RETIREMENT SYSTEMS SOLVENCY TASK FORCE

NMERB BUDGET PRESENTATION

FRIDAY, NOVEMBER 12, 2010

Jan Goodwin, Executive Director

Securing financial futures
NMERB
since 1957
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Program Purpose

To provide secure retirement benefits to active and retired members so they can have a secure monthly benefit when their career is finished.

Type	Measure	FY 2010 Target	FY 2010 Result
Output	Percent of retirement applications processed within 60 days.	95%	95%
Outcome	Average number of days to process refund requests.	15	15
Output	Average number of days to respond to request for benefit estimates and purchase of service request.	20	18
Outcome	Percent of member satisfaction with seminars and training.	96%	95%
Outcome	Average rate of return over a cumulative five-year period.	8%	4%
Output	Percent of retirement applications processed within sixty days.	95%	95%
Outcome	Funding period of unfunded actuarial accrued liability, in years.	<=30	67
Output	Number of benefit estimates and purchase of service requests computed annually.	6,573	6,500
Output	Number of member workshops conducted.	35	30
Quality	Percent of accurately computed retirements.	99.5%	99.5%

Summary of Investment Results

- ***For the fiscal year ending June 30, 2010, the Fund returned 18.2%, outperforming its policy index by 5.9%, ranking in the top 2nd percentile of public funds > $1 billion.***

- For the quarter ending September 30, 2010, the fund returned 8.4%.

- Over the last 12 months, the Fund experienced a gross investment gain of $1.3 billion, which includes a gross investment loss of $333.0 million during the second quarter. Total assets decreased from $8.6 billion at the beginning of the quarter to $8.2 billion on June 30, 2010, with $38.9 million in net distributions.

- Over the past five years, the Fund returned 4.0% per annum, outperforming its policy index by 0.8%, ranking in the top 10th percentile of the Independent Consultant Cooperative's Public Funds > $1 Billion Universe.

- For the quarter, the Fund posted a -3.9% return, outperforming its policy index by 0.6%, ranking in the top 32nd percentile of public funds > $1 billion.

- All asset classes were within policy ranges on June 30, 2010

Comparison of FY 2010 to the FY2011 OPBUD to the FY 2012 Request

	FY 2010 Actuals		FY 2011 Operating Budget	FY 2012
	OPBUD	Total	OPBUD	Base Request
Personal Services and Employee Benefits	$ 4,346.9	$ 3,624.5	$ 4,197.4	$ 4,570.7
Contractual Services	$ 23,329.6	$ 37,347.5	$ 21,826.7	$ 38,462.9
Other	$ 874.8	$ 794.6	$ 884.2	$ 849.4
Total	$ 28,551.3	$ 41,766.6	$ 26,908.3	$ 43,883.0
FTE	59.00		58.00	58.00

Summary

- Full funding of Personnel Services and Employee Benefits for the 58 authorized FTE.
  - Retiree Payroll continues to increase (increased 111.2% from 2000 – 2010: $312.2 in 2000 to $659.3 in 2010);
  - Retired members have increased 59.30% from 2000 – 2010 (21,186 in 2000 to 33,749 in 2010);
  - Active members have increased 5.34% from 2000 – 2010 (60,090 in 2000 to 63,297 in 2010).
- Complex investment strategies along with changes in compensation to managers, have increased budget expenses for investment managers and custody fees.
- Increased expenditures for attorney fees and employee liability insurance, through Risk Management Division, are due to ongoing litigation.
- After adjusting for investment manager fees, custody fees and litigation costs the base request is a 0.5% increase over FY 2011 OPBUD.

Special Request Appropriation

- ERB is requesting $3.5 million for a two-year project to upgrade our Integrated Retirement Information System (IRIS) to the most current version available.
- The IRIS system is ERB's mission critical application responsible for member benefit administration, monthly retirement payroll, member refunds, employer contribution reports, document imaging and many other crucial agency tasks.
- This upgrade will take advantage of new functionality not available in the current version and create a web-friendly application that allows members to perform tasks online such as applying for refunds and retirement benefits. The funding will be used to pay the vendor to upgrade the code from Powerbuilder to Java as well as for Independent Validation and Verification (IV&V).
- Two term IT Business analysts are included to assist in the upgrade.

Capital Request

- The ERB has a capital request for $9.7 million to acquire land, plan, design, and construct or renovate a building for the purpose of a new headquarters facility in Santa Fe county. The current ERB facility does not adequately meet ERB customer privacy needs along with continual growth of membership and staffing.
- Chapter 129 Laws of 2009 appropriated $2.5 million for planning and site acquisition.
- Current headquarters was appraised at approximately $3.5 million in June 2007.
- Programming phase has been completed with the assistance of Dekker/Perich/ Sabatini.
- Based on preliminary programming documents ERB anticipates reducing the capital request from $9.7 million to $8.0 million.
- Project is currently on hold to determine Legislative/Executive support.

Public Employees
Retirement Association
of New Mexico

PERA FY12
Budget Proposal

Retirement Systems Solvency Task Force
November 12, 2010

Presented by
Terry Slattery, CEBS, PERA Executive Director

Public Employees Retirement Association
FY12 Budget Request
Submitted: September 1, 2010

- Total FY12 Budget Request: $30,504,000
  - FY11 Operating Budget: $32,584,300
  - Decrease of $2,080,300 or 6.4%
  - Requested budget for salaries and benefits decreased by $376,700 or 6.3%
  - Requested budget for contract expenses decreased by $1,703,600 or 6.7%
  - Requested budget for other expenses is flat

- PERA is not funded with a General Fund Appropriation
  - Operating Revenue generated from member and employer contributions and investment income
  - Year-end balances revert back into Investment Fund
  - In FY10, PERA returned approximately $10 million of its unused operating budget into the Investment Fund

- Appropriations to PERA are approved by the Legislature
  - Although all of PERA's expenses are paid from trust fund money, our appropriation must be approved by both the legislature and Governor's Office

- PERA is granted authority to increase its budget for the PERA Building, which it owns, for the safety and security of the building structure

- PERA is granted authority to increase its budget to compensate investment fund managers for amounts earned while managing investment portfolios

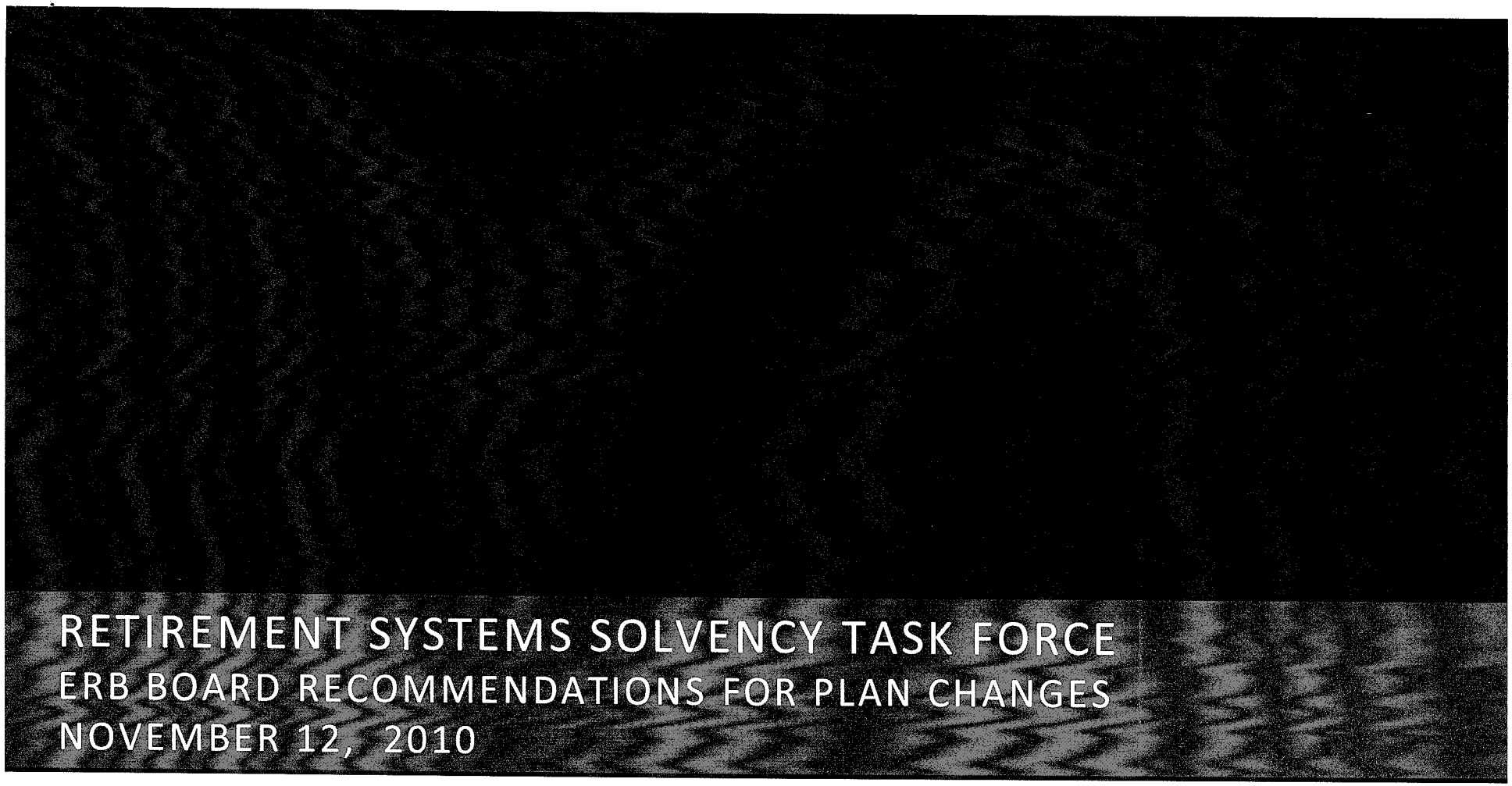
- PERA's annual administrative expenses are low, averaging only 27 basis points, or 0.27%, of the total market value of the investment portfolio

- FY12 Budget Request FTEs: 76 total employees
  - FY11: 88 Employees
  - 12 Term employee positions will expire on June 30, 2011

- In FY10, PERA operated with a vacancy rate as high as 10.5%
  - PERA's historical average vacancy rate is about 3.5%

Public Employees Retirement Association
Budget Review
FY08 Actual through FY12 Request

Category	Account	FY08 Actual	FY09 Actual	FY10 Req	FY10 OpBud	FY10 Actual	FY11 Req	FY11 OpBud	FY12 Req
Salaries and Benefits	200	5,449,900	5,624,600	6,005,300	5,920,600	5,482,600	6,148,400	5,951,500	5,574,800
Contracts	300	27,268,400	18,951,300	37,565,800	30,895,000	21,526,100	30,466,800	25,305,400	23,601,800
Other Expenditures	400	1,596,000	942,900	1,443,800	1,373,700	1,217,600	1,373,700	1,327,400	1,327,400
	Total	**34,314,300**	**25,518,800**	**45,014,900**	**38,189,300**	**28,226,300**	**37,988,900**	**32,584,300**	**30,504,000**



RETIREMENT SYSTEMS SOLVENCY TASK FORCE

ERB BOARD RECOMMENDATIONS FOR PLAN CHANGES

NOVEMBER 12, 2010

Jan Goodwin, Executive Director

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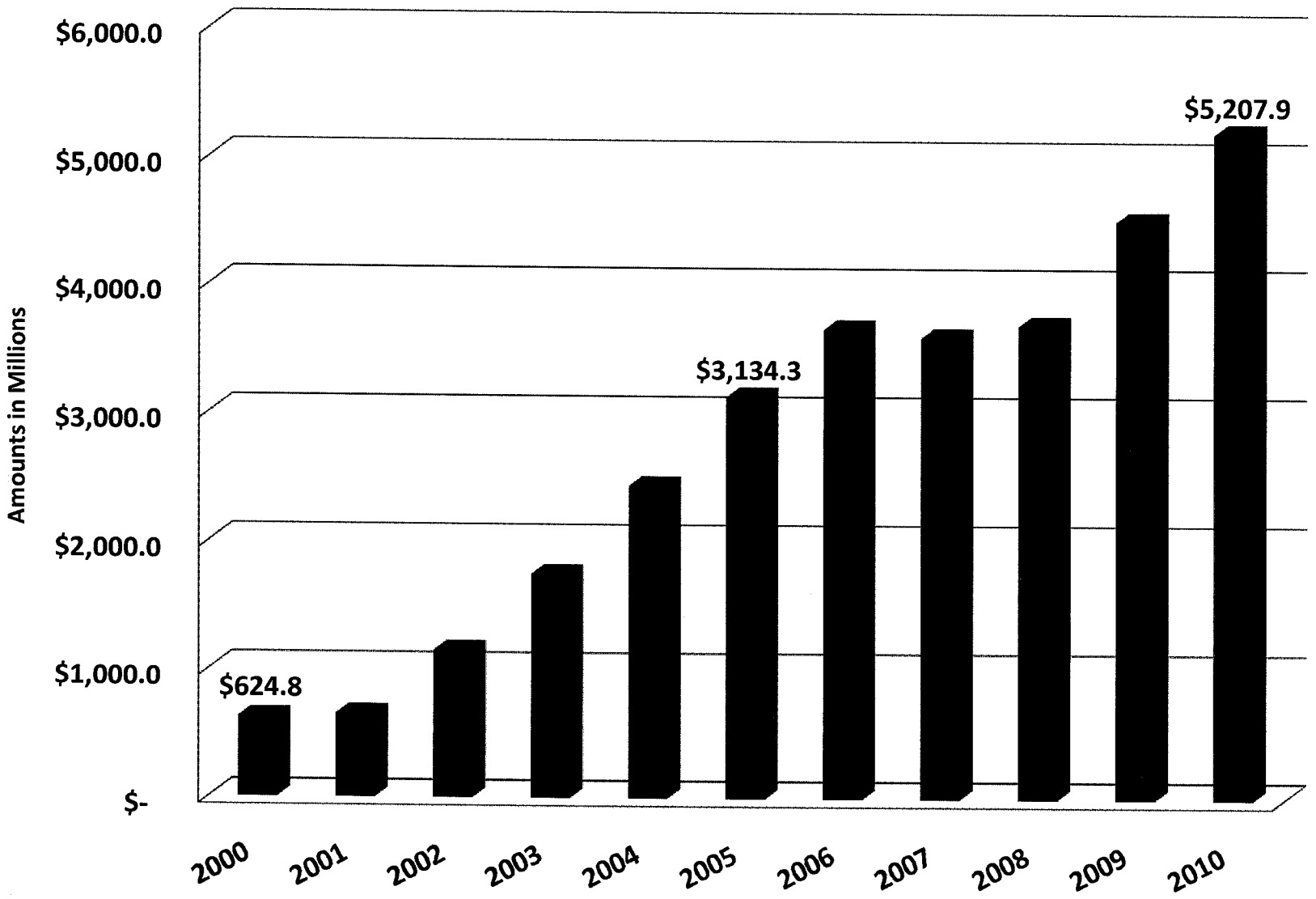
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Unfunded Actuarial Accrued Liability (UAAL) : 2000 – 2010



