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August 20, 2012

Mr. Wayne Propst, Executive Director
Public Employees Retirement Association
of New Mexico
33 Plaza la Preza
Santa Fe, New Mexico 87507

Re: Impact of Reducing COLA – Judicial Retirement Fund

Dear Wayne:

As requested we completed our study to determine the impact of reducing the cost of living adjustment (COLA) from 3.0% per annum to 2.0% for the New Mexico Judicial Retirement Fund. The results are based upon the June 30, 2011 actuarial valuation and contained in the following table:

Valuation Date – June 30, 2011	3% COLA	2% COLA
Actuarial Accrued Liability (AAL)		
Active and Deferred Vested Members	\$ 49,026,592	\$ 45,288,130
Retired Members and Survivors	<u>90,682,896</u>	<u>83,737,088</u>
Total	\$ 139,709,488	\$ 129,025,218
Actuarial Value of Assets	\$ 78,199,003	\$ 78,199,003
Funded Ratio	56.0 %	60.6 %
Unfunded Actuarial Accrued Liability (UAAL)	\$ 61,510,485	\$ 50,826,215
Total Normal Cost	30.10 %	27.90 %
UAAL 30-Year Amortization Rate	<u>26.61 %</u>	<u>21.99 %</u>
Total Required Contribution Rate	56.71 %	49.89 %
Total Required Contribution Amount	\$ 7,235,934	\$ 6,364,460
Employer Contribution Rate	8.75 %	8.75 %
Expected Docket Fees	18.97 %	18.97 %
Member Contribution Rate	<u>10.75 %</u>	<u>10.75 %</u>
Total Statutory Rate	38.47 %	38.47 %
Expected Statutory Amount	\$ 4,907,820	\$ 4,907,820
Deficiency in Statutory Rate	18.24%	11.42%
Deficiency in Expected Statutory Amount	\$ 2,328,114	\$ 1,456,640

3550 Busbee Pkwy, Suite 250, Kennesaw, GA 30144

Phone (678) 388-1700 • Fax (678) 388-1730

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In performing the study, we used the same data and assumptions that were used in the June 30, 2011 actuarial valuation with the exception of the COLA assumption which is the subject of the study. Reducing the COLA from 3% to 2% increases the funded ratio from 56.0% to 60.6% as well as reduces the unfunded actuarial accrued liability (UAAL) from \$61.5 million to \$50.8 million. The normal cost rate decreases from 30.10% of pay to 27.90 % of pay. These reductions result in the contribution deficiency decreasing from 18.24% of pay to 11.42% of pay.

The proposed COLA reduction does significantly reduce the costs of the Judicial Retirement Fund but the statutory contribution rates are still far from the minimum required to satisfy the annual required contribution.

This is to certify that the undersigned are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the Fund.

Sincerely,

John J. Garrett, ASA, FCA, MAAA
Principal and Consulting Actuary

Jonathan T. Craven, ASA, EA, FCA, MAAA
Senior Actuary

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