

# **Investments and Pensions Oversight Committee**

**Senator George Muñoz, Chair**  
**Representative Monica Youngblood**  
Thursday, November 5, 2015

## **ERB's Actuarial Valuation Report and How ERB is Using the Valuation**

Jan Goodwin, Executive Director

Mary Lou Cameron, Board Chair

H. Russell Goff, Board Vice Chair



# NEW MEXICO EDUCATIONAL RETIREMENT BOARD

## Actuarial Valuation Report as of June 30, 2015

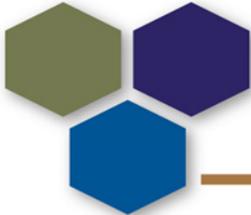
Presented to Board of Trustees on October 21, 2015

R. Ryan Falls, Senior Consultant

Mark Randall, Executive Vice President



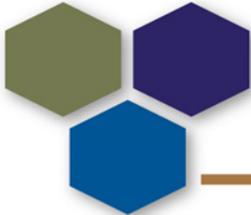
Gabriel Roeder Smith & Company  
Consultants & Actuaries  
[www.gabrielroeder.com](http://www.gabrielroeder.com)



# Actuarial Valuation

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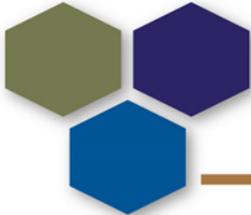
- ◆ Prepared as of June 30, 2015, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods
- ◆ Purposes:
  - ▶ Measure the actuarial liabilities
  - ▶ Determine adequacy of current statutory contributions
  - ▶ Provide other information for reporting
    - CAFR (Consolidated Annual Financial Report)
  - ▶ Explain changes in actuarial condition of ERB
  - ▶ Track changes over time
  - ▶ Provide early warning on new trends



# Key Results

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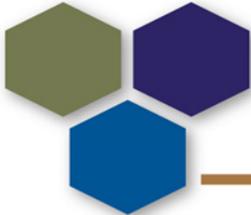
- ◆ The actuarial funded ratio improved from 63.1% to 63.7%
- ◆ Unfunded Actuarial Accrued Liability (UAAL) increased from \$6.3 billion to \$6.5 billion
- ◆ The normal cost rate decreased from 13.11% of pay to 12.98% of pay
- ◆ The funding period increased from 42.1 years to 43.2 years
- ◆ *These above valuation results are determined as of a single point in time. The calculated funding period does not reflect:*
  - ▶ *Lower normal cost for future members*
  - ▶ *Future COLAs less than 2%*
  - ▶ *Open group projections as future hires replace retirements and terminations*



# Recent Events

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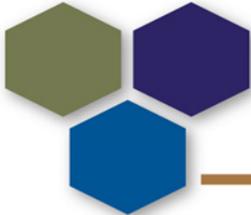
- ◆ The return on the market value of assets was 3.7%
  - ▶ High-level calculation performed by GRS
- ◆ The return on the actuarial (smoothed) value of assets was 9.7%
  - ▶ \$25 million in deferred gains not yet recognized
  - ▶ Created an actuarial gain of \$205 million
- ◆ Experience losses totaled \$7 million
  - ▶ Includes \$47 million gain due to actual COLA less than the 2.0% assumed
- ◆ Valuation reflects the changes adopted following the experience study for the six-year period ending 2014:
  - ▶ Updated mortality assumption, including future mortality improvements
  - ▶ Revisions to retirement rates for members who joined ERB after June 30, 2010
  - ▶ Revisions to disability rates
  - ▶ Decreased wage inflation from 4.25% to 3.75%
  - ▶ Lower the population growth assumption to zero (no impact on valuation results)



