RETIREMENT SYSTEMS SOLVENCY TASK FORCE

PLAN DESIGN PROPOSALS

TUESDAY, OCTOBER 12, 2010

Jan Goodwin, Executive Director

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NEW MEXICO EDUCATIONAL RETIREMENT BOARD

ERB Fund Status

As of 06/30/2010

- Fund size $8.2 billion
- UAAL $5.2 billion
- Funded ratio 64.2%
- Funding period 67 years

What Moves The Needle?

Plan Design Changes that Have the Largest Effect Actuarially

- Multiplier
- Age for Unreduced Benefits
- Change Final Average Salary (FAS)
- Increase contribution rates for members
  - Lengthen the period
  - Convert to base pay only
  - Eliminate sick/vacation/terminal pay
- Eliminate/Suspend COLA

What Doesn't Move the Needle?

- Establishing COLA banks
- Altering vesting
- Anti spiking provisions
- Altering the final average earnings period
- Eliminate terminal pay from the pension earnings
- Carrots
- Decreasing the interest crediting on member contributions

Solvency

Is ERB insolvent?

- No – ERB can pay benefits for many years to come.

ERB Board funding standards:

- Actuarially Required Contribution of 22.95% is greater than annual contribution of 20.30%
- Funded ratio should reach 80% in 30 years

ERB's Goal

Ensure long term sustainability of plan by meeting funding standards within a short time.

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Guiding Principles of Changes

Intergenerational Equity

- Benefits
- Contributions

Commitment to 2005 Contribution Changes

Keep New Mexico Competitive

How Does NM Compare?

State	Retirement Rules	Multiplier	COLA
Arizona	Rule of 80; 62/10; Anytime after age 65.	Graduates from 2.10% – 2.30%	Up to 4% if excess earnings achieved
Colorado	Rule of 80; 50/30; 65/5	2.50%	3.5% - currently in litigation
New Mexico	25 Years and out; Rule of 75; 65/5 – *as of 7/1/10* 30 Years and out; Rule of 80; 67/5	2.35%	Eligible at 65 years of age, tied to Consumer Price Index (CPI), max of 4%.
Oklahoma	Rule of 90; 62/5	2.00%	Ad hoc
Texas	Rule of 80; 65/5	2.30%	Ad hoc
Utah	30 years and out; 65/4	2.00%	Tied to CPI – up to 4%

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Board Proposals

	Proposal 1	Proposal 2	Proposal 3	Proposal 4
Employers recommit to 13.90 % contribution rate	Yes	Yes	Yes	Yes
Employee contribution rate	8.65%	9.40%	8.65%	8.65%
Total Contribution	22.55%	23.30%	22.55%	22.55%
Multiplier for future service	2.23%	2.35%	2.35%	2.25%
Multiplier backfill provision	If funding reaches 80%, recover portion of 2.35%; then if 100% funding, then 2.35%	None	None	If funding reaches 80%, recover portion of 2.35%; then if 100% funding, then 2.35%
Minimum Retirement Age – Unreduced Benefit	None	55	60	60
Final Average Salary	5	7	7	7

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Other Factors the Board is Considering

- Adjust Multipliers:
  - Encourage early retirement
  - Encourage retention
  - Reduce benefits for new members
- Mandatory minimum retire age of: 50, 55, 60 or 65
- Increase Vesting Period: 7, 8, 9, or 10 years
- Variable employee contribution rate tied to COLA waiver

Need To Hit the Right Balance

Get to the Actuarial Required Contribution (ARC) rate by:

Contribution Rates

Benefits

Minimum Service Requirements

Member + Employer

Multiplier

COLA

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Next Steps:

- Our actuaries are evaluating the proposals
- Board will review actuarial effects of proposals at Friday, October 22nd Board Meeting and decide on a course of action.