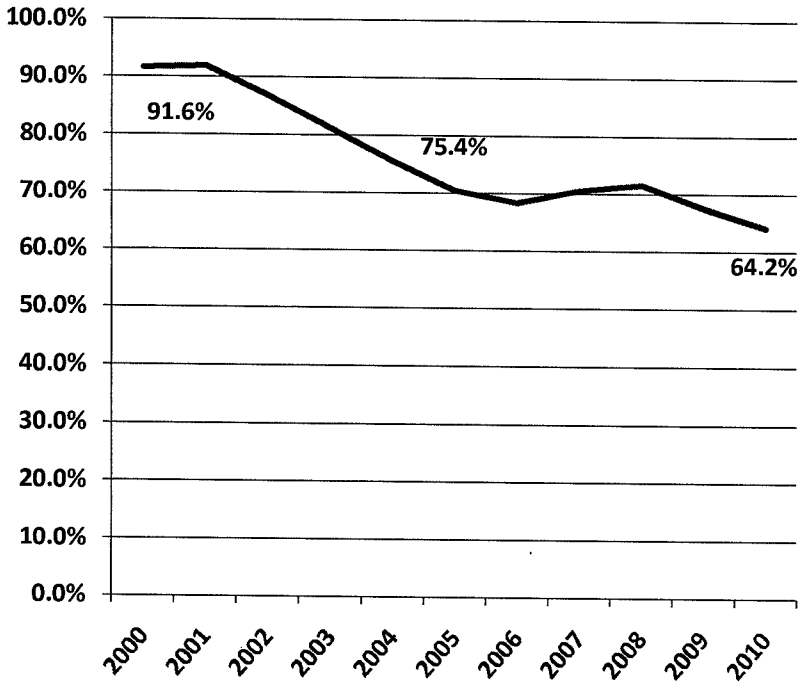
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Funded Ratio & Funding Period

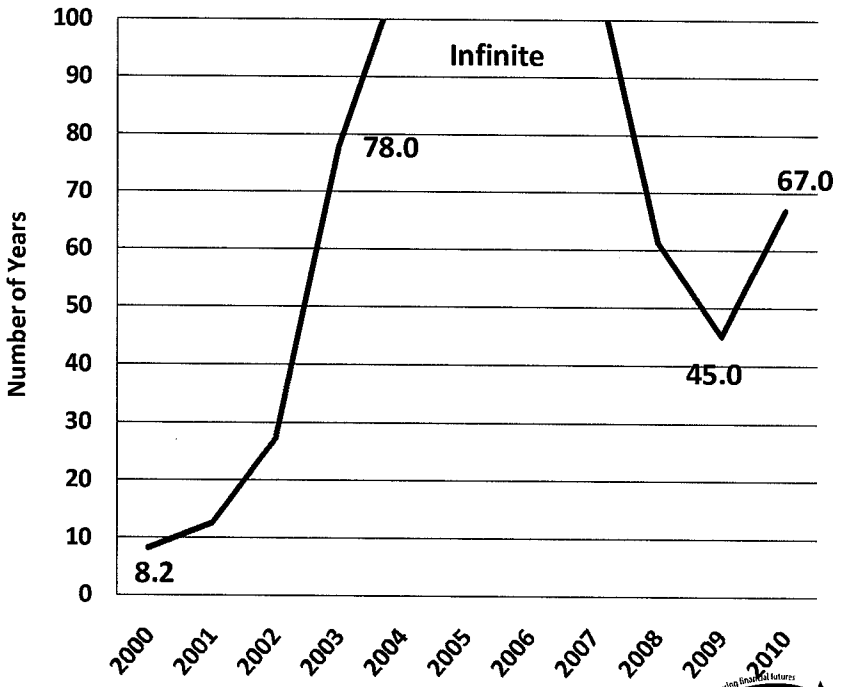
•The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) stands at 64.2% in 2010. Five years ago the ratio stood at 75.4%.The ratio reached an all time high in 2001 at 91.9% however began to decrease in as the negative investment experience in the 2001 – 2003 fiscal years was phased into the actuarial value of assets. Without any changes the funded ratio will never hit 80%.

• The funding period, also known as the amortization period should not exceed 30 years. ERB's current funding period is 67.0 years.

Funded Ratio: 2000 - 2010



Funding Period: 2000 - 2010



NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Goals of Plan Design Changes

- Sustainable Retirement Benefits
- Maintain equity among members with different start dates
- Share burden with current and future members
- Be on a path to actuarial soundness:
  - 80% funding period
  - Amortize UAAL within 30 years
- Not reduce benefits for current retirees

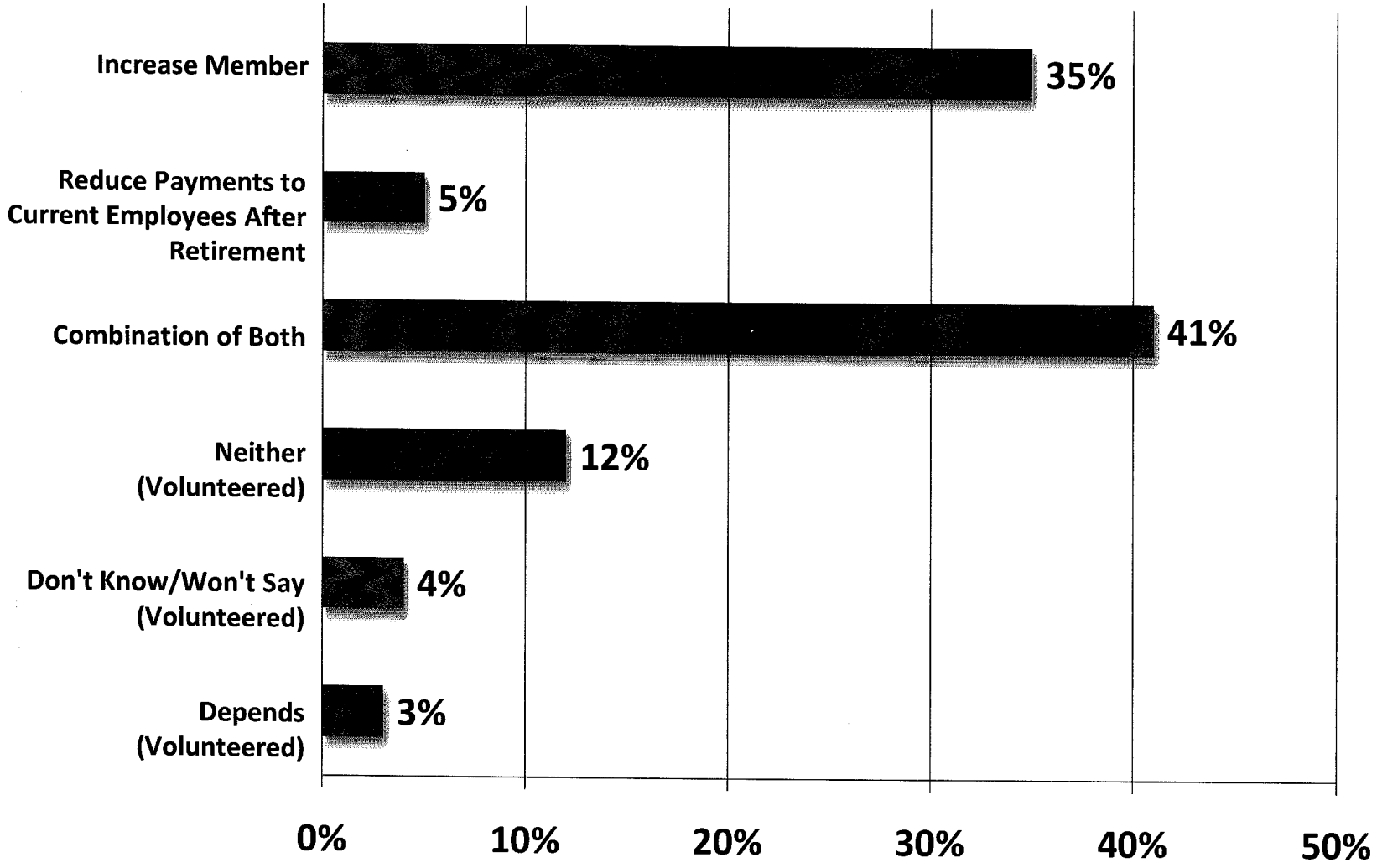
Process

- Board hired Research & Polling, Inc., to survey active members
- Survey conducted in the week beginning October 30th
- ERB staff provided R&P with contact numbers for 4,000 active members selected randomly
    - 400 members were randomly polled
- Members were asked their opinions on components of plan design

Research & Polling, Inc., Survey

- Questions:
  - Increase member contributions
  - Increase Final Average Salary (FAS) calculation from 5 years to 7 years
  - Minimum age for unreduced benefits
  - Reduce COLA for current workers
  - Change Multipliers
    - Decrease
    - Incentives for longevity

Preferred Option to Increase Soundness of the ERB Fund



NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Survey Results

- Members are willing to:
  - Increase current member contribution by 0.5%
  - Change FAS from 5 years to 7 years
  - Minimum age of 60 for unreduced benefits
  - Create multipliers increasing with years of service
  - Minimum retirement age of 60 for *ANY* retirement benefits

Survey Results, cont.

- Members are divided on:
  - Increase current member contribution by 1.0%
- Members are not willing to:
  - Reduce multiplier for future service
  - Reduce COLA when current workers retire

Board Recommendations

PLAN ELEMENTS	TIER 1	TIER 2	PROPOSED PLAN REDESIGN – WOULD APPLY TO ALL ACTIVE MEMBERS
Multiplier	2.35%	2.35%	2.35%
Member Contributions (including current shift)	7.9% - Salary $20,000 or less; 9.4% - Salary greater than $20,000	7.9% - Salary $20,000 or less; 9.4% - Salary greater than $20,000	8.4% - Salary $20,000 or less; 9.9% - Salary greater than $20,000
Final Average Salary	Highest consecutive 5 years	Highest consecutive 5 years	Highest consecutive 7 years
Years of Service Retirement	25 years – any age, no Benefit Reduction	30 years – any age, no Benefit Reduction	35 years – any age, no Benefit Reduction

Tier 1 – Member on or before June 30, 2010; have not withdrawn all member contributions

Tier 2 – New member on or after July 1, 2010 (effectively retroactive July 1, 2011); includes individuals who previously were members but who withdrew all member contributions prior to July 1, 2010 and did not repurchase service credit.

Nov. 8, 2010 Proposed Plan Redesign would apply to all Tier 1 and Tier 2 current active members; it would not apply to retirees.

Members may retire upon completion of five years of earned service credit and upon becoming the stated age.

Board Recommendations

PLAN ELEMENTS	TIER 1	TIER 2	PROPOSED PLAN REDESIGN – WOULD APPLY TO ALL ACTIVE MEMBERS
Age + Service Retirement **Benefit Reduction**	Rule of 75 (Age + Earned Service Credit = 75) Benefit reduction: Age 55 to 60 - 2.4% per year (0.6% each ¼ year after 55 & before 60); Prior to Age 55 – 7.2% per year (1.8% each ¼ year prior to age 60);	Rule of 80 (Age + Earned Service Credit = 80) Benefit Reduction: Age 60 to 65 - 2.4% per year (0.6% each ¼ year after 60 & before 65); Prior to Age 60 – 7.2% per year (1.8% ¼ year prior to 60)	Age 60 + 30 years (30 years Earned Service Credit required; no benefits with less than 30 years) Benefit Reduction: Below Age 60 + 30 years' service - 2.4% per year (0.6% each ¼ year below age 60); No provision for retirement before age 60 with fewer than 30 years
Age + 5 yrs service	65 + 5 years Earned Service Credit	67 + 5 years Earned Service Credit	67 + 5 years Earned Service Credit
Safe Harbor	N/A	N/A	22 yrs. service as of effective date of Plan change, grandfathered to Tier 1 requirements
Employer Contribution	Increases per Section 22-11-21 to 13.9%	Increases per Section 22-11-21 to 13.9%	Increases per Section 22-11-21 to 13.9%

Tier 1 – Member on or before June 30, 2010; have not withdrawn all member contributions

Tier 2 – New member on or after July 1, 2010 (effectively retroactive July 1, 2011); includes individuals who previously were members but who withdrew all member contributions prior to July 1, 2010 and did not repurchase service credit.

