

Revenue Stabilization and Tax Policy Committee

Tuesday, October 30, 2012

ERB Legislative Recommendation

Jan Goodwin

NMERB Executive Director

Mary Lou Cameron- Chairman

H. Russell Goff- Vice Chairman



Actuarial Status Actuarial Value of Assets (AVA) vs. Unfunded Actuarial Accrued Liability (UAAL)

| | 06/30/2011 Actuals | 06/30/2012 Estimated |
|---|--------------------|----------------------|
| Number of Participants | | |
| Active | 61,673 | 60,855 |
| Retirees and Beneficiaries | 35,457 | 37,337 |
| Inactive | 33,011 | 34,033 |
| Total | 130,141 | 132,225 |
| | | |
| Total Payroll (in \$ millions) | \$2,524 | \$2,618 |
| | | |
| Actuarial Accrued Liability | \$15,293 | \$15,593 |
| Unfunded Actuarial Accrued Liability (in billions) | \$5.651 | \$6.049 |
| Actuarial Value of Assets (in millions) | \$9,642 | \$9,544 |
| Funded Ratio | 63.0% | 59.8% |
| Market Value/Fair Value of Assets (in millions) | \$9,589 | \$9,613 |
| | | |

Sources: 6/30/2011 values from 6/30/2011 Actuarial Report from GRS

6/30/2012 estimated funding results calculated by NEPC, ERB's Investment Consultant

Assumptions: 6/30/2012 assets and liabilities based on actual asset returns through 2/29/12 and NEPC 2012 Capital Market Assumptions, and an assumed discount rate of 7.75%

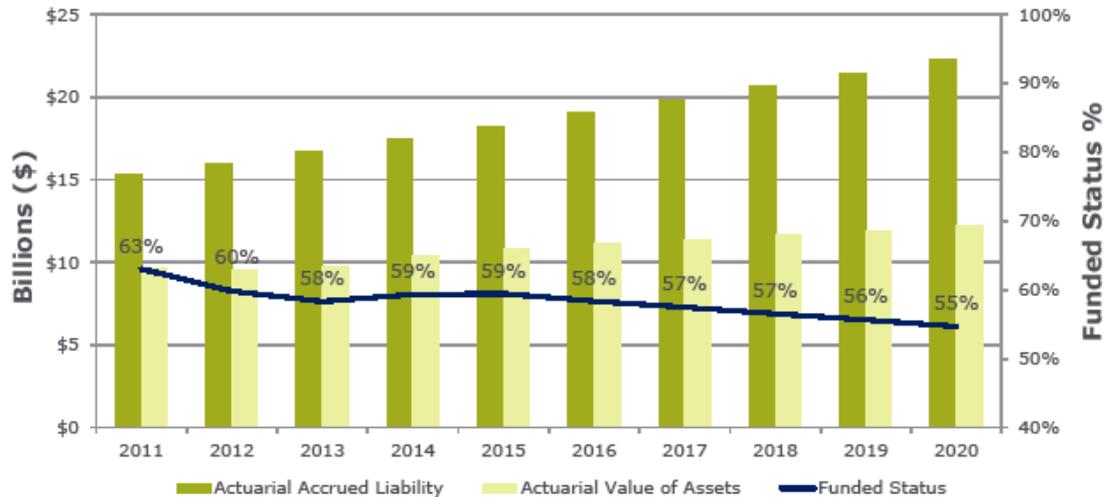


Projected Fund Status

Deterministic Projections – Funded Status

- **Funded status declines slowly over the next ten years under this Base Case scenario**
 - Discount rate remaining level at 7.75% and assets returning as assumed (approximately 6.6%)
 - Contributions are assumed to be made as projected on the following page
- **Actuarial Accrued Liability is forecast to increase at an average annual rate of 4.2%**
- **Actuarial Value of Assets is forecast to grow at an average annual rate of 3.0%, and therefore cannot keep pace with growing liabilities**
- **Funded status under various scenarios are reviewed in the next section**

Projection of Funded Status under Current Asset Allocation and Base Case Assumptions



Note: Liability and Asset values after 2011 were estimated by NEPC



From NEPC, Asset - Liability Study May 2012

- Meetings of stakeholders have occurred since March 2012

| | | |
|---------------------|---------------|---------------------|
| <i>AAUP</i> | <i>NEA-NM</i> | <i>NMSBA</i> |
| <i>AFSCME</i> | <i>NMAER</i> | <i>NMSU</i> |
| <i>AFT</i> | <i>NMASBO</i> | <i>SFCC</i> |
| <i>AFT Retirees</i> | <i>NMCSA</i> | <i>UNM</i> |
| <i>CWA-NM</i> | <i>NMICC</i> | <i>UNM Retirees</i> |

- Unanimous consent on proposal reached on July 17, 2012
- ERB endorsed proposal on September 19, 2012

Proposal summary:

Increase contribution rate for all current and future employees to 10.7% in FY 15. FY 14 contribution rate will be 10.1%

Benefit changes for new members:

