MINUTES
of the
FOURTH MEETING
of the
INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

October 23, 2012
State Capitol
Santa Fe, New Mexico

The fourth meeting of the Investments and Pensions Oversight Committee (IPOC) for the 2012 interim was called to order by Senator George K. Munoz, chair, on Tuesday, October 23, 2012, at 9:10 a.m. at the State Capitol in Santa Fe, New Mexico.

Present
Sen. George K. Munoz, Chair
Rep. Henry Kiki Saavedra, Vice Chair
Sen. Timothy M. Keller
Rep. Larry A. Larrañaga
Sen. Carroll H. Leavell
Sen. John M. Sapien
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela

Absent
Rep. David L. Doyle
Rep. William "Bill" J. Gray
Sen. Steven P. Neville
Sen. Mary Kay Papen

Advisory Members
Rep. Donald E. Bratton
Rep. Miguel P. Garcia
Rep. Roberto "Bobby" J. Gonzales
Rep. Jane E. Powdrell-Culbert
Rep. Mimi Stewart
Rep. Shirley A. Tyler
Sen. Carlos R. Cisneros
Sen. Tim Eichenberg
Sen. Stuart Ingle
Rep. Rhonda S. King
Rep. Patricia A. Lundstrom
Sen. William H. Payne
Rep. William "Bill" R. Rehm
Sen. John C. Ryan
Sen. Michael S. Sanchez
Rep. Sheryl Williams Stapleton
Rep. Richard D. Vigil

Staff
Tom Pollard, Legislative Council Service (LCS)
Doris Faust, LCS
Claudia Armijo, LCS

Guests

The guest list is located in the meeting file.

Handouts

Handouts and written testimony are in the meeting file and posted on the New Mexico Legislature web site.

<u>Tuesday, October 23</u>

Senator Munoz welcomed committee members and guests. He reminded members that the meeting was being webcast and then asked them to introduce themselves, which they did.

Impact of New Governmental Accounting Standards Board (GASB) Rules Regarding Unfunded Pension Liabilities

James B. Lewis, state treasurer, and Robert Attmore, chair for the GASB, made a presentation to the committee on the new GASB rules and how they could affect the reporting of the unfunded liabilities of public pension plans. Treasurer Lewis introduced Mr. Attmore and briefly described Mr. Attmore's professional background and credentials. Treasurer Lewis noted that he had requested a representative from Moody's to speak to the committee, but no one was available due to scheduling conflicts.

Mr. Attmore began by referring to the handout he provided for the members, Governmental Accounting Standards Board Mission, Vision, and Core Values. He relayed the mission, vision and core values of the GASB. The vision is for greater accountability, along with well-informed decision-making accomplished through excellence in public-sector financial reporting. The GASB's mission is to establish and improve the standards of state and local government accounting and financial reporting. This would be accomplished through a comprehensive process encouraging broad participation, with consideration of all stakeholders' views and with oversight by the Financial Accounting Foundation board of trustees. The core values of the GASB focus on independence, meaning the autonomy to pursue best answers free from undue influence or pressure. Additionally, included in the core values are integrity and objectivity.

Referring to the handout, and by way of background, Mr. Attmore explained that in June 2012, the GASB approved a pair of related statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans*, addresses financial reporting for state and local government pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions.

The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the usefulness of reported pension information and to increase the transparency, consistency and comparability of pension information across governments.

Statement No. 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, for most public employee pension plans. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, for most government employers. The new statements also replace the requirements of Statement No. 50, *Pension Disclosures*, for those governments and pension plans.

To ensure that the GASB pronouncements continue to be of high quality and are in sync with the continuously evolving government environment, the GASB periodically reexamines its standards. Reexamination typically takes place after a statement has been in place and fully implemented for at least five years. Research on the GASB pension standards indicates opportunities for significant improvement.

Governments provide pension benefits through various types of defined benefit pension plans, which specify the amount of benefits to be provided to the employees after the end of their employment. Single-employer pension plans provide pension benefits to the employees of one employer (a single employer). Multiple-employer pension plans provide pension benefits to the employees of more than one employer. Under an agent multiple-employer pension plan, the assets of a multiple-employer pension plan are pooled for investment purposes but separate accounts are maintained for each individual agent employer so that each agent employer's share of the pooled assets is legally available to pay the pensions of only its employees. In a cost-sharing multiple-employer pension plan, cost-sharing employers share their assets and their obligations to provide pension benefits to their employees, and plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan. The new statements address all of these types of plans, as well as defined contribution plans that stipulate the amount to be contributed to employee accounts each year rather than the amount of benefits that will be paid in the future.