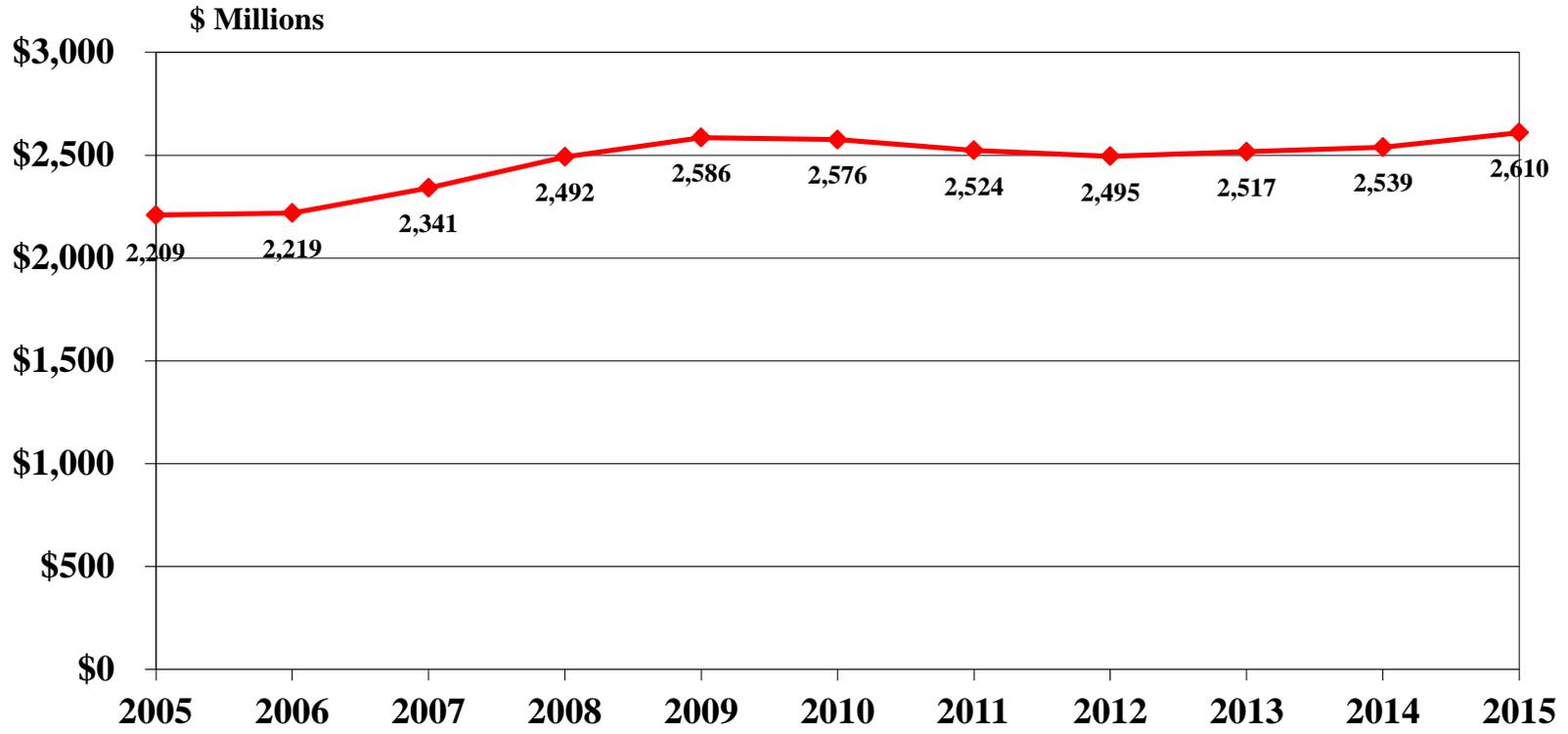
# Membership – Actives

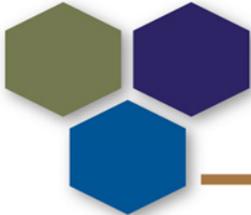
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- ◆ The number of active members decreased from 61,173 to 60,998, a decrease of 0.3%
  - ▶ Tier 1 members decreased from 43,122 to 38,967
  - ▶ Tier 2 members decreased from 11,103 to 9,551
  - ▶ Tier 3 members increased from 6,948 to 12,480
- ◆ Total payroll of active members increased from \$2,539 million to \$2,610 million
  - ▶ Annual increase of 2.8%
  - ▶ Over the last ten years, total payroll has increased an average of 1.7% per year



