

# Investments and Pensions and Oversight Committee

Wednesday, June 20<sup>th</sup>, 2012

## *ERB Actuarial Status and Efforts to Improve Sustainability*

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# ERB Retirement Eligibility: Age & Benefits

## **ERB Membership Prior to July 1, 2010**

- “25 and Out” – Earned service credits + allowed service credits = 25 or more years. There is no minimum age required.
- “Rule of 75” – Your age + earned service credits = 75 or more. Under the Rule of 75, allowed service credits are used to calculate retirement benefit but do not count toward eligibility. There are permanent and significant reductions if you are under age 60, and even more if you are under age 55.
- “65 and 5” – If you are at least 65 years old and have at least five years of earned service credit, you are eligible for retirement.

## **ERB Membership Beginning on or after July 1, 2010**

- “30 and Out” – Earned service credits + allowed service credits = 30 or more years. There is no minimum age required.
- “Rule of 80” – Your age + earned service credits = 80 or more. As with the Rule of 75, allowed service credits are used to calculate retirement benefit but do not count toward eligibility. There are permanent and significant reductions if you are under age 65, and even more if you are under age 60.
- “67 and 5” – If you are at least 67 years old and have at least five years of earned service credit, you are eligible for retirement.

## **ERB Benefit Structure**

- Final average salary (FAS) x service credit x .0235 = annual benefit
- Five year vesting period
- No minimum retirement age (with exception of reductions in Rule of 75 and Rule of 80)
- Cost of Living Adjustment (COLA) available on July 1 of the year in which you reach age 65 or on July 1 of the year following your effective retirement date, whichever is later. The amount depends on the annual change in the Consumer Price Index (CPI). The average COLA over time has been 2%.

## **Examples of retirement percentage rates:**

- 25 years x .0235 = 58.75%
- 30 years x .0235 = 70.5%
- 35 years x .0235 = 82.25%