Nov. 8, 2010 Proposed Plan Redesign would apply to all Tier 1 and Tier 2 current active members; it would not apply to retirees.

Members may retire upon completion of five years of earned service credit and upon becoming the stated age.

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NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Hold Harmless

- All current members near retirement
  - Those members with 22 or more years of service will be exempted from new retirement eligibility requirements

Actuarial Impact

7.75% Discount Rate					Changes from Baseline			
Combination Scenarios	UAAL (in millions) In 2009	UAAL (in millions) In 2039	Total ARC Employee and Employer in 2039	Funded Ratio in 2039	UAAL (in millions) In 2009	UAAL (in millions) In 2039	Total ARC Employee and Employer in 2039	Funded Ratio in 2039
Baseline	$ 4,932	$ 16,972	21.2%	66.4%				
7.75% Discount Rate					**Changes from Baseline**			
Final Combination Scenarios	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	UAAL (in millions) In 2040	Total ARC Employee and Employer in 2040	Funded Ratio in 2040
Retirement Age 60 & 30 Years of Service, or Age 67 & 5; Early Retirement with any age with 30 Years of Service (reduced from age 60); Increased Member Contribution Rates; FAS7	$ 3,738	$ (795)	11.84%	101.5%	$ (1,194)	$ (17,767)	-9.36%	35.10%

- Our actuaries used a 7.75% investment return assumption in their calculations

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

NM ERB Fund
October 2010
FINAL
n=400

Hello. My name is YOUR NAME from Research & Polling, Inc. We are conducting an important survey on behalf of the New Mexico Educational Retirement Board about issues facing the ERB retirement fund. We would greatly appreciate your opinions.

A. Component

1. **Public School (n=260)**
2. **Higher Education (n=140)**

1. As you may know, the amount of money in the Educational Retirement Fund that covers your retirement benefits is not keeping pace with anticipated needs. As a result, the ERB Board and the Legislature are considering various options to improve the fund's financial soundness for the long-term future.

Generally, there are two basic methods to increase the soundness of the ERB fund. One method is to increase the monies flowing into the fund by increasing member contribution rates, while the other way is to reduce the amount of payments that are dispersed from the fund to retirees. Holding all things equal regarding the financial impact on the fund, would you prefer the Board recommend to the Legislature increasing member contribution rates or reducing member benefits at the time of retirement; or would you prefer the Legislature select a combination of the two options?

1. Increase member contribution rates
2. Reduce payments to retirees
3. Combination of both *(VOLUNTEERED)*
4. Neither *(VOLUNTEERED)*
5. Depends *(VOLUNTEERED)*
6. Don't know/won't say *(SKIP TO INTRO BEFORE Q. 3)*

2. Why do you feel this way? *(DO NOT READ CATEGORIES) (TAKE UP TO 3 RESPONSES)*

Increase Member Contribution

01. Better to pay more now while working than have less income when retired
02. I will be retiring soon
03. I can afford contribution rate increase

Reduce Benefit at Retirement

04. Better to receive lower benefit after retirement than while working
05. I won't be retiring for a long time/I will be working for a long time

Both/Combination

06. Doing both will reduce the impact of each/spread the impact
07. Fairer to everyone
99. Don't know/won't say

Other *(specify)* _____

It will be necessary to make some changes to the administration of the ERB benefits in order to improve the financial soundness of the fund. I'd like to read you a list of eight options each with different levels of possible impact on the fund. Depending upon their impact, it's possible that the Legislature may have to enact more than one. For each option please tell me how you feel about it using a 10 point scale in which 10 means you are *very willing to support it* and 1 means *not at all willing to support it*. The first one is:

(*RANDOMIZE 3 – 10 ONLY*)	*VERY WILLING*	*NOT AT ALL WILLING*	*D.K./ W.S.*

3. Reduce the Cost of Living Adjustment for current workers, when they retire and reach age 65. This option would have a significantly positive impact on the fund.....10 ...09 .....08 .... 07.... 06.... 05.... 04.....03 .... 02 ..... 01.....11

4. Set the minimum age at 60, to start receiving any retirement benefits. This would have a moderately positive impact on the fund.....10 09 .....08 07.... 06 05.... 04 03 .... 02 01.....11

POLLER EXPLANATION IF NECESSARY: Currently there is no minimum retirement age, however employees may retire with no reduction of benefits only after 25 years of service. Under this option there would be no benefits paid until you reach the age of 60. This would affect all members (those retiring with more than 25 years of service and those under the Rule of 75).

5. Reduce the multiplier that is used to calculate retirement benefits from 2.35% to 2.2%. The new multiplier would not affect your past years of service, only your future years of service. This would have a moderately positive impact on the fund.....10 09 .....08 07.... 06 05.... 04 03 .... 02 01.....11

POLLER EXPLANATION IF NECESSARY: Members' annual retirement benefits are calculated by taking their final average salary times their number of years of service times a multiplier of 2.35%. Under this option the multiplier, for future years only, would be reduced to 2.2%.

6. Increase the member contribution rate by 0.5%. This would have a significantly positive impact on the fund.....10 ...09 .....08 .... 07.... 06.... 05.... 04.....03 .... 02 ..... 01.....11

POLLER EXPLANATION IF NECESSARY: Currently members' contribution rates are determined by their annual salary, those making under $20,000 contribute 7.9% and those making over $20,000 contribute 9.4%.

7. Calculate members' final average salary based on 7 years of consecutive service rather than the current 5 years of consecutive service. This would have a significantly positive impact on the fund.....10 ...09 .....08 .... 07.... 06.... 05.... 04.....03 .... 02 ..... 01.....11

POLLER EXPLANATION IF NECESSARY: Members' highest 5 consecutive years of salary are used to calculate retirement benefits. Under this option a member's final average salary would be based upon their highest 7 consecutive years of salary.

(RANDOMIZE 3 – 10 ONLY)	VERY WILLING										NOT AT ALL WILLING	D.K./ W.S.

8. Set the minimum age at 60, to start receiving unreduced retirement benefits, for employees with 25 years of service or more. This would have a moderately positive impact on the fund. ....10 ...09 .....08 .... 07.... 06.... 05.... 04.....03 ....02 ..... 01.....11

POLLER EXPLANATION IF NECESSARY: Currently there is no minimum retirement age, however employees may retire with no reduction of benefits only after 25 years of service. Under this option benefits would be reduced if you retire before the age of 60 and elect to start receiving benefits immediately.

9. Reduce the multiplier that is used to calculate retirement benefits from 2.35% to 2.0%. The new multiplier would not affect your past years of service, only your future years of service. This would have a significantly positive impact on the fund......10 09 .....08 07.... 06 05.... 04 03 ....02 01.....11

POLLER EXPLANATION IF NECESSARY: Members' annual retirement benefits are calculated by taking their final average salary times their number of years of service times a multiplier of 2.35%. Under this option the multiplier, for future years only, would be reduced to 2.0%.

10. Increase the member contribution rate by 1%. This would have a significantly positive impact on the fund......10 ...09 .....08 .... 07.... 06.... 05.... 04.....03 ....02 ..... 01.....11

POLLER EXPLANATION IF NECESSARY: Currently members' contribution rates are determined by their annual salary, those making under $20,000 contribute 7.9% and those making over $20,000 contribute 9.4%.

NOTE TO POLLER: DO NOT RANDOMIZE Q. 11

11. Create multipliers, which increase the longer you work, to calculate retirement benefits rather than the current single multiplier of 2.35% for everyone regardless of years in service. The multiplier for members with up to 15 years of service would be 2.1%; for 16 to 30 years of service the multiplier would be 2.3%; and for more than 30 years of service the multiplier would be 2.4%. This would only affect future years. The multiplier for the service you already have earned would not be changed. This would have a moderately positive impact on the fund......10 ...09 .....08 .... 07.... 06.... 05.... 04.....03 ....02 ..... 01.....11

POLLER EXPLANATION IF NECESSARY: Under this option the multiplier that is used to calculate members' annual retirement benefits would increase with the number of years of service, starting at 2.1% for up to 15 years of service and rising to 2.4% for 30 years of service or more. The 2.35% multiplier for the service you already have would not change. This would affect future years only.

12. Would you prefer to:

1. **Reduce the multiplier that is used to calculate retirement benefits from 2.35% to 2.0%**

OR

2. **Calculate members' final average salary based upon 7 years of consecutive service rather than the current 5 years of consecutive service.**

3. Both *(DO NOT READ)*
4. Neither *(DO NOT READ)*
5. Don't know/won't say *(DO NOT READ)*

13. Would you prefer to:

1. **Reduce the multiplier that is used to calculate retirement benefits from 2.35% to 2.2%**

OR

2. **Set the minimum age at 60, to start receiving unreduced retirement benefits for employees with 25 years or more**

3. Both *(DO NOT READ)*
4. Neither *(DO NOT READ)*
5. Don't know/won't say *(DO NOT READ)*

NOTE TO POLLER: IS THERE A SERVICE CREDIT NUMBER ON LIST?

IF YES: RECORD SERVICE YEARS IN Q. 14 BELOW WITHOUT ASKING.
IF NO: ASK Q. 14

14. For how many years have you been a member of the ERB?

_____ (number of years)

THIS CONCLUDES OUR SURVEY. THANK YOU FOR YOUR TIME. HAVE A GOOD DAY!

NOTE TO POLLER, WAS RESPONDENT:

1. Male
2. Female

Respondent's Phone Number_____

Poller Name_____

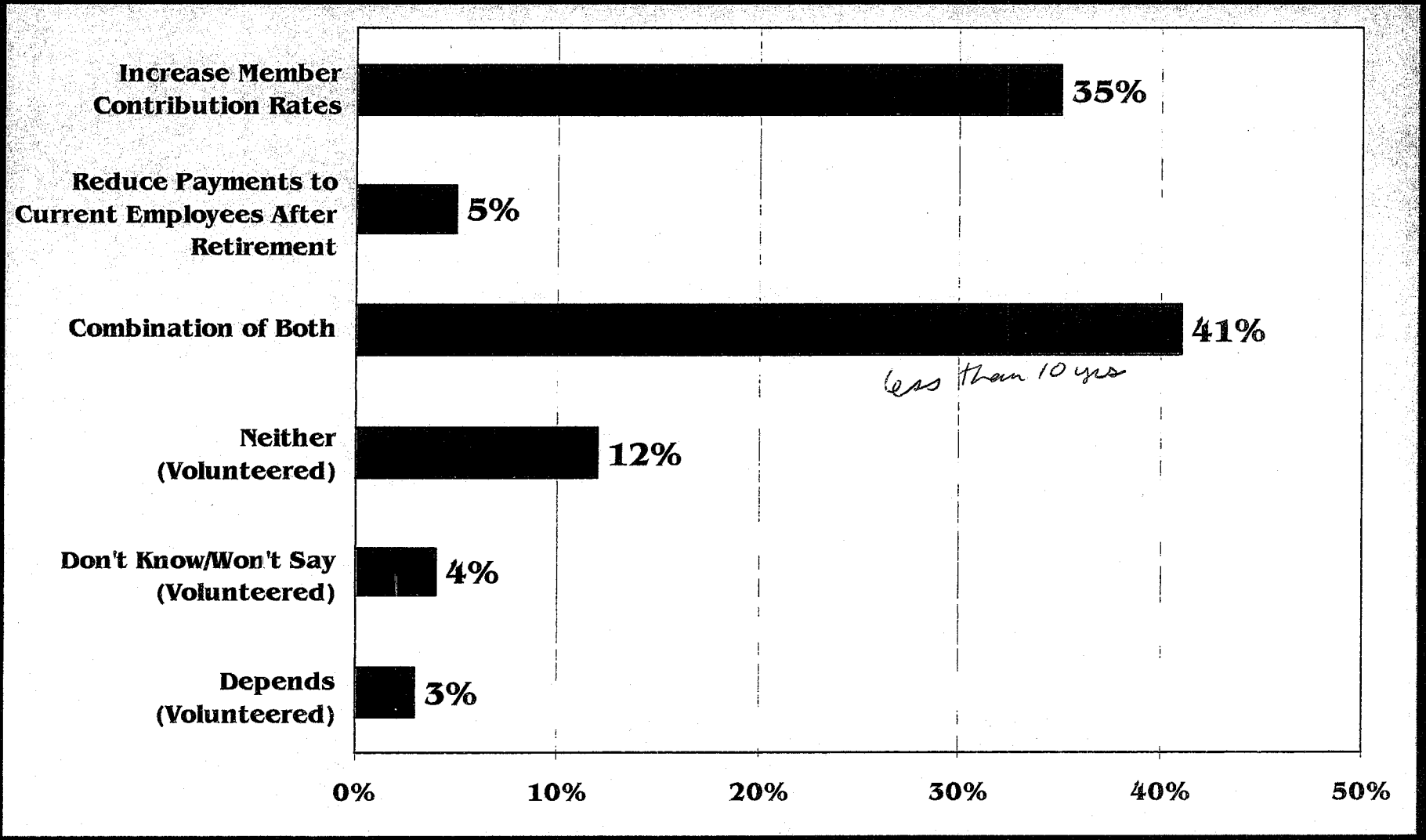
Poller Code_____

New Mexico Education Retirement Board
Summary Presentation

Presented by:
Brian Sanderoff
Research & Polling, Inc.
November 8, 2010

Preferred Option to Increase Soundness of the ERB Fund

Paired Statements
Total Sample (n=407)



