

NM INVESTMENT OVERSIGHT COMMITTEE
ERB'S PLAN DESIGN RECOMMENDATION
DECEMBER 21, 2010

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Background

- Most public pension funds are challenged
- Two capital market meltdowns in last decade
- In 2010 18 states have amended their plans
- Manhattan Institute survey of public education plans

ERB's Reasons for Change

- June 30, 2010 actuarial status
 - \$4.9 billion UAAL
 - 65.7% funding
 - 62.5 years funding period
 - Increasing payroll, retirements and members eligible to retire

Board's Goals

- Achieve 80% funding within 30 years
- Have NM competitive in region to attract and retain employees

Preliminary Recommendation

Description of Proposed Plan Provisions						Comments - In all cases, any member currently eligible for retirement is grandfathered under Tier 1 eligibility with 5 year FAC ("held harmless")
Proposals Presented at December 3, 2010 Working Session	Normal Retirement Eligibility	Early Retirement Eligibility	Final Average Compensation (FAC)	Ultimate Employer Contribution Rate*	Ultimate Member Contribution Rate*	
1 - "60&30 or 35 yrs", from Nov. 8th Board mtg (applies to both tiers)	67&5 OR 60&30 OR 35 Years of Svc	30 Years of Svc	7 years	12.40%	9.90%; members earning less than \$20k pay 8.40%	Members with at least 22 years of service (within 3 years of 25 years of service eligibility) also grandfathered under Tier 1 eligibility with 5 year FAC ("held harmless").

* Proposed statutory contribution rates to the ERB. May not be equal to Total Annual Required Contribution (ARC).

Proposals Presented at December 3, 2010 Working Session	Actuarial Projection Results - 7.75% Discount Rate				Changes from Baseline Projection Results			
	UAAL (in millions) in 2009	UAAL (in millions) in 2040	Total ARC Employee and Employer in 2040	Funded Ratio in 2040	UAAL (in millions) in 2009	UAAL (in millions) in 2040	Total ARC Employee and Employer in 2040	Funded Ratio in 2040
1 - "60&30 or 35 yrs", from Nov. 8th Board mtg	\$ 3,858	\$ 424	12.39%	99.2%	(\$1,074)	(\$16,786)	(8.36%)	31.60%
1a - "60&30 or 35 yrs", from Nov. 8th Board mtg, changes for new hires only	\$ 5,094	\$ 13,645	18.35%	73.0%	\$162	(\$3,565)	(2.40%)	5.40%

Preliminary Recommendation

- Exceeded funding goal- 100% funding in 30 years
- Concern over longer service requirements
- Outreach efforts
 - Working session 12/3
 - Board meeting 12/10
 - Public comment 12/13 and 12/15
 - Public comment and final Board meeting 12/17

Final Recommendation

- Recognizes that members and state must be responsible
- Member contribution rate to increase by 0.5% over four years
- Employer contribution rate to increase to 13.9% over six years
- Widespread member support
- Unanimous board support

Final Recommendation

Description of Current Plan Provisions						Comments
Tiers	Normal Retirement Eligibility	Early Retirement Eligibility	Final Average Compensation (FAC)	Ultimate Employer Contribution Rate*	Ultimate Member Contribution Rate*	
Baseline - Tier 1	65&5 OR Rule of 75 (age 60) OR 25 Years of Svc	Rule of 75 (any age)	5 years	13.90%	7.90%	These use a 1.5% population growth assumption.
Baseline - Tier 2	67&5 OR Rule of 80 (age 65) OR 30 Years of Svc	Rule of 80 (any age)	5 years	13.90%	7.90%	These use a 1.5% population growth assumption.

* Proposed statutory contribution rates to the ERB. May not be equal to Total Annual Required Contribution (ARC).

Actuarial Projection Results - 7.75% Discount Rate					Comments
Current Plan	UAAL (in millions) in 2009	UAAL (in millions) in 2040	Total ARC Employee and Employer in 2040	Funded Ratio in 2040	
Baseline (1.5% Membership Growth)	\$ 4,932	\$ 17,210	20.75%	67.6%	This plan has a permanent cola
Baseline (0% Membership Growth)	\$ 4,932	\$ 24,843	30.48%	43.7%	This plan has a permanent cola

Final Recommendation

Description of Proposed Plan Provisions						Comments - In all cases, any member currently eligible for retirement is grandfathered under Tier 1 eligibility with 5 year FAC ("held harmless")
New Proposals from December 3, 2010 Working Session (& Other Recommended Proposals)	Normal Retirement Eligibility	Early Retirement Eligibility	Final Average Compensation (FAC)	Ultimate Employer Contribution Rate*	Ultimate Member Contribution Rate*	
14 - "Baseline with Higher Contributions" (Current Tier 1 & Tier 2)	Tier 1 & Tier 2	Tier 1 & Tier 2	5 years	13.90%	9.90%	All provisions and eligibilities are the same as the baseline except members contribute at 9.9% for all years (8.4% if salary less than \$20K). Uses a 1.5% population growth assumption.

* Proposed statutory contribution rates to the ERB. May not be equal to Total Annual Required Contribution (ARC).

Actuarial Projection Results - 7.75% Discount Rate					Changes from Baseline Projection Results		
New Proposals from December 3, 2010 Working Session (& Other Recommended Proposals)	UAAL (in millions) in 2009	UAAL (in millions) in 2040	Total ARC Employee and Employer in 2040	Funded Ratio in 2040	UAAL (in millions) in 2040	Total ARC Employee and Employer in 2040	Funded Ratio in 2040
14 - "Baseline with Higher Contributions"	\$ 4,830	\$ 9,544	17.90%	82.4%	(\$7,666)	(2.85%)	14.80%