# Schedule of Contributions Rates

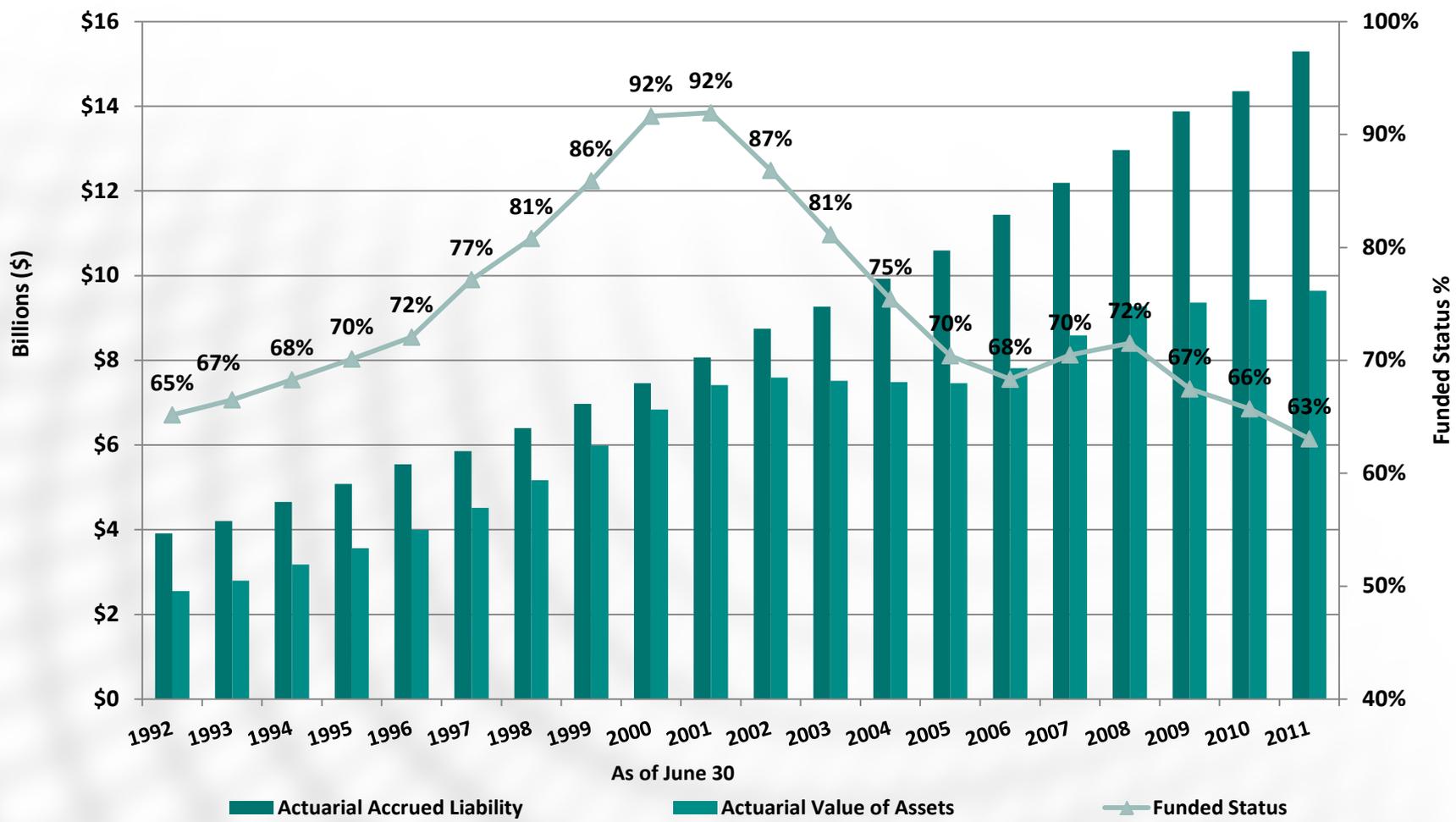
Fiscal Year	Wage Category	Date Range	Member Rate	Employer Rate	Total	% Employee Pays
<b>58-59</b>		7/1/1957 - 6/30/1959	3.00%	4.00%	7.00%	<b>42.86%</b>
<b>60-74</b>		7/1/1959 - 6/30/1974	4.00%	6.50%	10.50%	<b>38.10%</b>
<b>75-79</b>		7/1/1974 - 6/30/1979	5.50%	6.50%	12.00%	<b>45.83%</b>
<b>80-81</b>		7/1/1979 - 6/30/1981	6.50%	6.50%	13.00%	<b>50.00%</b>
<b>82-84</b>		7/1/1981 - 6/30/1984	6.80%	6.80%	13.60%	<b>50.00%</b>
<b>85-93</b>		7/1/1984 - 6/30/1993	7.60%	7.60%	15.20%	<b>50.00%</b>
<b>94-2005</b>		7/1/1993 - 6/30/2005	7.60%	8.65%	16.25%	<b>46.77%</b>
<b>2006</b>		7/1/2005 - 6/30/2006	7.675%	9.40%	17.075%	<b>44.95%</b>
<b>2007</b>		7/1/2006 - 6/30/2007	7.75%	10.15%	17.90%	<b>43.30%</b>
<b>2008</b>		7/1/2007 - 6/30/2008	7.825%	10.90%	18.725%	<b>41.79%</b>
<b>2009</b>		7/1/2008 - 6/30/2009	7.90%	11.65%	19.55%	<b>40.41%</b>
<b>2010 &amp; 2011</b>	\$20k or less	7/1/2009 - 6/30/2011	7.90%	12.40%	20.30%	<b>38.92%</b>
<b>2010 &amp; 2011</b>	Over \$20K	7/1/2009 - 6/30/2011	9.40%	10.90%	20.30%	<b>46.31%</b>
<b>2012</b>	\$20k or less	7/1/2011 - 6/30/2012	7.90%	12.40%	20.30%	<b>38.92%</b>
<b>2012</b>	Over \$20K	7/1/2011 - 6/30/2012	11.15%	9.15%	20.30%	<b>54.93%</b>
<b>2013</b>	\$20k or less	7/1/2012 - 6/30/2013	7.90%	12.40%	20.30%	<b>38.92%</b>
<b>2013</b>	Over \$20K	7/1/2012 - 6/30/2013	9.40%	10.90%	20.30%	<b>46.31%</b>
<b>2014</b>	all	7/1/2013 - 6/30/2014	7.90%	13.15%	21.05%	<b>37.53%</b>
<b>thereafter</b>	all		7.90%	13.90%	21.80%	<b>36.24%</b>
<b>PROPOSED</b>	<b>ALL</b>	<b>PROPOSED</b>	<b>9.90%</b>	<b>13.90%</b>	<b>23.80%</b>	<b>41.60%</b>