Minimum retirement age 55

COLA begins at age 67

ERB Member Stakeholder Advisory Group Proposal

ERB Member Stakeholder Advisory Group Proposal

Study 104 - Minimum Retirement Age (MRA) of 55 & 2% Cost of Living Adjustment (COLA) at age 67 for new hires only; Employee contribution rate of 10.7% effective FY2015

| Fiscal Year Ending June 30 | UAAL (in millions) | Funded Ratio | Total ARC (Employer and Member) | Funding Period (Years) |
|----------------------------|--------------------|--------------|---------------------------------|------------------------|
| 2010 | \$ 5,432 | 63.5% | 25.10% | infinite |
| 2020 | \$ 7,864 | 63.6% | 24.99% | 31.9 |
| 2030 | \$ 8,397 | 71.2% | 20.98% | 17.1 |
| 2043 | \$ 2,113 | 95.2% | 13.45% | 1.8 |

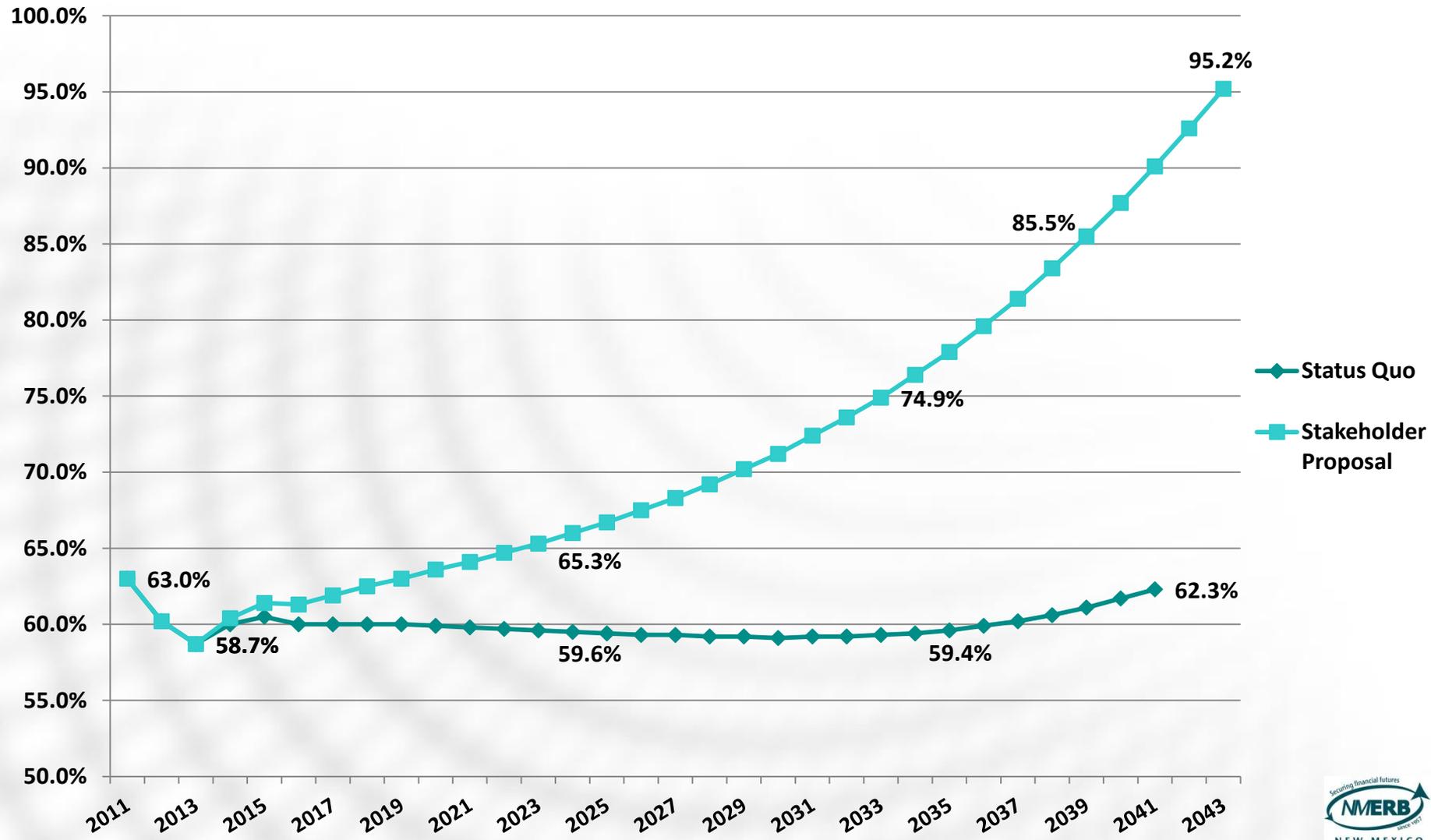
Projections Based on June 30, 2011 Actuarial Valuation

Projections based on 7.75% Discount Rate and New Actuarial Assumptions

The current plan provisions assume a member contribution rate of 7.9% in FY2012 and later. The employer contribution rate is equal to the statutory rate.



Funded Ratio – Status quo vs. Proposal



Fall 2012:

- ERB will present legislative proposal to IPOC and other legislative committees, as requested
- ERB will develop additional stakeholder support through a series of presentations across the state

History of ERB Retirement Benefits

| 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 COLA |
| 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 COLA |
| 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 COLA |
| 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 COLA |
| 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 |
| 1999 | SAME | SAME | Ad Hoc COLA \$2 for each year retired, \$1 for each year of service |
| 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 |



Schedule of Contributions 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 | all | 7/1/2013 - 6/30/2014 | 7.90% | 13.15% | 21.05% | 37.53% |
| PROPOSED | ALL | PROPOSED | 10.70% | 13.90% | 24.60% | 43.5% |