The statements apply specifically to governments and pension plans in which a government's contributions to the trust used to administer a pension plan are irrevocable, restricted to paying pension benefits and beyond the reach of creditors. Pension benefits provided through trusts that do not meet those three criteria are not addressed in the new statements, and those pension benefits would continue to be accounted for and reported following Statements Nos. 25, 27 and 50.

It is important to note that the new statements relate to accounting and financial reporting issues only, not to how pension costs and obligations are measured and reported in audited external financial reports. The statements do not address how governments approach pension plan funding or government policy regarding how much money will be contributed to pension plans each year. Until now, there has been a close relationship between how governments fund pensions and how they account for and report information about them, but the new guidance establishes a decided shift from the funding-based approach to an accounting-based approach. The board crafted its new statements with the fundamental belief that funding is squarely a policy decision for elected officials to make as part of the government budget approval process.

A government has an obligation to pay deferred benefits in the future, known as a total pension liability, once they have been earned. When the total pension liability exceeds the pension plan's net assets available for paying benefits, there is a net pension liability. Governments will now be required to report that amount as a liability in their accrual-based financial statements. The pension plan's net position available for paying benefits is to be measured using the same valuation methods that are used by the pension plan for purposes of preparing its financial statements, including measuring investments at fair value.

This is an important change that will more clearly depict the government's financial position. While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed. Reporting the net pension liability (or asset, if plan net position exceeds the total pension liability) on the face of the financial statements will more clearly portray the government's financial status because the pension liability will be placed on an equal footing with other long-term obligations.

The new pension standards reflect several changes from those currently in place regarding how governments calculate their total pension liability. The measurement process detailed in the new standards involves three essential steps:

1. projecting future benefit payments for current and former employees and their beneficiaries;
2. discounting those payments to their present value; and
3. allocating the present value over past, present and future periods of employee service.

The standards continue the general existing practice of incorporating expectations of future employment-related events into projections of pension benefit payments, such as projected salary increases, and projected years of service, if they affect the amount of pension payments employees will receive. Provisions for automatic cost-of-living adjustments (COLAs) and other automatic benefit changes will also continue to be included in projections. On the other hand, ad hoc COLAs and other ad hoc benefit changes made at the discretion of the government will only be included in projections if they occur with such regularity that they are effectively automatic.

To discount projected pension benefit payments to a present value, governments assume a discount rate. Standards now in effect require governments to apply a discount rate equal to the long-term expected rate of return on the investments of the pension plan. The long-term expected rate of return will continue to be the starting point for the discount rate. However, the new standard makes it clear that this rate should be applied only to available pension plan assets that are expected to be invested using a strategy to achieve that return.

To the extent that a pension plan's net position and projected contributions associated with active and inactive employees, including retirees, is expected to fully cover projected benefit payments for those individuals, the long-term expected rate of return will be used. If there comes a point in the projections when plan net position and contributions related to active and inactive employees are no longer projected to be greater than or equal to projected benefit payments related to those employees plus administrative expenses, from that point forward, a government would be required to discount the projected benefit payments using a municipal borrowing rate.

Benefit payments, discounted to their present value, are allocated to past, current and future periods. The new standards require all governments to use the entry-age actuarial cost method to allocate present value and to do so as a level percentage of payroll. Under this method, the present value of projected benefits is attributed to employees' expected periods of employment starting from when employees first begin to earn benefits.

A government's net pension liability varies from year to year for a variety of reasons, including actual earnings on plan investments, employee compensation changes, interest on the outstanding pension liability, contributions from employers and employees and actual economic or demographic changes not matching up with assumptions made in the actuarial calculations. When these period-to-period changes should be included in the calculation of the cost of a government's operations as expenses in the accrual-based financial statements is a key issue.

The new standards will better align the recognition of pension expense with the period in which the related benefits are earned. Considered in total, the changes set forth by the GASB will have the overall effect of expense recognition being accelerated. Under the new standards, several causes of change in the net pension liability will be factored into the calculation of pension expense immediately in the period in which the change occurs. They include:

1. benefits earned each year;
2. interest on the total pension liability;
3. changes in benefit terms;
4. projected earnings on plan investments; and
5. changes in plan net position from other than investments.

The effects on the total pension liability of changes in assumptions and differences between assumptions and actual experience are to be recognized initially as deferred outflows of resources or deferred inflows of resources and then introduced into the expense calculation systematically and rationally over the average remaining years of employment of employees. This period is likely to be significantly shorter than the period of up to 30 years over which governments may now recognize portions of their pension expense.