Underlying Reasons for Preferred Option

	Total Responses (n=391)
Better to pay more now while working than have less after retirement	31%
Doing both will reduce the impact/spread impact	23%
Doing both is fairer to everyone	16%
I will be retiring soon	7%
Can't afford to take more out/need money now	5%
Don't know/won't say	5%

Willingness to Support Various Options in Order to Improve the Financial Soundness of the Fund

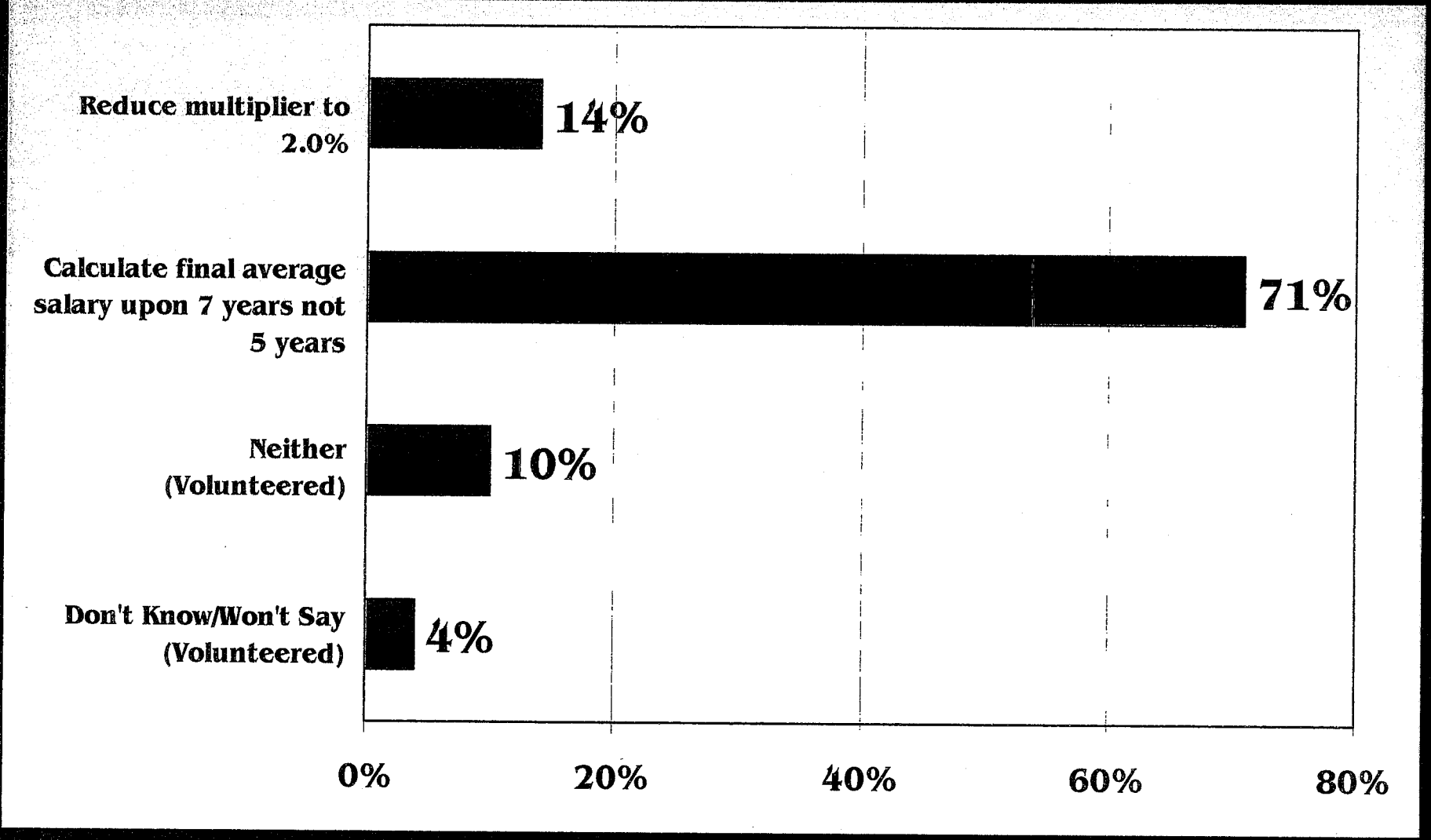
Ranked in Order by Mean Score on 10-Point Scale

Total Sample (n=408)	Willing 7-10	Neutral 5-6	Unwilling 1-4	DK/ WS	*Mean †*
Increase member contribution by 0.5%	58%	21%	20%	1%	*6.4*
Calculate final average salary with 7 instead of 5 years	53%	20%	26%	2%	*6.1*
Create multipliers increasing with years of service	49%	28%	20%	2%	*6.1*
Minimum age 60 to receive unreduced benefits for employees with 25 years of service	47%	25%	27%	1%	*5.9*
Minimum age 60 for any retirement benefits	47%	19%	34%	*	*5.7*
Increase member contribution by 1.0%	41%	23%	35%	1%	*5.4*
Reduce multiplier to 2.2% for future years of service	27%	33%	38%	2%	*4.8*
Reduce COLA for current workers when they retire	22%	30%	45%	4%	*4.4*
Reduce multiplier to 2.0% for future years of service	26%	20%	51%	2%	*4.3*

† The mean score is derived by ranking the average score based on the 10 point scale. The Very Willing response is assigned a value of 10, the Not At All Willing response is assigned a value of 1, etc. The Don't Know/ Won't Say responses have been excluded from the calculation of the mean.

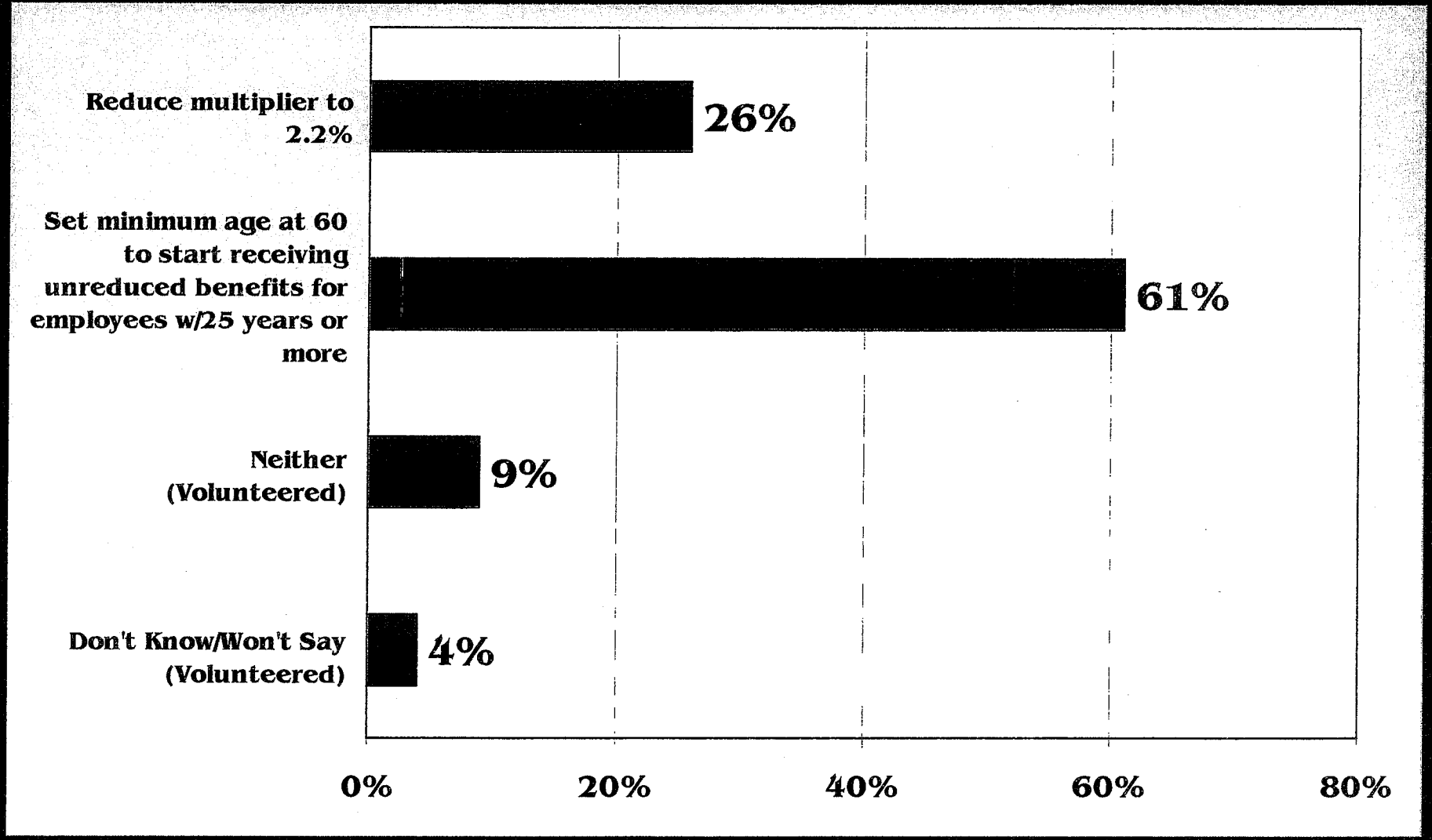
Preferred Option

Paired Statements
Total Sample (n=408)



Preferred Option

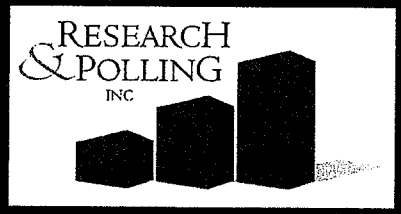
Paired Statements
Total Sample (n=408)

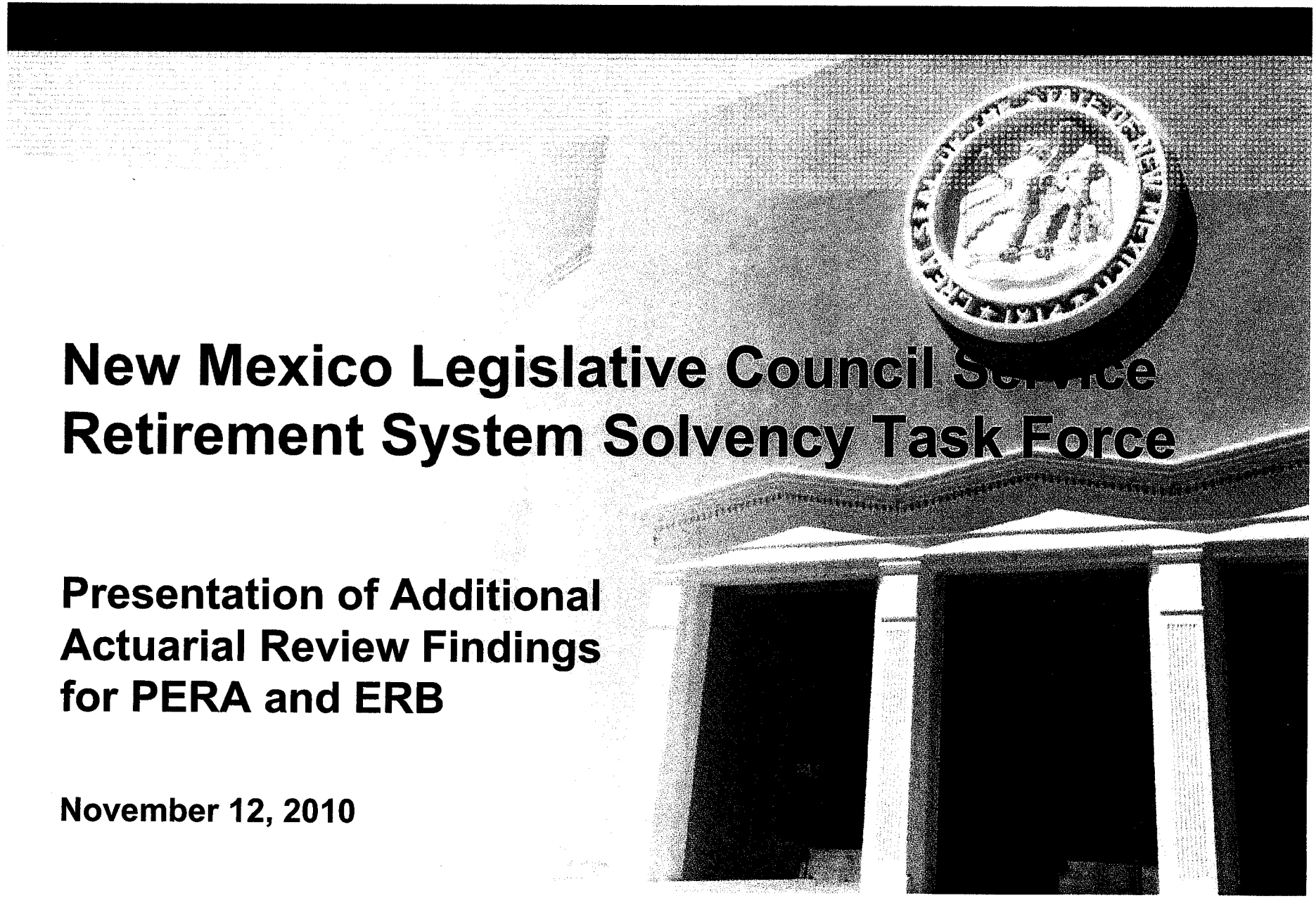


Thank you

Questions?

