MINUTES
of the
FOURTH MEETING
of the
STATE PERMANENT FUND TASK FORCE

September 8-9, 2005
State Capitol
Santa Fe

The fourth meeting of the State Permanent Fund Task Force for the 2005 interim was called to order by Representative John A. Heaton, chair, on Thursday, September 8, 2005, at 10:05 a.m. at the State Capitol in Santa Fe.

Present
Rep. John A. Heaton, Chair
Sen. John Arthur Smith, Vice Chair
Sen. Joseph J. Carraro
Frank Foy, Education Retirement Board (ERB)
Sen. Phil A. Griego
Robert Jacksha, SIC
Rep. Larry A. Larranaga
Sen. Carroll H. Leavell
Olivia Padilla-Jackson, State Board of Finance
Rep. Henry Kiki Saavedra
Rep. Luciano "Lucky" Varela

Absent
Gary Bland, State Investment Council (SIC)
Sen. Pete Campos
Rep. Justine Fox-Young
Robert Gish, Public Employees Retirement Association (PERA)

Advisory Members
Rep. Donald E. Bratton
Rep. Miguel P. Garcia
Rep. Kathy A. McCoy
Sen. H. Diane Snyder
Rep. Joe M Stell
Sen. Carlos R. Cisneros
Sen. Joseph A. Fidel
Sen. Stuart Ingle
Sen. Leonard Lee Rawson

Staff
Cleo Griffith, Legislative Council Service (LCS)
Larry Matlock, LCS
Stephanie Schardin, Legislative Finance Committee (LFC)
Doug Williams, LCS

Guests
The guest list is in the meeting file.

Thursday, September 8

The minutes of the August 3-4, 2005 meeting were approved with the following addition:

"The task force recommends that the legislature receive quarterly reports concerning the investment performance of the retirement funds using benchmarks that ensure the actuarial soundness of the funds."

Comparison of Retirement Plan Benefits

Evalynne Hunemuller and Paul Swanson, both of ERB, and Terry Slattery and Mary Frederick, both of PERA, made a joint presentation concerning retirement plan benefits. The following table summarizes key differences:

New Mexico Public Retirement System

Provision	ERB	PERA
Retirement Eligibility	a. Rule of 75: Age + Service = 75 b. 25 years regardless of age c. Age 65 with 5 years	a. 25 years regardless of age b. Age 60 with 20 years Age 61 with 17 years Age 62 with 14 years, etc.
Final Average Salary	a. Average earnings for last 5 years or any consecutive 5 years	a. Average of highest 3 years
Multiplier	a. 2.35%	a. 3.00%
Cost-of-Living Adjustment	a. 1/2 CPI beginning at age 65, capped at 4%, minimum at 2%, unless CPI is less than 2%, then equals CPI	a. 3% beginning the 3rd year into retirement
Contributions	a. Member: 7.675% of salary Employer: 9.400% of salary Total: 17.075%	a. Member: 7.42% of salary Employer: 16.59% of salary Total: 24.01%
Minimum Benefit	a. No limit	a. 80% of final average salary with 26.67 years of service

Employer and Employee Retirement Contributions

Ms. Hunemuller, Mr. Swanson, Mr. Slattery and Ms. Frederick made a joint presentation concerning retirement plan contributions. The following table summarizes the contribution rates for ERB and PERA:

Contribution Levels Under SB 181

	ERB			PERA		
Fiscal Year	Employer	Employee	Total	Employer	Employee	Total
2005	8.65%	7.60%	16.25%	16.59%	7.42%	24.01%
2006	9.40%	7.68%	17.08%	16.59%	7.42%	24.01%
2007	10.15%	7.75%	17.90%	16.59%	7.42%	24.01%
2008	11.65%	7.83%	19.48%	16.59%	7.42%	24.01%
2009	12.40%	7.90%	20.30%	16.59%	7.42%	24.01%
2010	13.15%	7.90%	21.05%	16.59%	7.42%	24.01%
2011	13.40%	7.90%	21.30%	16.59%	7.42%	24.01%

Representative Varela observed that the source of funds for the employer share of contributions to PERA is a mix of general funds, other state funds and federal funds while the source of funds for the employer share of contributions to ERB is exclusively general funds.

Representative Varela requested median salary data for both teachers and state employees in addition to the average data contained in the respective presentations.

Representative Varela requested input from union representatives concerning retirement plan return-to-work provisions.

Ms. Padilla-Jackson requested that the component parts of any unfunded liability be identified, e.g., contribution rates versus benefit payments versus investment performance.

Senator Smith requested information concerning actions on the part of other states regarding resolving unfunded liability issues.

Senator Snyder requested a recent history of salary increases for state employees and teachers.