The difference between the expected earnings on plan investments and actual investment earnings is to be recognized as deferred outflows of resources or deferred inflows of resources and included in expense in a systematic and rational manner over a five-year closed period rather than longer periods that are allowed under the current standards.

Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards, the GASB requires that cost-sharing governments report a net pension liability, pension expense and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

The new standards contain requirements for disclosing information in the notes to the financial statements and presenting required supplementary information (RSI) following the notes. Due to the complexity of the array of pension plan features, the board concluded it is critical that financial statement users have access to certain basic plan information through governments' own financial statements. The board believes that including this information will enhance the usefulness of financial reports for both decision-making and assessing accountability.

All governments participating in a defined benefit pension plan will now include the following information in their note disclosures:

- descriptions of the plan and benefits provided;
- significant assumptions employed in the measurement of the net pension liability;
- descriptions of benefit changes and changes in assumptions;
- assumptions related to the discount rate and the impact on the total pension liability of a one-percentage-point increase and decrease in the discount rate; and
- net pension liability and deferred outflows of resources and deferred inflows of resources.

Single and agent governments also will be required to disclose, for the current period, the beginning and ending balances of the net pension liability and the effects of changes during the period (such as the effects of service cost, benefit changes and actual investment earnings). Single and agent governments will be required to present RSI schedules with the following information for each of the past 10 years:

- the beginning and ending balances of the total pension liability, the plan trust's net position, the net pension liability and their components; and
- total pension liability, the plan's net position, the net pension liability, a ratio of the plan's net position to the total pension liability, the covered-employee payroll and a ratio of the net pension liability as a percentage of the covered-employee payroll.

If a single, agent or cost-sharing government has an actuarially determined annual pension contribution, it is also required to present an RSI schedule with the following information for each of the past 10 years:

1. the actuarially determined annual pension contribution (or if not actuarially determined, then the statutorily determined contribution);
2. the amount of employer contribution actually made;

3. the difference between items one and two, above;
4. the payroll of employees covered by the plan; and
5. a ratio of item two divided by item four, above.

Governments are also now required to present notes to the RSI schedules regarding factors that significantly affect the trends in the schedules. For single and agent employers, significant assumptions also should be disclosed.

Special funding situations are circumstances in which a non-employer contributing entity is legally responsible for contributions directly to a pension plan that is used to provide pensions to the employees of another government and one or both of the following are true:

1. the non-employer is the only entity with a legal obligation to make contributions directly to the plan; and
2. the amount of the contributions for which the non-employer is legally responsible is not dependent upon one or more events unrelated to the pensions.

In a special funding situation, the non-employer has essentially assumed a portion of the employer entity's pension obligation as its own. Consequently, if the non-employer is a government, it will recognize its proportionate share of the net pension liability, pension expense and deferred outflows of resources and deferred inflows of resources related to the employer's pensions in its own financial statements.

The government benefiting from the non-employer's contributions in a special funding situation will calculate its net pension liability, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions prior to the non-employer government's support, but it would recognize in its financial statements only its proportionate share.

Defined contribution plans stipulate the amount to be contributed to an employee's account each year and not the amount of benefits employees will receive after the end of their employment. The new standards generally carry forward the existing requirements regarding defined contribution pensions. Governments will report an expense equal to the amount they are required to contribute for employee service each year and a liability equal to the difference between that required contribution and what the government actually contributes. Governments will also make descriptive disclosures about the plan and its terms and the method by which contributions to the plan are determined.

Statement No. 67 on plan reporting details guidance for financial reporting by defined benefit pension plans administered through trusts that meet the criteria described earlier. This guidance generally carries forward the present framework for the separately issued financial reports of defined benefit pension plans. Statement No. 67 will significantly improve related financial reporting through enhanced note disclosures and new RSI schedules. The statement also details note disclosure requirements for defined contribution pension plans administered through trusts that meet the criteria.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013. Statement No. 68 will take effect for employers and governmental non-employer contributing entities in fiscal years beginning after June 15, 2014. However, the GASB encourages plans and governments to implement the new standards earlier.

There was brief discussion about some of the differences between public and private pension plans, one such difference being that private plans are insured by the Pension Benefit Guaranty Corporation. Members asked about the negative liability reporting aspect of the new GASB standards and how, if at all, that could affect a state's bond rating. Mr. Attmore opined that the reporting agencies already have the unfunded liability information, so changing the manner in which it is reported will likely have little or no impact on states' bond ratings.