# History of ERB Retirement Benefits

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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



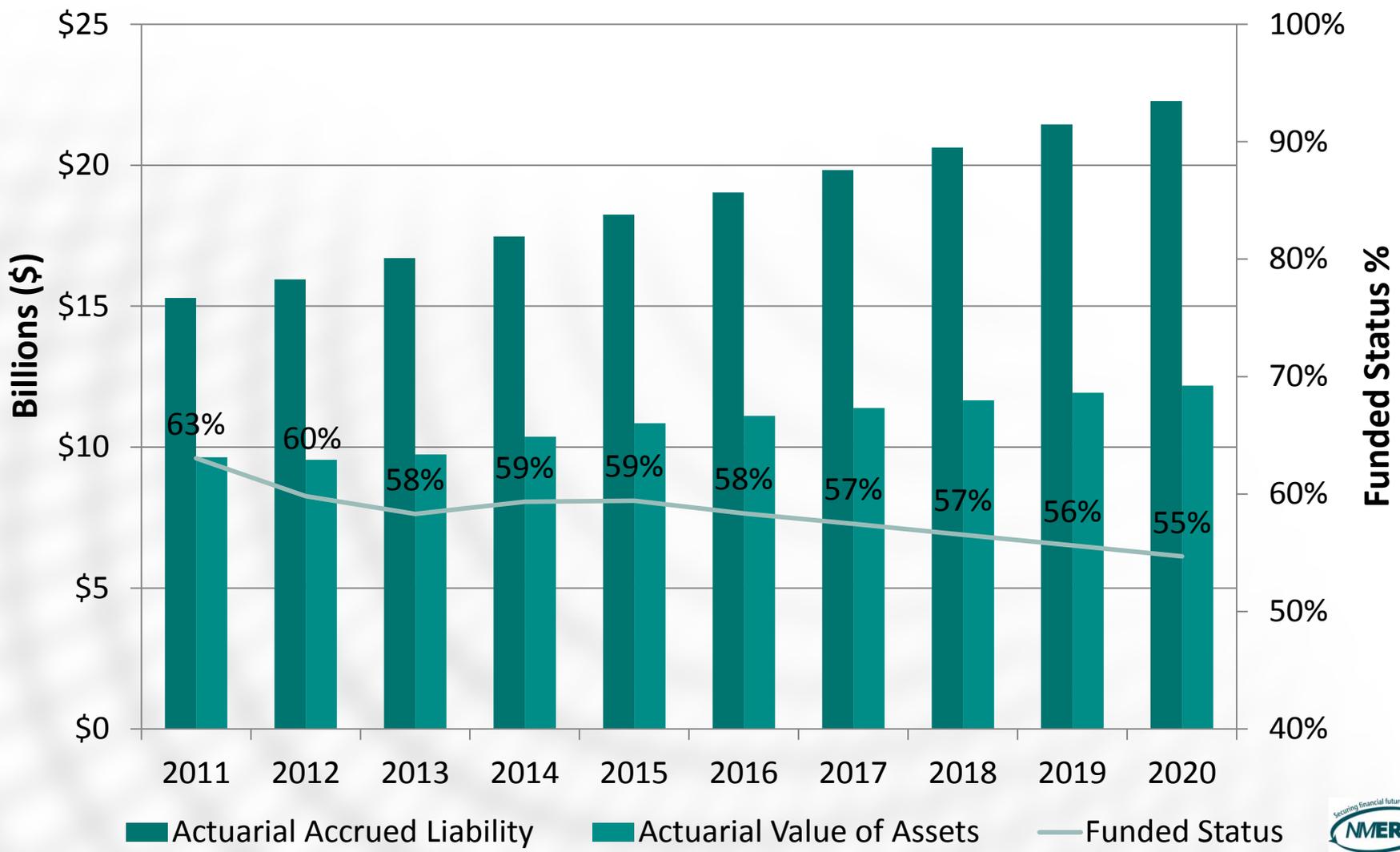
# Funded Status History on an Actuarial Basis



