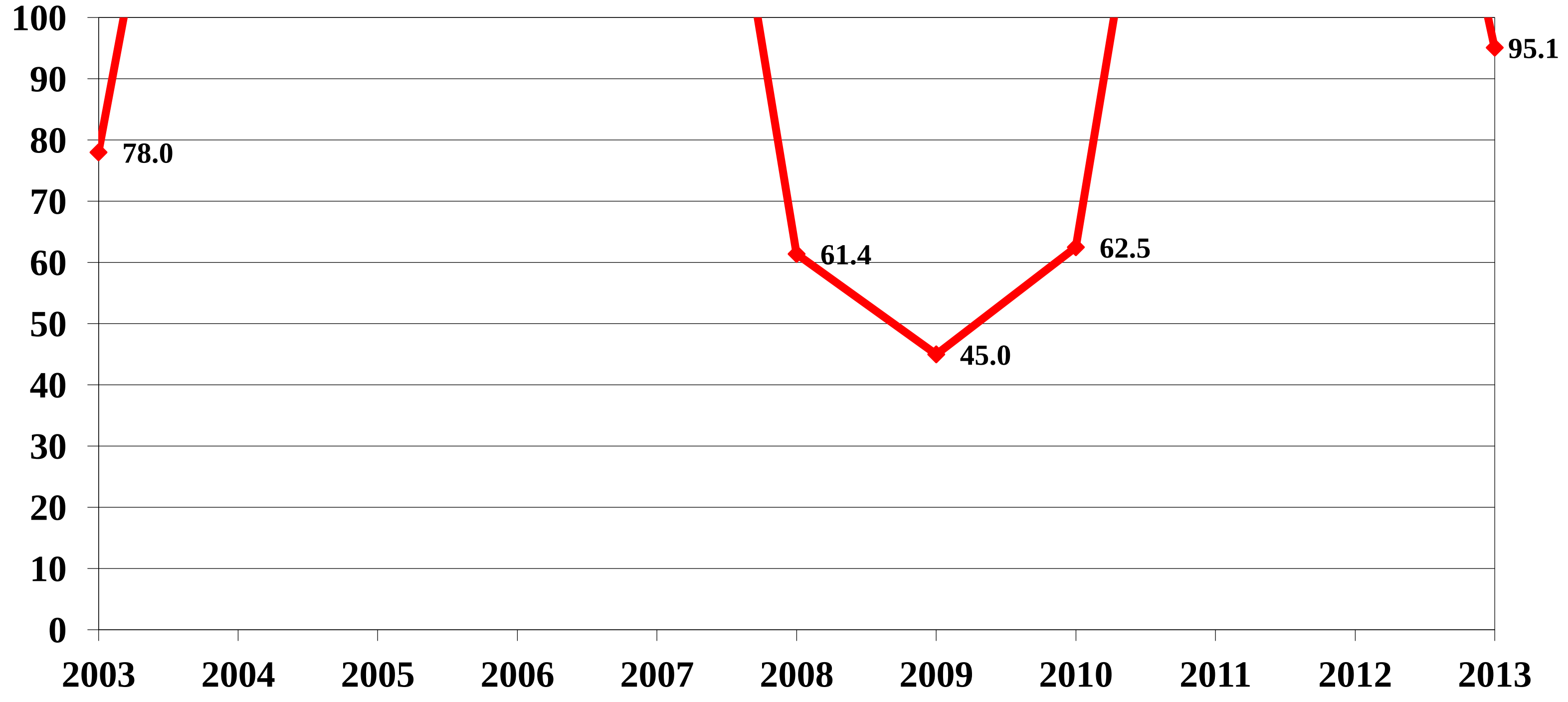
Change in UAAL for the Year
($ in millions)

	2012/13	2011/12
1. UAAL at beginning of year	$6,230.7	$5,650.8
2. Interest on UAAL	482.9	437.9
3. Amortization contributions	(192.1)	(181.9)
4. Liability experience	(107.0)	(200.1)
5. Investment experience	207.4	524.0
6. Actual COLA more/(less) than expected	(20.8)	0.0
7. Change of actuarial assumptions	(81.5)	0.0
8. Benefit changes	14.1	0.0
9. UAAL at end of year	$6,533.7	$6,230.7

Funding Valuation Results

- Funding period is 95.1 years, without yet considering future contribution rate increases
  - and …
    - Lower normal cost for future members
    - Future COLAs less than 2%
- Funding Policy Contribution is 17.47%
  - Calculated in the same manner as the GASB ARC
  - 29-year amortization (30 years from 06/30/2012), plus employer normal cost
  - Shortfall (17.47% - 13.15%) of 4.32%

Funding Period (Years)



Note -- Funding periods for 2004 through 2007, 2011 and 2012 are infinite

Accounting Valuation Results

Accounting Valuation Results

- ERB elected to adopt GASB 67 for plan year ending June 30, 2013
- New measures will be reported in ERB's CAFR
  - Total Pension Liability (equivalent to AAL)
  - Plan Fiduciary Net Position (equivalent to MVA)
  - Net Pension Liability (equivalent to UAAL)

Determining the Discount Rate

- Discount rate used in determining the Total Pension Liability (TPL) is a blend of two rates
  - Long-term expected rate of return on pension plan investments (7.75% for ERB)
    - Can be used to discount plan obligations as long as there are projected assets sufficient to pay projected plan benefits
  - Yield or index rate for a 20-year, tax-exempt general obligation municipal bond (4.56% as of June 30, 2013)
    - Used to discount plan obligations after the projected assets have been extinguished

Accounting Valuation Results

- Based on GASB procedures, projected plan assets will not be extinguished
- TPL as of June 30, 2013 will be determined based on the full investment return assumption of 7.75%
- TPL as of June 30, 2013 is based on "roll forward" of prior actuarial valuation, so there will be slight disconnect between TPL and AAL

	June 30, 2013 (in millions)
Total Pension Liability	$16,469
Plan Fiduciary Net Position	10,192
Net Pension Liability	6,277

Projection Results assuming 7.75% Investment Return in all Future Years, 0.50% Annual Membership Growth, and Variable COLAs based on Future Funded Ratios

Year	UAAL (millions)	Funded Ratio	Funding Policy Contr.	Funding Period (Yrs.)
2013	$6,534	60.1%	17.47%	95.1
2018	6,793	64.9%	16.72%	36.2
2023	7,191	67.7%	17.13%	28.3
2028	7,240	71.2%	17.74%	21.0
2033	6,662	76.4%	19.00%	14.2
2038	5,004	84.4%	23.43%	7.7
2043	1,597	95.7%	23.10%	1.8

GASB 67 Summary

- GASB 67 Implementation date is for effective for financial statements with fiscal years beginning after June 15, 2013
- Early implementation effective for financial statements for the year ending June 30, 2013
- FY 2013 Audit with GASB 67 early implementation submitted to Office of State Auditor
- GASB 67 implementation required *additional/new* footnote disclosure and *new* required supplementary information
- As of June 30, 2013 ERB had assets that were able to pay all current retiree benefits. Thus, the agency used the discount rate of 7.75% instead of a blended rate.

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GASB 68 Summary

- GASB 68 Implementation date is for effective for financial statements with fiscal years beginning after June 15, 2014
- Applies the changes implemented at the pension plan level (GASB 67), segregates and divides the pension liability to each participating employer
- The pension liability for each employer will be based on its share of the total employer contributions
- ERB plans to early implement GASB 68 in fiscal year 2014
- ERB is in the process of creating a plan to communicate the necessary GASB 68 requirements to each employer