Senator Griego asked how many retired teachers have returned to work. Ms. Hunemuller stated that approximately 900 retired teachers are currently on the payroll.

Senator Griego asked about the impact on the retirement funds of return-to-work provisions. Mr. Slattery stated that it is too soon for PERA to make such an analysis. Ms. Hunemuller stated that there is currently no impact on the teacher's retirement fund; however, to the extent that such provisions encourage retirement at an earlier age, there could be a negative impact in the future because benefits will have to be paid for more years.

Representative Larranaga observed that the corpus of the retirement fund is negatively impacted by a retiree returning to work because the retiree does not contribute to the fund, whereas, if the teaching position is filled by a new employee, the fund would benefit from contributions. Representative Heaton observed that the corpus of the fund benefits from retirees returning to work because the employer does contribute to the fund and benefits do not change for the retiree.

ERB Actuarial Update and Impact of Three-Tier Licensure

Ms. Hunemuller and William "Flick" Fornia of Gabriel, Roeder, Smith & Company reviewed the current status of the Educational Retirement Fund.

Mr. Fornia noted that the actuarial process involves a smoothing of investment returns. As an example, if the objective rate of return is eight percent and actual earnings are 12 percent, the actuary credits the fund with eight percent plus one percent in the current year and adds one percent to the actual return in each of the next three years. As a result, actuarial assets are different from true assets.

There followed a discussion of stock market conditions following the Hurricane Katrina disaster and the potential impact on retirement fund investments. Representative Heaton noted that the important thing is the long-term performance of the funds. Senator Cararro stressed the importance of day-to-day active management of the investment portfolio.

Senator Smith asked about the impact of infusing $50 million into the teacher's retirement fund. Mr. Fornia indicated that it would improve the funding ratio, but did not quantify the impact.

Senator Smith asked about the impact of return-to-work provisions. Mr. Fornia said that the practice of retiring earlier than the actuary estimated, and then returning to work, adversely impacts the retirement fund because benefits will be paid to the retiree longer than anticipated.

Representative Heaton questioned the appropriate period for actuarial projections. Mr. Fornia responded that the underlying actuarial embraces a 90-year period, i.e., it factors in the liability relating to the cost of the newest employees through age 115 (absolute age of death). Also, the actuary reviews the outlook annually and "tests" its assumptions against actual (past) events every five years.

Mr. Fornia applauded the action of the legislature in passing SB 181. From an actuarial standpoint, the legislation established a long-term solution to the ERB unfunded liability.

Public Comment

Carter Bundy of the American Federation of State, County and Municipal Employees Association (AFSCME) stressed that ASFSCME does not endorse any change in the retirement system that would jeopardize the solvency of PERA.

John Doran, a retired state employee, spoke in oppostion to the practice of return-to-work because it tends to inhibit the career development of younger employees.

Saber Basler, counsel for the University of New Mexico (UNM), noted that university employees have a higher contribution rate than others and that UNM will be endorsing legislation to change the current system.

Eduardo Holguin of the National Education Association (NEA) indicated that the union will be seeking an increase in the retirement multiplier from 2.3 percent to 2.5 percent. He asserted that this will encourage teachers to work longer in order that they may receive a larger pension. He supports the return-to-work provisions because of the shortage of teachers in the classroom.

The task force recessed at 4:15 p.m.

Friday, September 9

Representative Heaton called the meeting to order at 9:10 a.m.

Retiree Health Care Authority

Christine Tessman, acting director of the Retiree Health Care Authority, and Tim Nimmer and Justin Kindy of The Segal Company made a presentation concerning the actuarial health of the Retiree Health Care Fund. The following table summarizes the actuarial outlook for the fund:

Retiree Health Care Fund
Long-Term Solvency Analysis
(in millions)

Fiscal Years Ending June 30	Beginning Market Value	Total Revenue	Investment Income	Total Expenses	Ending Market Value
2006	152.6	143.5	11.1	153.1	154.2
2007	154.2	159.1	11.1	171.1	153.3
2008	153.3	172.9	11.0	186.6	150.6
2009	150.6	189.7	10.7	207.1	143.8
2010	143.8	207.6	10.0	227.7	133.7
2011	133.7	227.0	9.2	249.3	120.7
2012	120.7	247.4	8.2	270.5	105.8

2013	105.8	268.6	7.1	290.6	91.0
2014	91.0	290.8	6.1	309.7	78.1
2015	78.1	314.0	5.3	328.0	69.4
2016	69.4	338.8	4.9	346.5	66.5
2017	66.5	365.4	5.0	365.4	71.5
2018	71.5	394.1	5.7	384.6	86.7
2019	86.7	424.7	7.3	403.6	115.1
2020	115.1	457.5	9.9	422.4	160.1
2021	160.1	488.8	13.8	441.4	221.3
2022	221.3	522.6	18.9	460.3	302.5
2023	302.5	558.8	25.6	478.8	408.2
2024	408.2	597.7	34.3	496.3	543.9
2025	543.9	639.6	45.5	512.7	716.3

Public Records Discussion

Robert Jacksha and Adam Levine of the SIC discussed the existing public records law with respect to requests from third parties for potential proprietary information from SIC fund managers.