- Over the past 20 years, liabilities have grown an average of 7.5% per year
- Valuation Assets have recently not kept pace with liability growth, growing on average 12.0% per year in the first 10 years, and 2.7% per year in the last 10 years as market turmoil has affected most pension plans



# Project of Funded Status under Current Asset Allocation and Base Case Assumptions



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

	06/30/2011 Funding	06/30/2012 Estimated Funding
<b>Number of Participants</b>		
<b>Active</b>	<b>61,673</b>	
<b>Retirees and Beneficiaries</b>	<b>35,457</b>	
<b>Inactive + Due Refunds</b>	<b>33,011</b>	
<b>Total</b>	<b>130,141</b>	<b>N/A</b>
<b>1. Total Payroll (in \$ millions)</b>	<b>\$2,524</b>	<b>\$2,618</b>
<b>2. Actuarial Accrued Liability</b>	<b>\$15,293</b>	<b>\$15,593</b>
<b>3. Actuarial Value of Assets (in \$ millions)</b>	<b>\$9,642</b>	<b>\$9,544</b>
<b>Funded Status (3 divided by 2)</b>	<b>63.0%</b>	<b>59.8%</b>
<b>4. Market Value/Fair Value of Assets (in \$millions)</b>	<b>\$9,589</b>	<b>\$9,613</b>
<b>Funded Status (4 divided by 2)</b>	<b>62.7%</b>	<b>60.3%</b>

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

6/30/2012 estimated funding results calculated by NEPC

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%



## ***ERB Proposal***

- Board funding goals:
  - 80% +/- 2% by 2030, and
  - 95% +/- 2% by 2040
- Shared responsibility
- 12.5% Cost of Living Adjustment (COLA) Reduction
- Minimum Retirement Age (MRA) of 55
- 10 year grandfather period
- Employee contribution increase to 9.9%

- IPOC endorsed ERB's proposal
- SB 150
- Co-sponsored by Senators Ingle, Asbill, Jennings and Smith
- Amended bill passed Senate; did not get through the House

- Extensive meetings with stakeholders
- Began meeting in February
- Have met with following:

*AAUP*

*NEA*

*NM Branch of Community Colleges*

*AFSCME*

*NMAER*

*NM Independent Community Colleges*

*AFT*

*NMASBO*

*SFCC*

*ATF*

*NMCSA*

*UNM*

*Council of University  
Presidents*

*NMSU*

*UNM Retirees*

- Have held 3 Stakeholder Advisory Group meetings  
– April, May and June
- No apparent areas of consensus have emerged
- Areas of divergence – changes for current members or retirees, other than increasing employee contributions

- Special Board Meeting on July 19<sup>th</sup> to develop a Funding Policy
  - *Goal: Principles and practices that help sustain benefits over the long term, components include:*
    - ✓ Actuarial cost method
    - ✓ Asset valuation method
    - ✓ Funding targets
    - ✓ Response to favorable/unfavorable investment performance

- Develop legislative proposal(s) consistent with ERB Funding Policy
- Present proposal(s) to stakeholders
  - ✓ Meeting with members
  - ✓ Survey members
- Board to adopt final proposal in Fall 2012
- Seek IPOC endorsement Fall 2012