Brian Sanderoff
Research & Polling, Inc.
505-821-5454
www.rpinc.com





New Mexico Legislative Council Service Retirement System Solvency Task Force

Presentation of Additional Actuarial Review Findings for PERA and ERB

November 12, 2010

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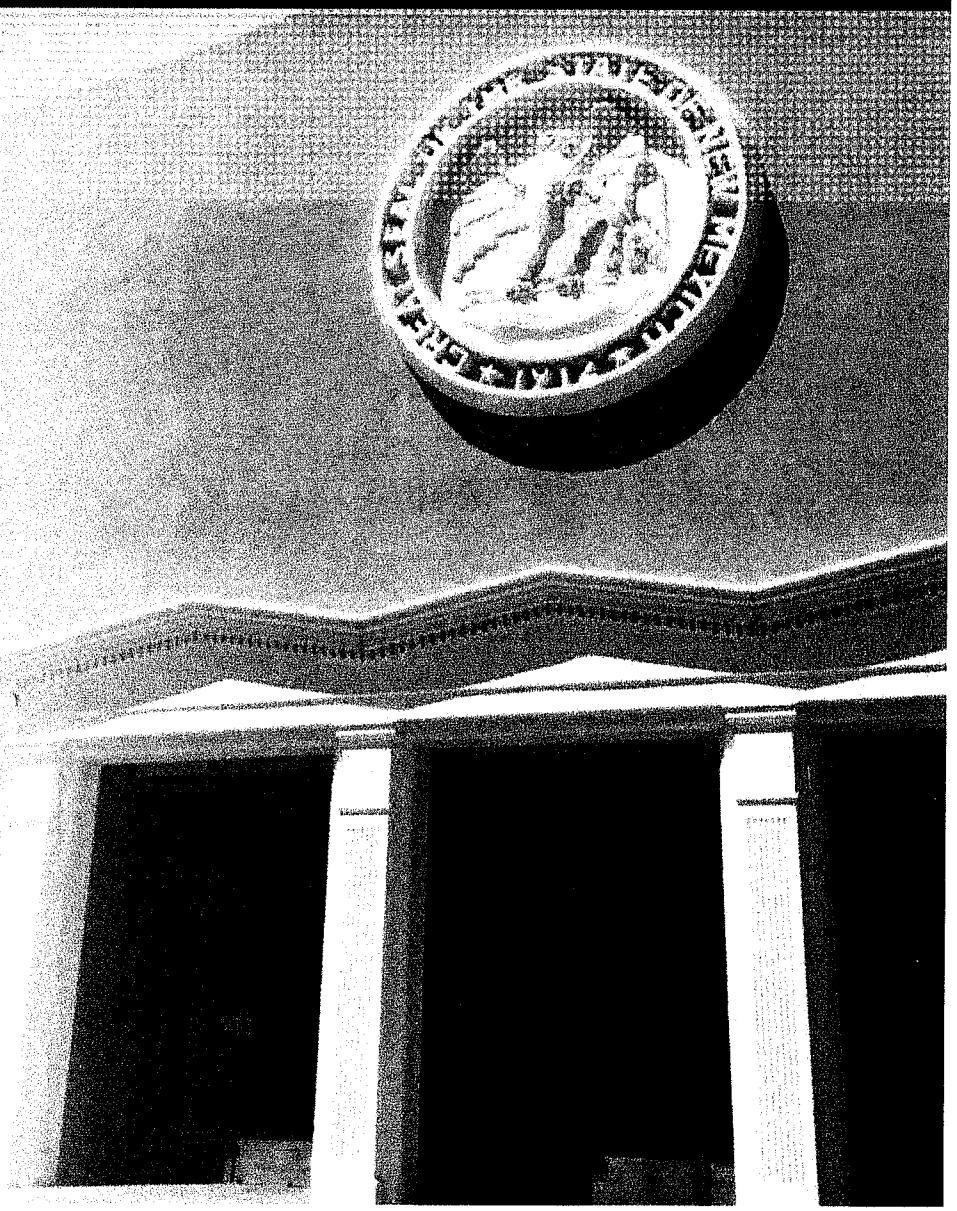
Agenda

- Audit Follow Up
- Defining Solvency
- Timing of Changes

Audit Follow Up



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Purpose of an Actuarial Review

- Provide another actuary's opinion on the actuarial soundness of New Mexico PERA and ERB
- Confirm that the actuary's calculations are right
- Get ideas on how to do things differently / better
- Exercise fiduciary obligation
  - Recommend independent review be completed periodically (once every four to five years)
  - Confirm funded status and contribution rates

Scope of Actuarial Review

- Review the work of the New Mexico PERA and ERB actuaries, GRS
  - Pension systems for PERA including Magistrate, Judicial and Volunteer Firefighters
  - Limited scope review performed
- Technical scope review
  - Review of membership data
  - Review of sample member calculations
  - Review of sample benefit calculations
  - Review recent experience analysis
  - Review actuarial valuation results
- Assess completeness and validity of membership data
- Comment on reasonableness of actuarial assumptions, methods and procedures
- Determine whether valuation procedures are technically sound
- Determine if generally accepted actuarial standards are being followed
- Review actuaries' reports
- Review experience analysis reports

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New Mexico PERA

Comparison of Current and Recommended Asset Method Projected to 2029

Year Ending June 30th	Current Asset Valuation Method				Asset Valuation Method Recognizing Expected Return on Existing Bases				Difference in Actuarial Value
	Existing Bases	Market Value	Actuarial Value	Difference	Existing Bases	Market Value	Actuarial Value	Difference	
2009	$ (3,779,323,046)	$ 8,795,819,080	$ 12,575,142,126	$ (3,779,323,046)	$ (3,775,200,559)	$ 8,795,819,080	$ 12,571,019,639	$ (3,775,200,559)	$ (4,122,487)
2010	(2,763,168,013)	9,338,076,771	12,101,244,783	(2,763,168,012)	(2,521,838,967)	9,338,076,771	11,859,915,736	(2,521,838,965)	(241,329,047)
2011	(1,330,454,064)	9,897,228,367	11,227,682,431	(1,330,454,064)	(995,496,643)	9,897,228,367	10,892,725,010	(995,496,643)	(334,957,421)
2012	(265,940,427)	10,469,847,175	10,735,787,602	(265,940,427)	-	10,469,847,175	10,469,847,175	-	(265,940,427)
2013	(124,437,950)	11,053,421,729	11,177,859,679	(124,437,950)	-	11,053,421,729	11,053,421,729	-	(124,437,950)
2014	(44,712,977)	11,642,987,619	11,687,700,596	(44,712,977)	-	11,642,987,619	11,642,987,619	-	(44,712,977)
2015	(12,979,107)	12,235,414,906	12,248,394,014	(12,979,108)	-	12,235,414,906	12,235,414,906	-	(12,979,108)
2016	(5,056,027)	12,828,075,819	12,833,131,846	(5,056,027)	-	12,828,075,819	12,828,075,819	-	(5,056,027)
2017	(1,716,788)	13,419,725,936	13,421,442,724	(1,716,788)	-	13,419,725,936	13,419,725,936	-	(1,716,788)
2018	(564,833)	14,009,349,935	14,009,914,768	(564,833)	-	14,009,349,935	14,009,349,935	-	(564,833)
2019	(203,684)	14,594,221,572	14,594,425,256	(203,684)	-	14,594,221,572	14,594,221,572	-	(203,684)
2020	(69,151)	15,170,975,241	15,171,044,392	(69,151)	-	15,170,975,241	15,170,975,241	-	(69,151)
2021	(23,595)	15,737,825,053	15,737,848,648	(23,595)	-	15,737,825,053	15,737,825,053	-	(23,595)
2022	(8,258)	16,294,632,271	16,294,640,529	(8,258)	-	16,294,632,271	16,294,632,271	-	(8,258)
2023	(2,825)	16,839,841,591	16,839,844,416	(2,825)	-	16,839,841,591	16,839,841,591	-	(2,825)
2024	(974)	17,370,694,620	17,370,695,594	(974)	-	17,370,694,620	17,370,694,620	-	(974)
2025	(339)	17,885,328,818	17,885,329,157	(339)	-	17,885,328,818	17,885,328,818	-	(339)
2026	(118)	18,382,884,918	18,382,885,036	(118)	-	18,382,884,918	18,382,884,918	-	(118)
2027	(42)	18,862,424,390	18,862,424,432	(42)	-	18,862,424,390	18,862,424,390	-	(42)
2028	(16)	19,321,388,855	19,321,388,871	(16)	-	19,321,388,855	19,321,388,855	-	(16)
2029	-	19,755,640,467	19,755,640,467	-	-	19,755,640,467	19,755,640,467	-	-

- Recommended asset method applied retroactively to 2005
- Difference between current and recommended method is not material in 2009, but is expected to become more significant as recent investment losses are recognized
- Funded ratio and funding period not materially different in 2009 based on recommended asset method, but is expected to become more significant in 2010 to 2012
- Includes actual return of 15.02% for FY10 and assumed return thereafter
- Includes updated cash flows based on open group population provided by GRS

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Review of Other Valuation Issues
Sample Member Calculations

- We review sample member calculations from the actuary's valuation system to determine if benefits are valued accurately and correct assumptions are used

- Reviewed sample calculation from the June 30, 2009 actuarial valuation for PERA that GRS provided
  - We were unable to get responses to our questions regarding the sample calculations to confirm our findings
  - Matched inactive members except for Judicial Plan
    - Summary of liability did not match detailed calculation for the retired member. In the detailed calculation, it appears COLA was applying on the valuation date instead of being delayed for 2 calendar years.
    - Did not match liability for terminated vested member. Appears COLA was delayed too long.

Review of Other Valuation Issues
Sample Member Calculations (cont.)

- Sample calculations were not complete results for active members.
  - Received calculations by decrement for different members but not one complete calculation for a single member
  - Some sample member calculations were not provided with a Social Security Number so we were unable to match up the information with the data that PERA provided to GRS
  - We found several differences between our results and GRS for active members. Unable to confirm why there are differences

Review of Other Valuation Issues
Sample Member Calculations (cont.)

- Items that need further review
  - Whether the disability and death benefits valued are non-duty as stated in the report
  - Report states that the retirement decrement is assumed to occur at the beginning of the year. Appears that the retirement benefit is being calculated in the middle of the year
  - For Municipal Fire
    - Normal retirement liability for Plan 2 member was shown with 10.33 years of service at age 60 and with 25.33 years at age 60. We believe 25.33 years is correct but could not confirm if the 10.33 years was used in the final liability. Similar situation for Plan 4 member
    - Death benefit was valued as the minimum of 50% (instead of 30%) of pay and the accrued benefit. Report says all death benefits are non-duty related
  - For State General
    - Similar issue as Municipal Fire regarding different service amounts for same age as described above. Exception is that this is for every sample member in State General
    - Disability benefit appears to be valued as the minimum of 35% of pay and the accrued benefit. The report does not describe the minimum of 35% of pay and only describes the accrued benefit
  - For Municipal Police and Fire
    - Disability benefit appears to be valued as the minimum of 40% of pay and the accrued benefit. It is possible the benefit was valued as a duty disability and used projected service

Review of Other Valuation Issues
Sample Member Calculations (cont'd)

- Items that need further review (cont'd)
  - For Municipal General
    - Disability benefit appears to be valued as the minimum of 65% of pay and the accrued benefit
  - For Magistrate
    - Similar issue as Municipal Fire regarding different service amounts for same age as described above. Exception is that this was for the death benefit only
  - For State Police
    - Does not appear that the enhanced service credit (1.2 years of credited service per year) is included for eligibility purposes
    - Death benefit appears to have the same issue as Municipal Fire
    - Disability benefit appears to have the same issue as Municipal General

Conclusions

- Full replication is currently being done by new actuary
  - Review results of the new actuary's replication to see if additional auditing should be done on PERA
  - Consider an increase in audit scope to include the new actuary's replication of the 2009 valuation of PERA
- Based on the limited information we received from GRS, we are unable to render an opinion on the accuracy of 2009 valuation results for PERA