# Active Payroll

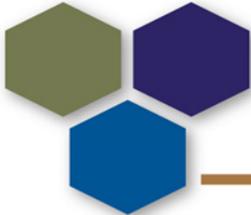




# Membership – Actives

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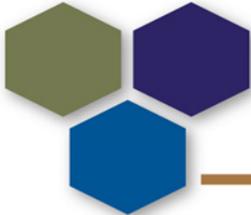
- ◆ Average pay for active members increased from \$41,503 to \$42,793
  - ▶ Annual increase of 3.1%
  - ▶ Over the last ten years, average pay has increased an average of 2.1% per year
- ◆ Average age of active members is 46.5
  - ▶ 46.6 last year
  - ▶ 45.6 ten years ago
- ◆ Average years of service is 9.7
  - ▶ 9.8 last year
  - ▶ 9.3 ten years ago



# Membership – Annuitants

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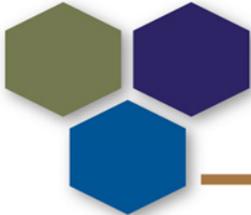
- ◆ The number of annuitants increased from 42,246 to 44,043, a 4.3% increase
  - ▶ Annuitants include service retirees, disabled retirees, and beneficiaries receiving benefits
  - ▶ Over the last ten years, the number of annuitants has grown an average of 5.4% per year
- ◆ Average annual benefit is \$21,832
  - ▶ Reflects cost-of-living increase for July 1, 2015
  - ▶ Over the last ten years, the average annual benefit has grown an average of 2.2% per year
- ◆ There are 1.4 active members for each annuitant
  - ▶ Ten years ago the ratio was 2.4



# Assets

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- Fair market value increased from \$11,346 million
  - to \$11,498 million
- Contributions
  - ▶ Member contributions = \$295 million, including service
    - purchases
      - 10.70% in FY 2015 and thereafter
  - ▶ Employer contributions = \$390 million
    - 13.90% in FY 2015 and thereafter
  - ▶ ARP contribution = \$5 million (3% of ARP payroll)
- Total contributions of \$690 million, compared to
  - \$634 million last year