In essence, SIC needs to know the investment holdings of management companies with whom it does business; however, any information that SIC has becomes a public record and, if disclosed, would harm the individual management company by eliminating its competitive advantage. This is particularly important in the private equity investment sector.

Representative Heaton recommended that SIC give careful thought to the approach that might be used to protect proprietary information without jeopardizing public access excessively and return to the task force with a strategy at the October meeting.

Update on Fiscal Year 2005 SIC Investment Performance

Mr. Jacksha made a presentation concerning investment performance by fund and sector. It was noted that fiscal year 2005 rate of return for the Land Grant Permanent Fund was 9.7 percent compared to a passive 60/40 benchmark of 6.5 percent. The following table summarizes the status of the fund:

Land Grant Permanent Fund
Statement of Changes in Investment Assets, at Market Value
(in millions)

Fiscal Years Ending June 30	Beginning Market Value	New Contributions	Total Return	Less Beneficiary Distributions	Ending Market Value
1991	3,126.6	121.2	354.4	259.4	3,342.8

1992	3,342.8	104.4	498.8	262.0	3,684.0
1993	3,684.0	122.9	455.7	261.5	4,001.1
1994	4,001.1	115.6	-9.9	257.9	3,848.9
1995	3,848.9	97.2	625.2	248.1	4,323.2
1996	4,323.2	100.2	495.0	246.0	4,672.4
1997	4,672.4	147.8	895.7	251.2	5,464.7
1998	5,464.7	130.0	1,115.9	255.4	6,455.2
1999	6,455.2	104.7	1,014.8	262.4	7,312.3
2000	7,312.3	217.9	745.2	344.3	7,931.1
2001	7,931.1	325.9	-516.2	322.2	7,418.7
2002	7,418.7	213.3	-652.6	283.1	6,696.3
2003	6,696.3	223.0	221.3	332.8	6,807.8
2004	6,807.8	269.7	959.8	400.7	7,636.6
2005	7,636.6	324.7	687.4	432.5	8,216.1

With respect to the Severance Tax Permanent Fund, the fiscal year 2005 rate of return was 8.9 percent compared to the same passive benchmark of 6.5 percent. The following table summarizes the status of the fund:

Severance Tax Permanent Fund

Statement of Changes in Investment Assets, at Market Value

(Dollars in Millons)

Fiscal Years Ending June 30	Beginning Market Value	New Contributions	Total Return	Less Beneficiary Distributions	Ending Market Value
1991	$1,544.8	$101.7	$149.4	$127.8	$1,668.1
1992	1,668.1	72.6	241.4	133.9	1,848.2
1993	1,848.2	85.0	219.3	135.5	2,017.0
1994	2,017.0	73.0	13.9	133.9	1,970.0
1995	1,970.0	54.8	289.0	131.3	2,182.5
1996	2,182.5	73.2	248.4	132.1	2,372.0
1997	2,372.0	125.5	358.3	133.6	2,722.2
1998	2,722.2	84.6	634.0	136.3	3,304.5
1999	3,304.5	53.2	511.0	139.0	3,729.7
2000	3,729.7	90.3	494.3	141.8	4,172.5
2001	4,172.5	172.3	-337.9	144.7	3,862.2
2002	3,862.2	32.1	-332.2	159.2	3,402.9
2003	3,402.9	1.0	90.4	171.0	3,323.3
2004	3,323.3	35.9	461.2	199.0	3,621.4
2005	3,621.4	19.0	290.7	173.2	3,757.8

Discussion of October Agenda

- defined benefit versus defined contribution (invite State Treasurer Robert Vigil);
- public records (follow-up discussion with SIC);
- economic development impact resulting from SIC investment in private equity;

- PERA actuarial update;
- consolidated reporting of investment performance (invite Greg Geisler of the LFC);
- retirement adequacy, i.e., social security + pension + savings;
- State Board of Finance re: hedging of oil and gas revenue; and
- comparison of New Mexico retirement plans to those of surrounding states.

Other Business

State Treasurer Robert Vigil is opposed to defined contribution retirement plans and pension obligation bonds.

Adjournment

The task force adjourned at 11:45 a.m.