Determining Solvency

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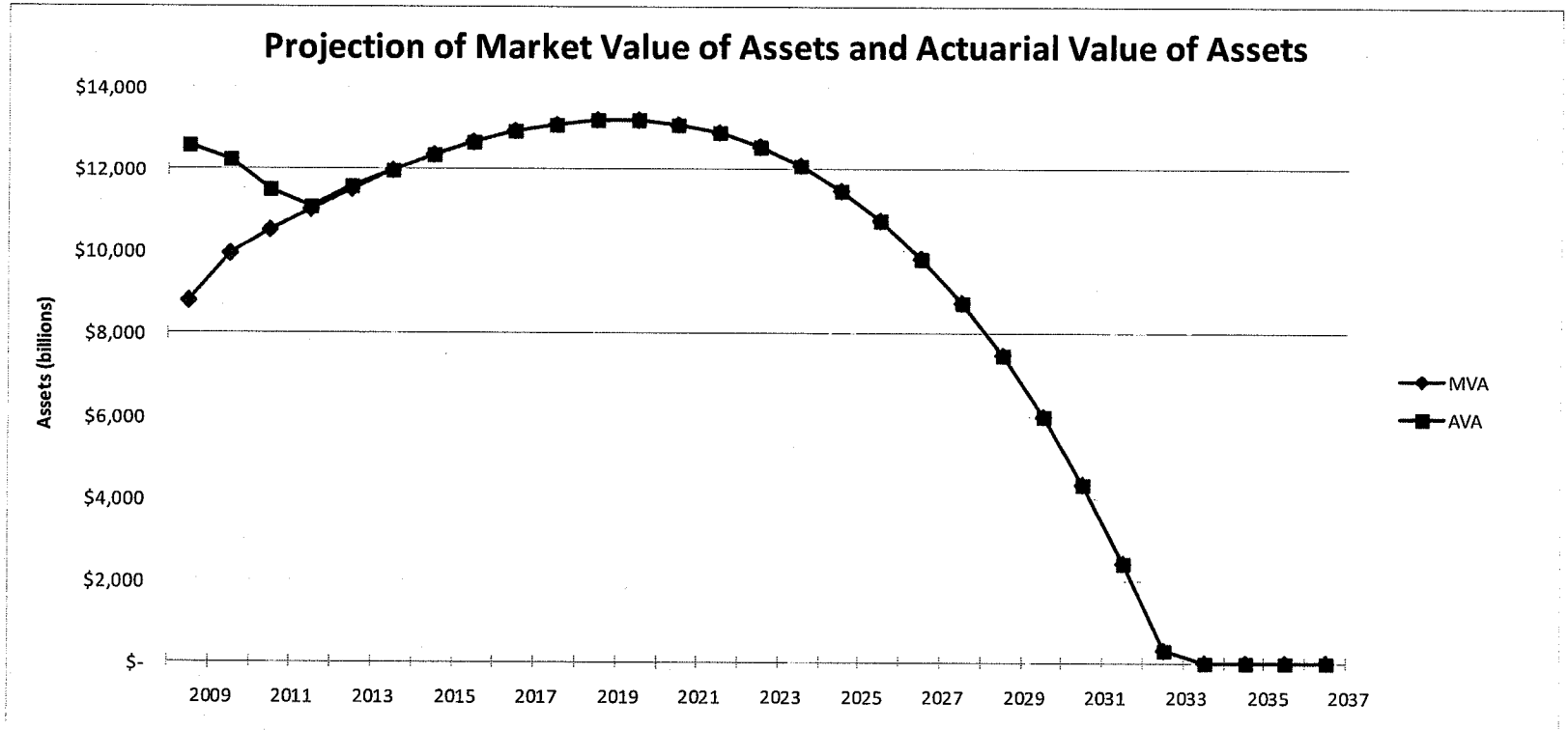
Defining Solvency
PERA



- Based on closed group projections estimated based on data supplied by GRS and 4.5% payroll growth
- Includes the unfunded liability payment on new entrant payroll and new benefit structure for new hires after June 30, 2010
- Includes actual return on assets of 15.02% for FY10 and 8% thereafter
- Employee contributions: 10.99% for FY10 and FY11, 10.25% thereafter
- Employer contributions: 13.97% for FY10 and FY11, 14.71% thereafter

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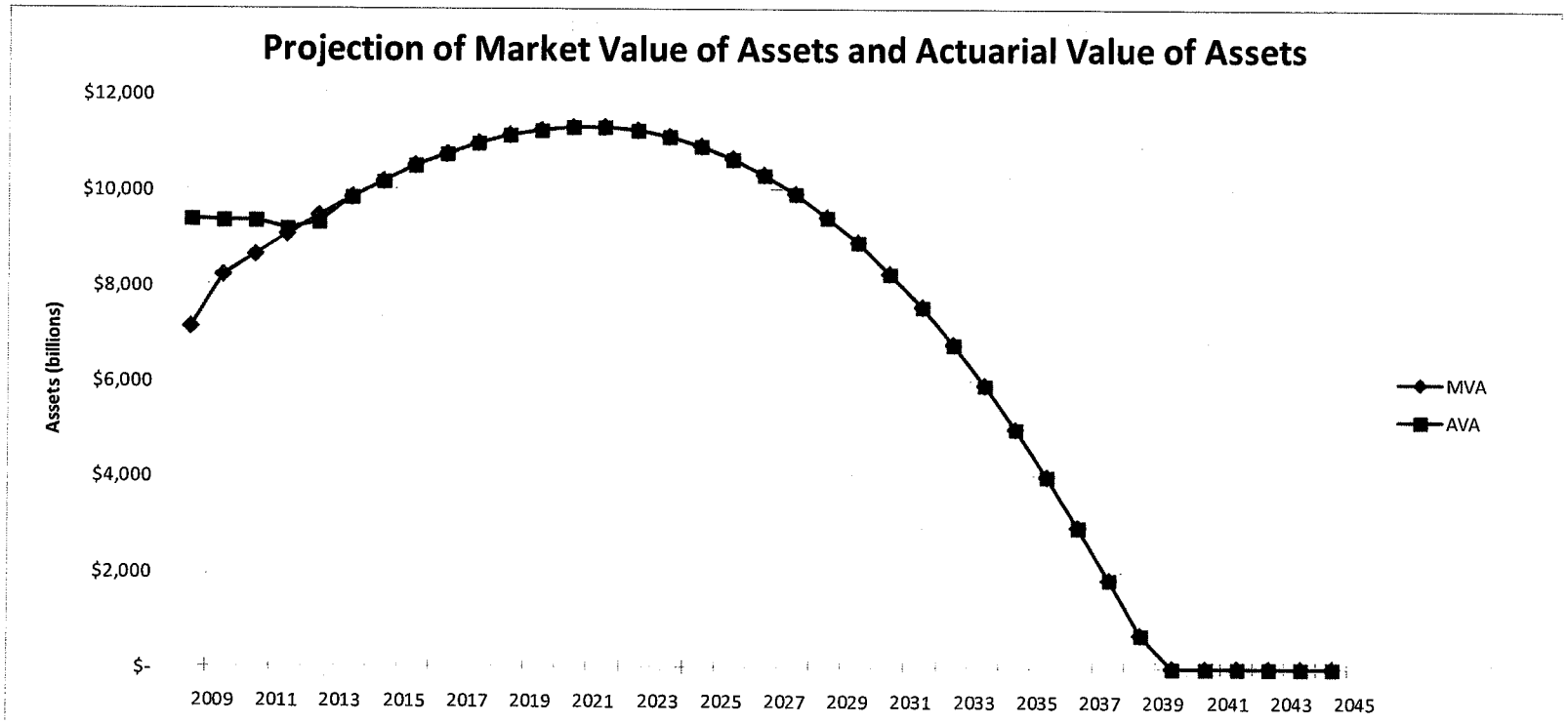
Defining Solvency
ERB



- Based on closed group projections provided by GRS with 3.75% payroll growth
- Includes the unfunded liability payment on new entrant payroll and new benefit structure for new hire after June 30, 2010
- Includes actual return on assets of 18.6% for FY10 and 8% thereafter
- Employee contributions: 9.40% for FY10 and FY11, 7.90% thereafter
- Employer contributions: 10.90% for FY10 and FY11, 13.15% for FY12 and 13.90% thereafter

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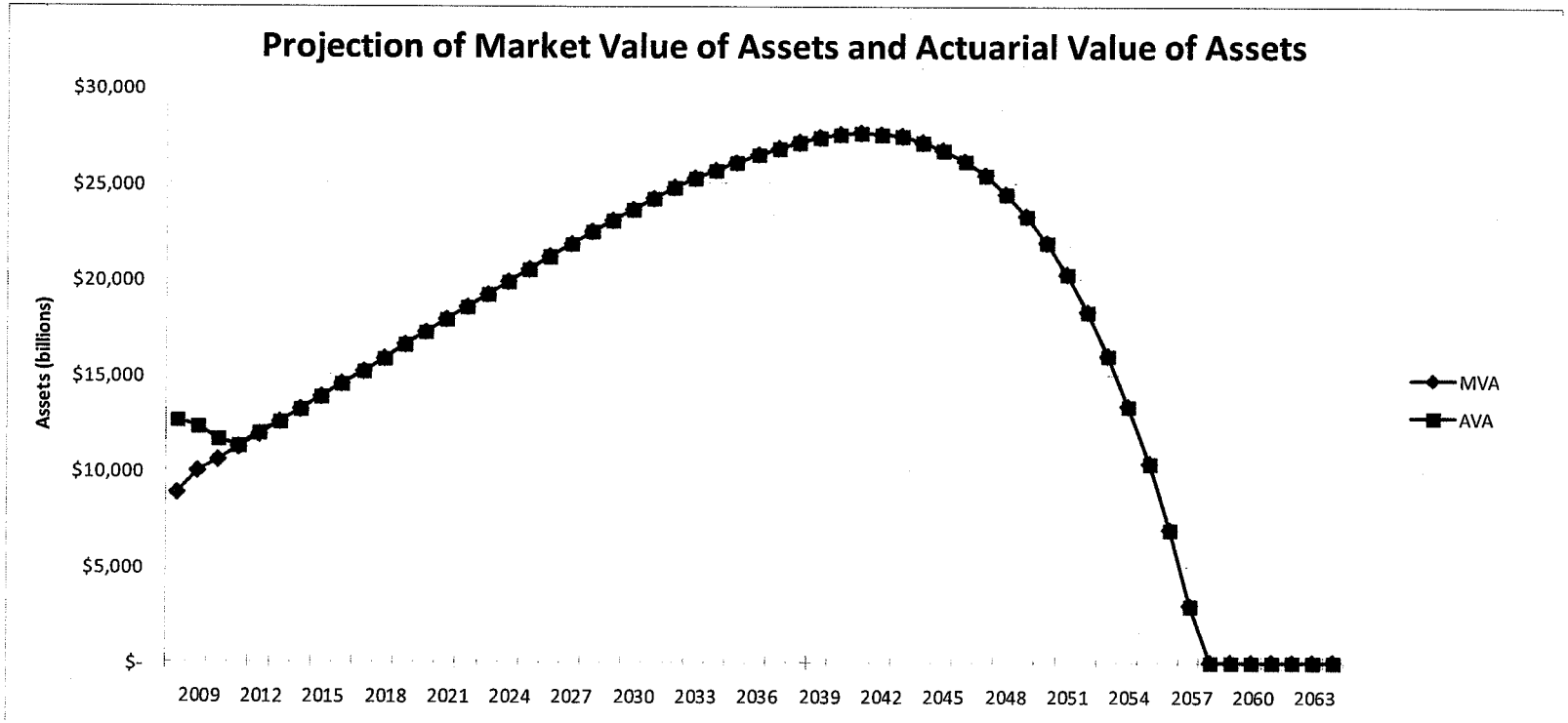
Defining Solvency
PERA



- Based on open group projections with no population growth based on data supplied by GRS
- Includes new benefit structure for new hires after June 30, 2010
- Includes actual return on assets of 15.02% for FY10 and 8% thereafter
- Employee contributions: 10.99% for FY10 and FY11, 10.25% thereafter
- Employer contributions: 13.97% for FY10 and FY11, 14.71% thereafter