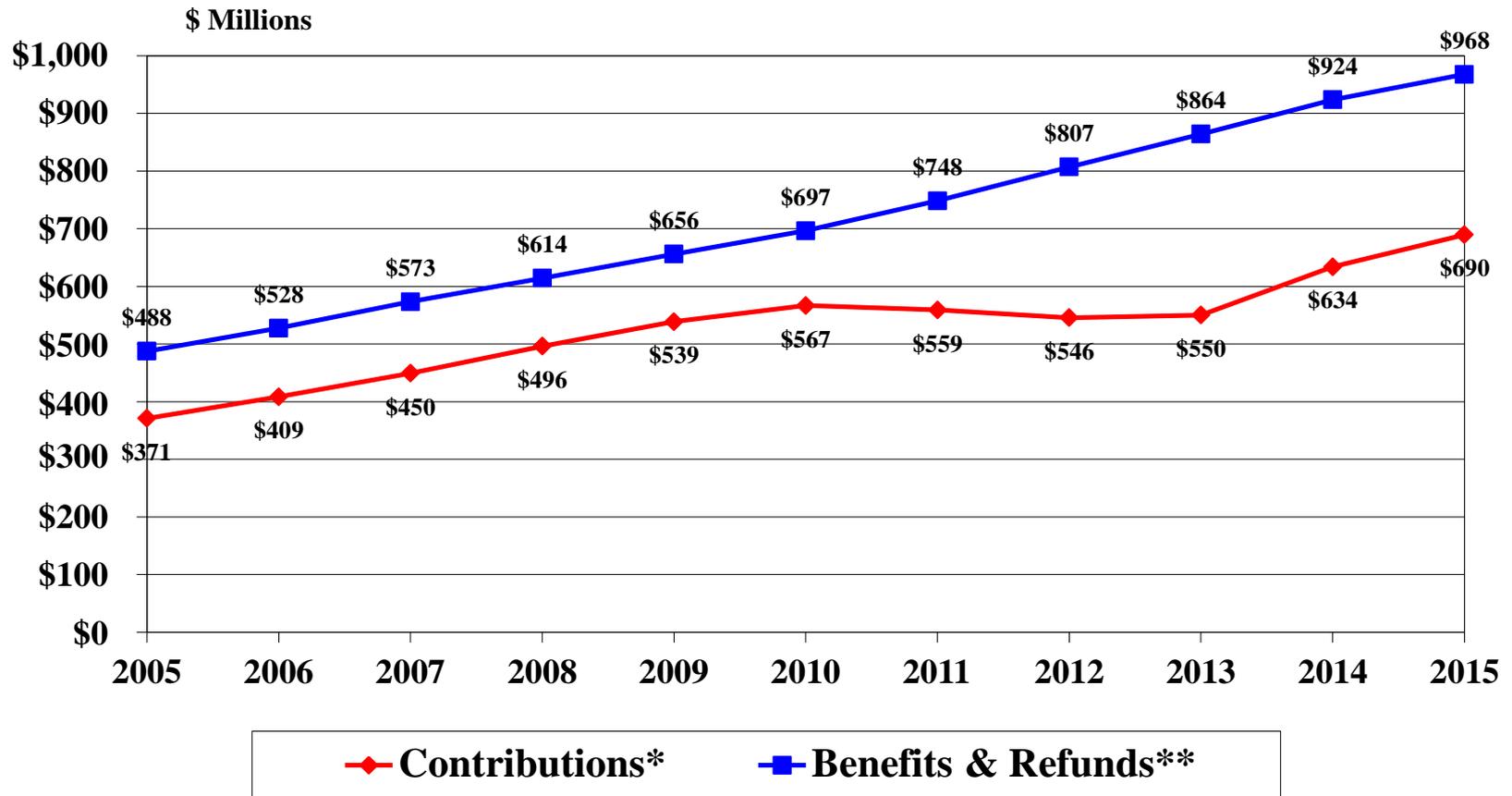


# Assets (Continued)

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- ◆ Total distributions—benefit payments, refunds and administrative expenses—totaled \$968 million
- ◆ Therefore, net external cash flow was -\$278 million, or -2.4% of market value of assets at end of year
  - ▶ Projected to stay at or below -4%
- ◆ Return of approximately 3.7% in FY 2015 (net of administrative and investment expenses)
  - ▶ 9.7% for last five years
  - ▶ 6.6% for last 10 years
  - ▶ 4.7% for last 15 years
  - ▶ 7.2% for last 20 years

# Contributions vs. Benefits and Refunds



\* Includes member contributions, employer contributions, and service purchases

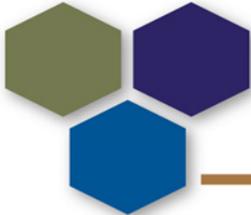
\*\* Includes administrative expenses



# Assets (Continued)

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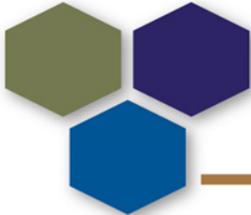
- ◆ Most actuarial calculations are based on actuarial value of assets, not market value
- ◆ Actuarial value only reflects a portion of the actual market returns over the past five years
  - ▶ 20% of the difference between last year's expected return on market and the actual return
  - ▶ 40% of FY 2014 difference, 60% of FY 2013 difference and 80% of FY 2012 difference
- ◆ Actuarial value is now \$11,472 million, compared to \$10,715 million last year



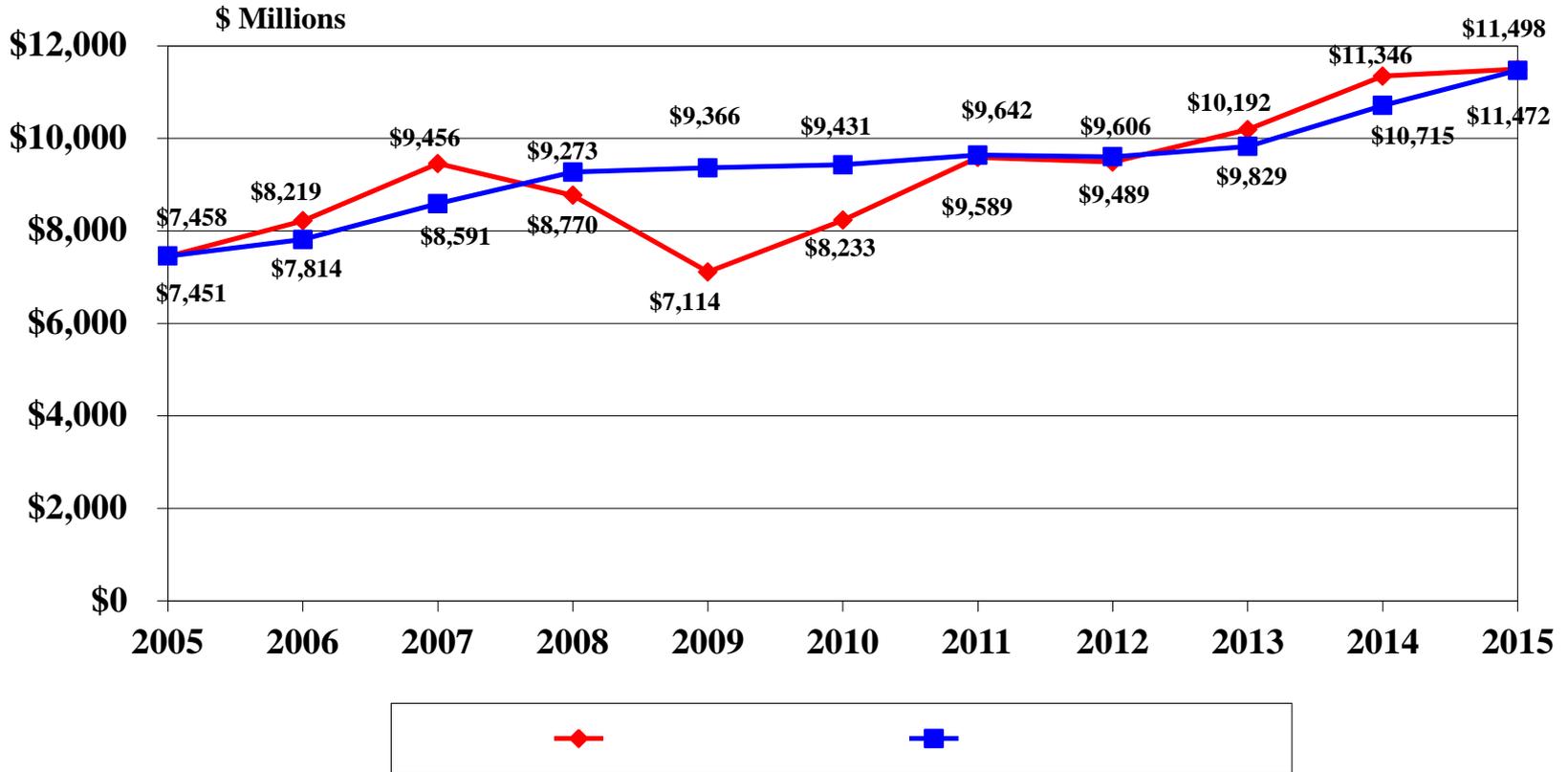
# Assets (Continued)