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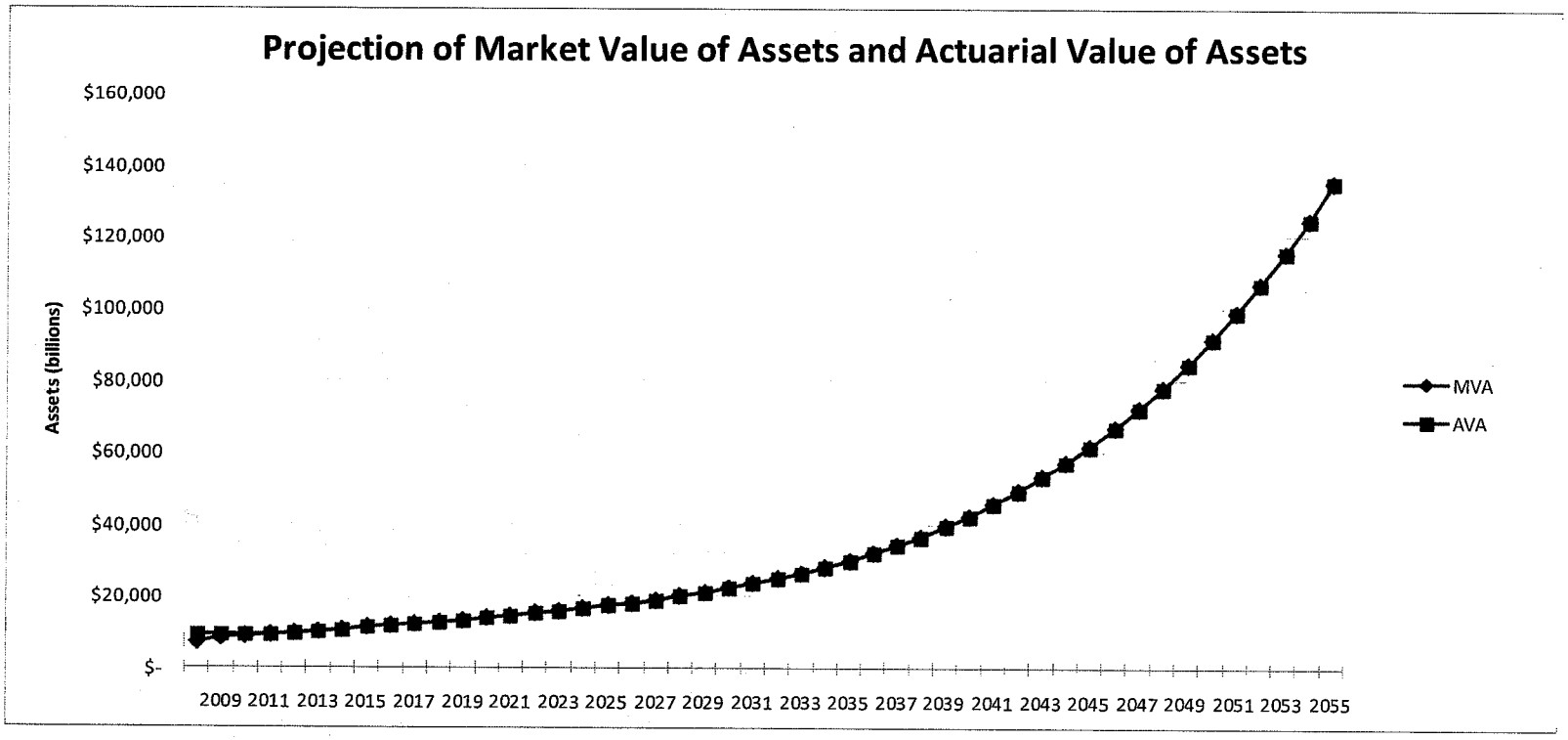
Defining Solvency
ERB



- Based on open group projections with 1.5% population growth based on data supplied by GRS
- Includes new benefit structure for new hires after June 30, 2010
- Includes actual return on assets of 18.6% for FY10 and 8% thereafter
- Employee contributions: 9.40% for FY10 and FY11, 7.90% thereafter
- Employer contributions: 10.90% for FY10 and FY11, 13.15% for FY12 and 13.90% thereafter

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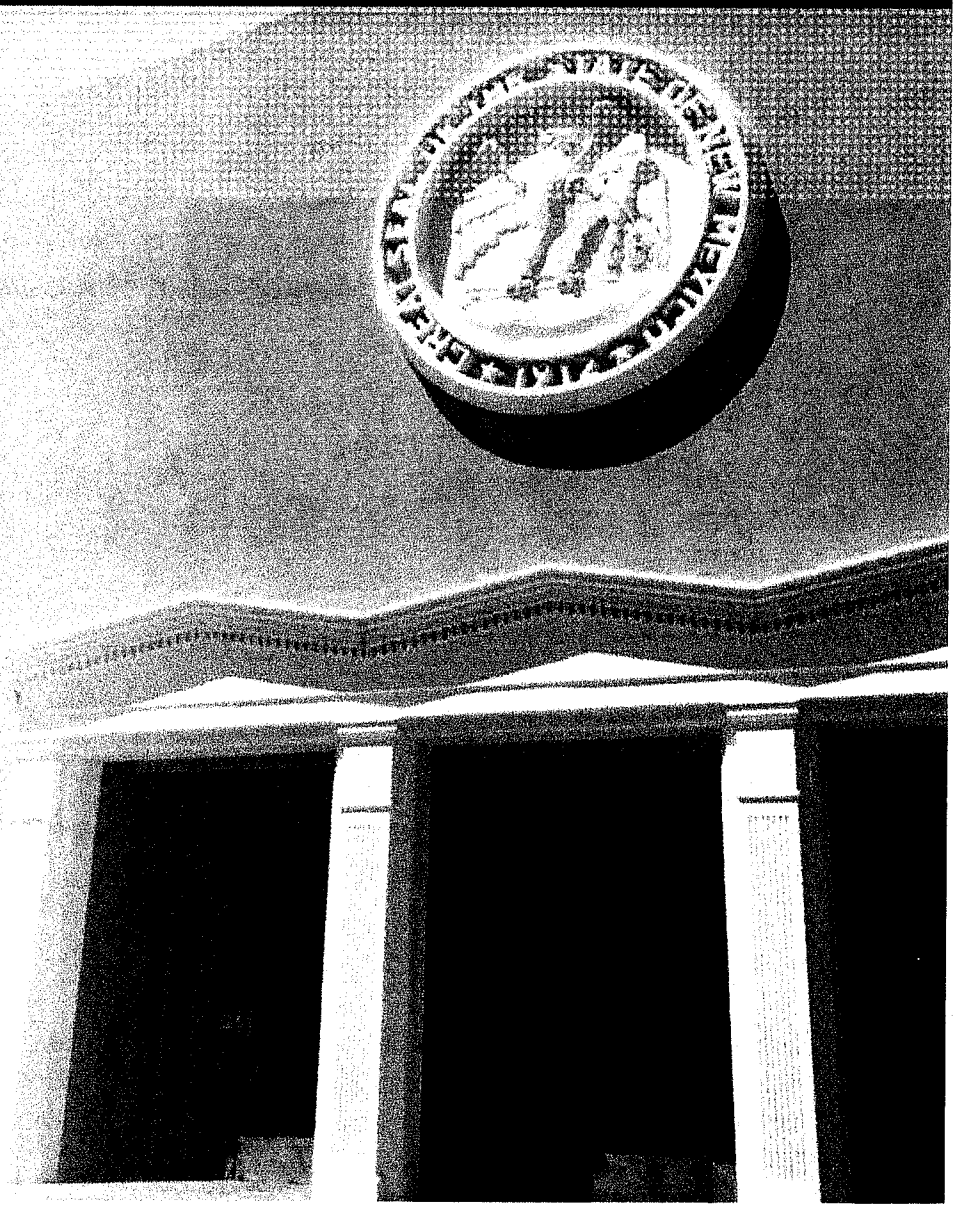
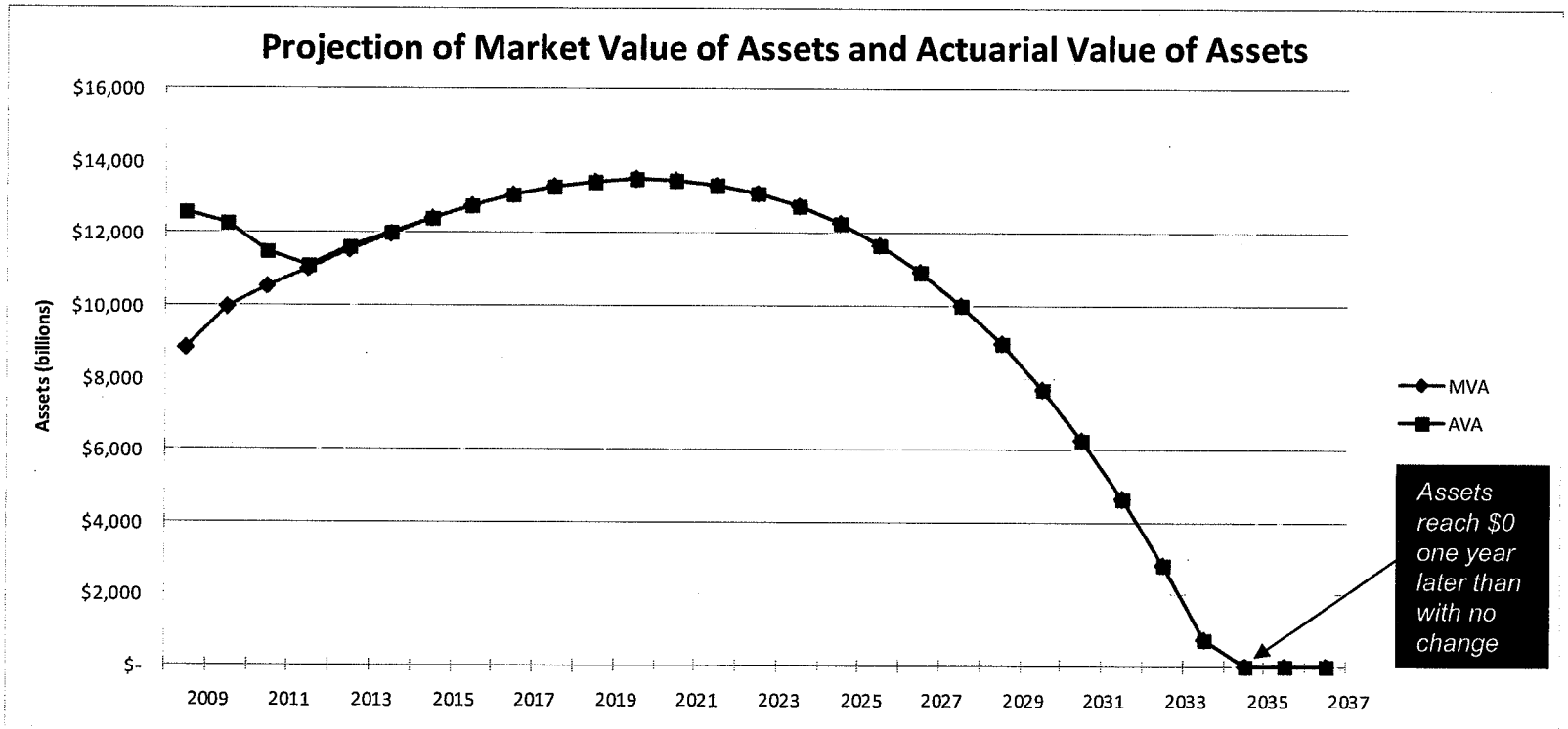
Timing of Changes



Timing of Changes

- How does delaying changes impact solvency?
  - Pay me now or pay me more later
  - Assume 10% reduction in normal cost of benefits
  - Impact of making change now versus 3 years

Change Impacting FY12 New Hires
PERA



- Based on closed group projections estimated based on data supplied by GRS and 4.5% payroll growth
- Includes the unfunded liability payment on new entrant payroll and new benefit structure for new hires after June 30, 2010
- Includes actual return on assets of 15.02% for FY10 and 8% thereafter
- Employee contributions: 10.99% for FY10 and FY11, 10.25% thereafter
- Employer contributions: 13.97% for FY10 and FY11, 14.71% thereafter
- Additional change that impacts benefits by 10% for new hires in FY12 and later

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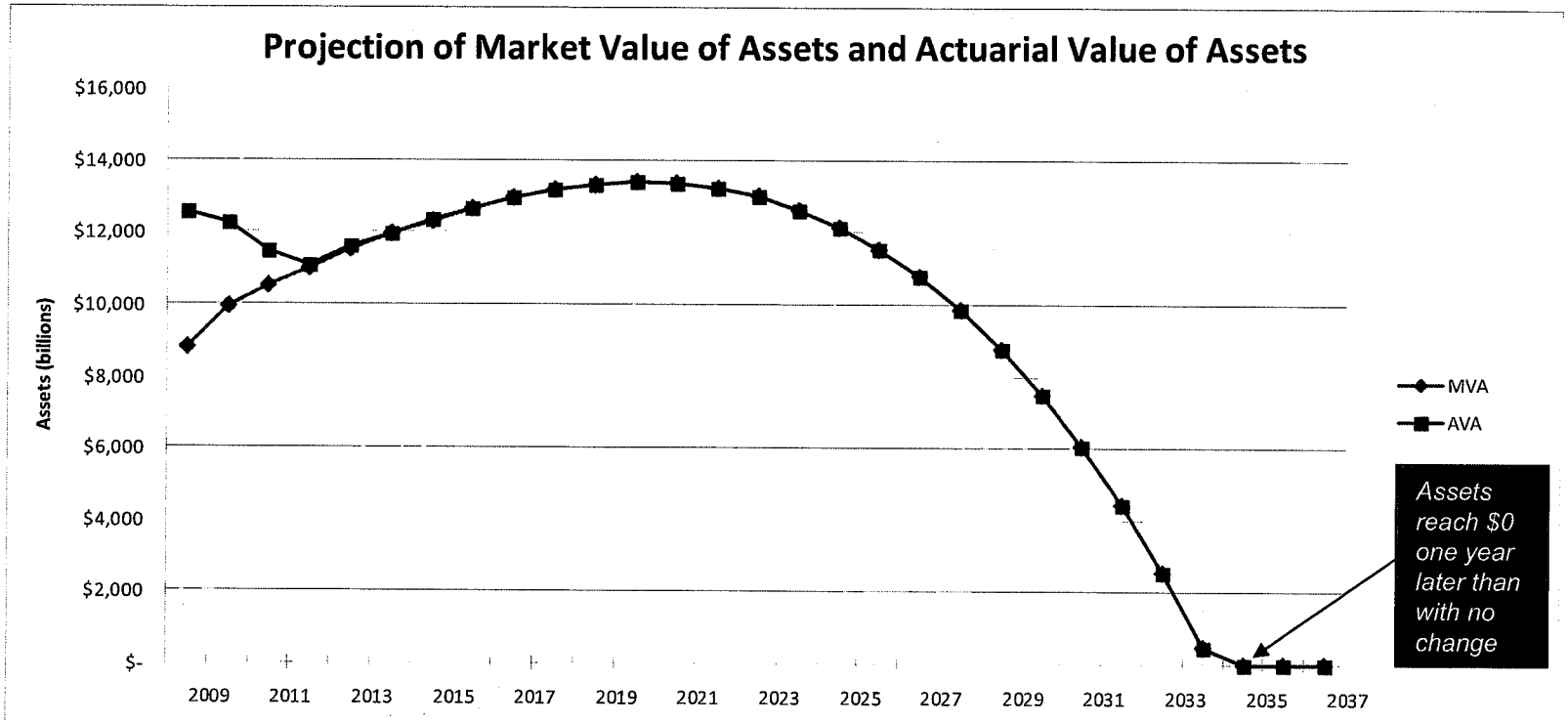
Change Impacting FY15 New Hires
PERA