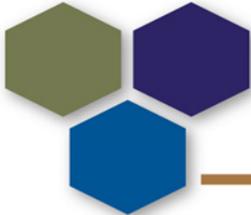
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- ◆ Actuarial return was 9.7% in FY 2015, compared to 12.0% in FY 2014
  - ▶ 20% of the good returns in FY 2014, FY 2013, and FY 2011 offset by the lower returns in FY 2012 and FY 2015
- ◆ Actuarial value is almost 100% (99.8%) of fair market value, versus 94% last year
- ◆ \$25 million in deferred gains, not yet recognized



# Market and Actuarial Values of Assets

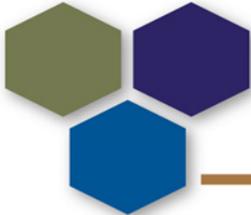




# Funding Valuation Results

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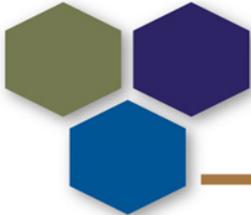
- ◆ Unfunded actuarial accrued liability (UAAL) increased from \$6,256 million to \$6,542 million
- ◆ Funded ratio (actuarial assets divided by actuarial accrued liability) increased from 63.1% to 63.7%
  - ▶ Ratio using market value decreased from 66.9% to 63.8%
- ◆ 13.90% employer contribution for FY 2016 comprised of:
  - ▶ Employer normal cost: 2.28%
  - ▶ Amortization payment: 11.62%



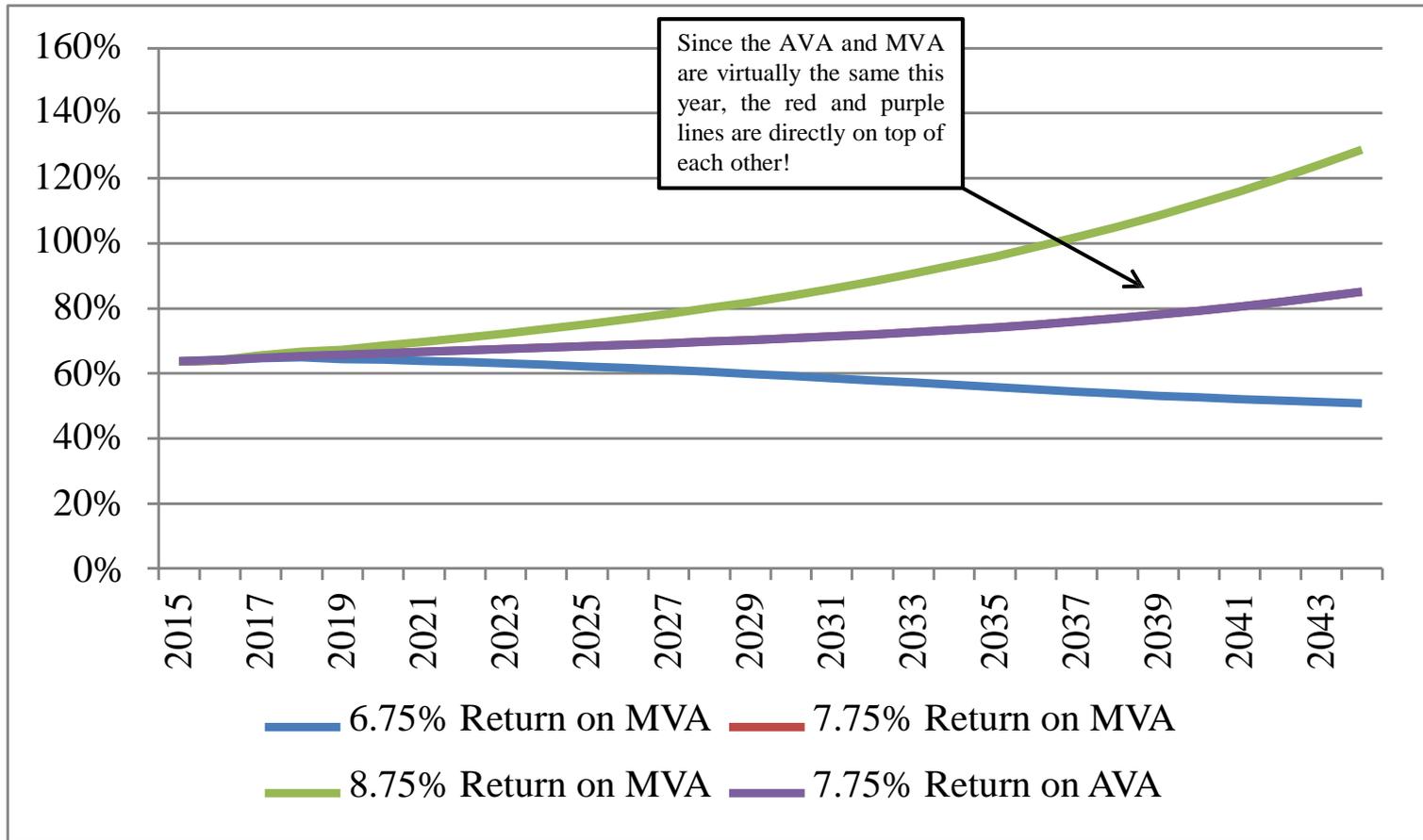
# Funding Valuation Results

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- ◆ Funding period is 43.2 years
- ◆ Funding Policy Contribution is 16.78%
  - ▶ 27-year amortization (30 years from 06/30/2012), plus employer normal cost
  - ▶ Shortfall (16.78% - 13.90%) of 2.88%
- ◆ These metrics do not incorporate certain improvements going forward
  - ▶ Lower normal cost for future members
  - ▶ Future COLAs less than 2%



# Projection – Funded Ratios



*Projection results assuming 7.75% return market value, 0.00% annual membership growth, current assumptions and plan provisions, and variable COLAs based on future funded ratios*

ERB's Board places significant emphasis on actuarial matters:

- Annual valuation report- statutes require every other year
- Experience study every two years, best practice is every five years
- Actuarial audit every five years, consistent with best practices

## Actions the ERB Board has taken based on actuarial reports

- 2010 experience study- reduced long-term earnings assumption from 8% to 7.75%
- Pursued long-term sustainability legislation- SB 150 in 2013 legislative session
- 2014 experience study- adopted new generational mortality assumptions, eliminated growth in active members for projections (no effect on valuations)

## ERB and Board's philosophy:

- Conservative, yet realistic
- Consistent, not reactive

## Putting actuarial valuations in context:

- Status as of a point in time
- Most important is trend over time

## Informs everything we do:

- 7.75% investment performance target
- No plan changes unless actuarially neutral or beneficial

ERB website locations for additional information on various topics:

Actuarial - [http://nmerb.org/Actuarial\\_reports.html](http://nmerb.org/Actuarial_reports.html)

Accounting and finance - [http://nmerb.org/Annual\\_reports.html](http://nmerb.org/Annual_reports.html)

Investments –

- Performance - <http://nmerb.org/Investments.html>
- Asset allocation - [http://nmerb.org/asset\\_allocation.html](http://nmerb.org/asset_allocation.html)
- Investment Policies - [http://nmerb.org/investment\\_policies.html](http://nmerb.org/investment_policies.html)