- Based on closed group projections estimated based on data supplied by GRS and 4.5% payroll growth
- Includes the unfunded liability payment on new entrant payroll and new benefit structure for new hires after June 30, 2010
- Includes actual return on assets of 15.02% for FY10 and 8% thereafter
- Employee contributions: 10.99% for FY10 and FY11, 10.25% thereafter
- Employer contributions: 13.97% for FY10 and FY11, 14.71% thereafter
- Additional change that impacts benefits by 10% for new hires in FY15 and later

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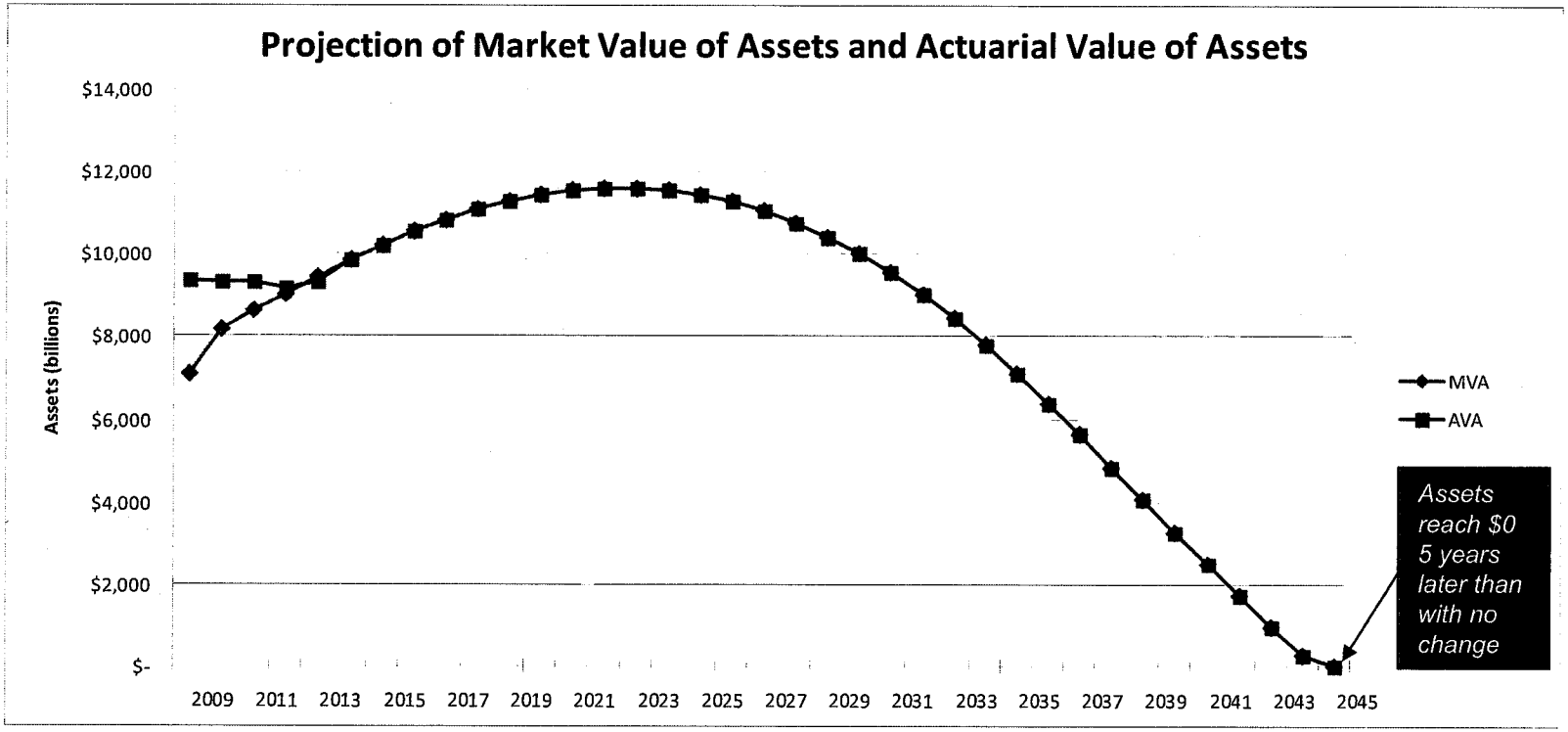
Change Impacting FY12 New Hires
ERB



- Based on closed group projections provided by GRS with 3.75% payroll growth
- Includes the unfunded liability payment on new entrant payroll and new benefit structure for new hires after June 30, 2010
- Includes actual return on assets of 18.6% for FY10 and 8% thereafter
- Employee contributions: 9.40% for FY10 and FY11, 7.90% thereafter
- Employer contributions: 10.90% for FY10 and FY11, 13.15% for FY12 and 13.90% thereafter
- Additional change that impacts benefits by 10% for new hires in FY12 and later

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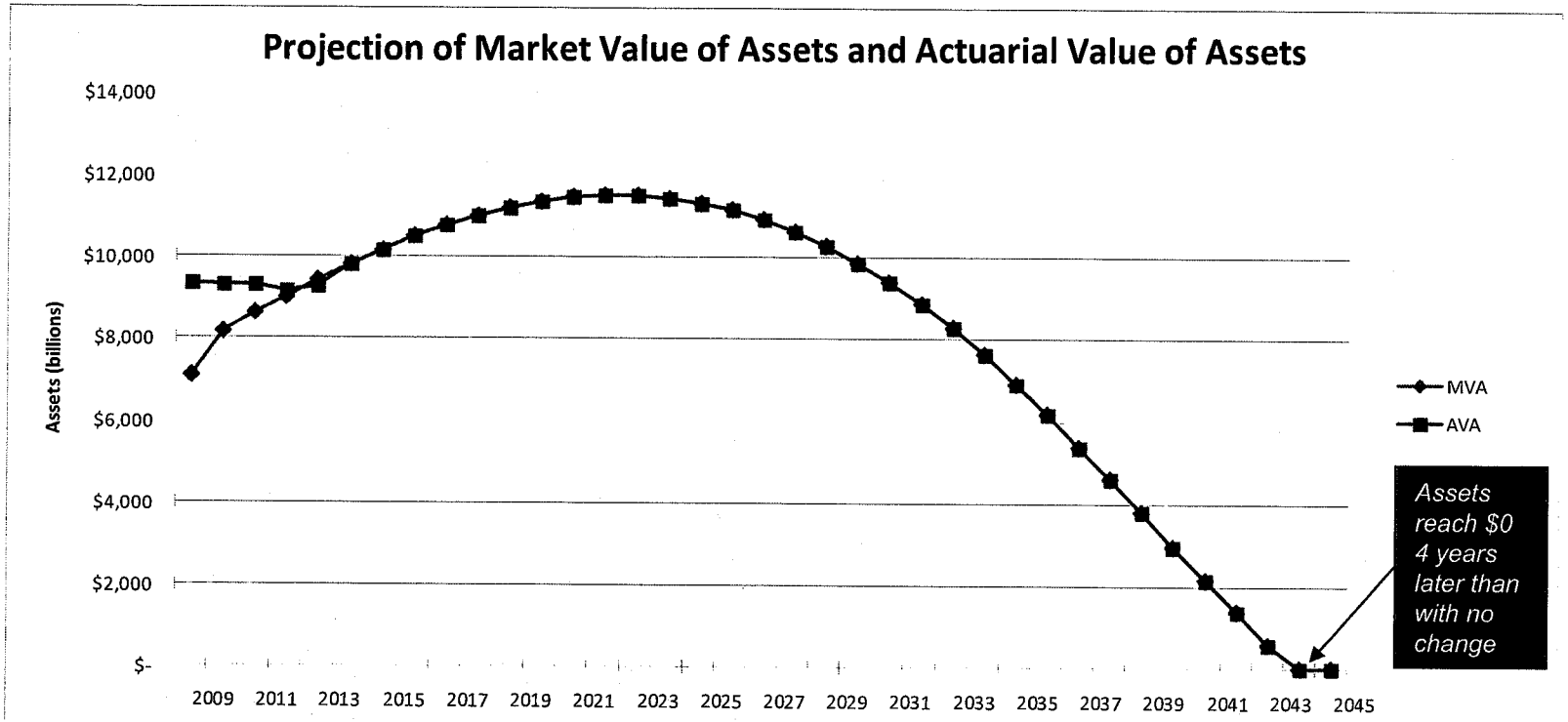
Change Impacting FY15 New Hires
ERB



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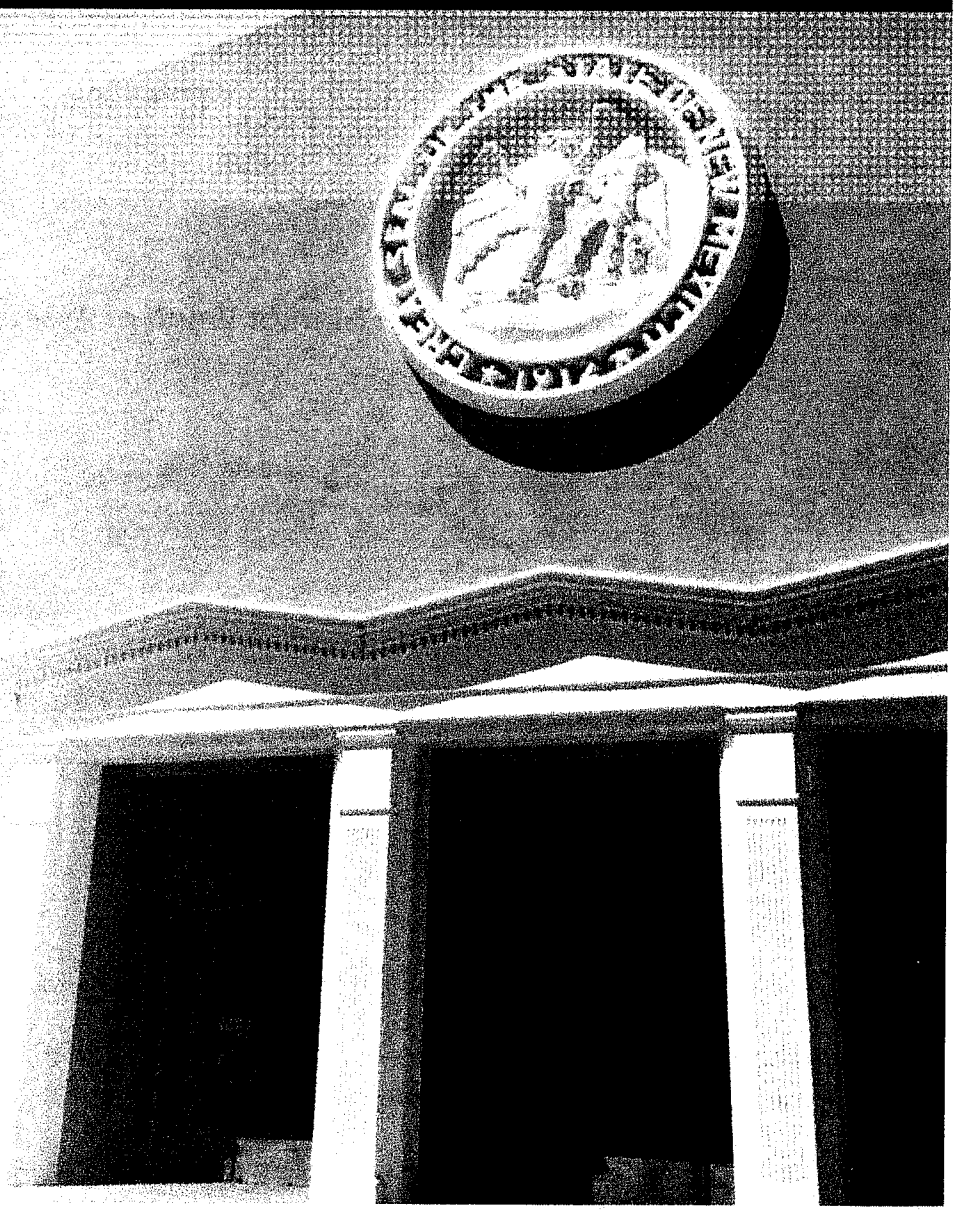
Questions?



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