Legislation Proposed by the State Treasurer

Treasurer Lewis was joined by Mark Valdez, deputy state treasurer, to discuss proposed legislation the Treasurer's Office would like considered for endorsement by the IPOC. Treasurer Lewis explained that the reference to "treasurer" is mentioned within New Mexico's statutes in excess of 500 times. He said his office would like to propose legislation that, among other things, would provide "clean-up" language, removing the treasurer references where the reference is deemed inappropriate.

Mr. Valdez added that the Treasurer's Office is proposing the language contained in Discussion Draft .190369.2SA, a copy of which was handed out to each committee member. The legislation would clarify authorized investments of the state treasurer, change the name of the Participating Government Investment Fund to the Local Government Investment Pool (LGIP) and increase the percentage of general funds and bond proceeds that can be invested in the LGIP. Mr. Valdez noted that, currently, municipalities and counties have greater autonomy related to investing in municipal bonds than does the state treasurer.

Linda Roseborough, chief investments officer for the Treasurer's Office, joined Treasurer Lewis and Mr. Valdez. She advised that the legislature should consider enacting statutory changes that would help the Treasurer's Office have more flexibility in managing the LGIP, noting that safety, liquidity and returns are the objectives of the Treasurer's Office.

After a brief discussion regarding the costs involved with the proposed changes, the chair said that the IPOC would take action regarding endorsement of the legislation at its November 28 meeting.

Public Employees Retirement Association (PERA) Board's Proposed Pension Solvency Legislation

Wayne Propst, executive director for the PERA, spoke with the members regarding the PERA board's proposal for legislative changes to the PERA pension plan. He introduced several of the PERA board members in attendance at the meeting, including the board chair, Gerald Chavez, and Patricia French, vice chair, as well as board members Roman D. Jimenez, who is a lieutenant with the New Mexico State Police, and Jackie Kohlasch.

Mr. Propst updated the IPOC members on the funding status of the PERA funds, saying that the PERA will report an increase of $1.2 billion in its unfunded liability as of June 30, 2012. This increase is larger than anticipated by the PERA and was primarily driven by a poor investment performance in fiscal year (FY) 2012. As a result, the funded ratio of the PERA fund has declined to 65.3%. He noted, however, that the investment returns for FY 2013 show improvement.

Mr. Propst had presented the proposed plan changes at the IPOC meeting held in August, but he refreshed the members' memories, telling them that the PERA board met in Alamogordo in May and adopted plan changes that include shared responsibility among retirees, active members, some non-vested members and new hires. The proposed changes affect members by creating two tiers for both non-public safety and public safety members. The plan would result in a two-tier system for non-public safety members as follows:

- tier I includes members initially hired on or before June 30, 2010. Members in this tier would not be affected by a .05% decrease in the benefit multiplier, nor would these members be subject to the tier II age and service requirements; and
- tier II includes members initially hired on or after July 1, 2010. Tier II non-public safety members would see the following benefit changes:
    1. a 0.5% reduction in their annual pension factor, making their pension factor 2.5%;
    2. retirement eligibility would be based on an age and the service "rule of 85", or age 65 with eight years of service;
    3. a tier II member's benefit would be calculated based on a five-year final average salary (FAS);
    4. an eight-year vesting period;
    5. a 90% pension maximum benefit; and
    6. when eligible, these retirees would receive a 2% compounding COLA.

The proposed plan changes would result in a two-tier system for public safety members as follows:

- tier I includes members initially hired on or before June 30, 2010; and
- tier II includes members initially hired on or after July 1, 2010. Tier II public safety members would see the following benefit changes:
    1. a 0.5% reduction in their annual pension factor, making their pension factor 2.5%;
    2. retirement eligibility would be based on an age and service "rule of 75", or age 60 with six years of service;
    3. a member's FAS would be calculated based upon a five-year FAS;
    4. a six-year vesting period;
    5. a 90% pension maximum benefit; and
    6. when eligible, these retirees would receive a 2% compounding COLA.

Additional plan changes adopted by the board would affect current retirees and active members initially, either on or before June 30, 2010. They would receive a reduction in their annual compounding COLA, from 3% to 2%. Mr. Propst noted that this specific change will have the single biggest and most immediate positive impact on the PERA plan's funding level and the unfunded liability. Additionally, for members who are not yet retired, the COLA eligibility would begin seven calendar years after the member's retirement as opposed to the current two years. No COLA eligibility change is proposed for tier I members who retire at age 65 or older or who retire due to disability.

Mr. Propst explained that the PERA board proposes the following contribution changes:

1. effective July 1, 2013, an increase to employee contributions of 1.5%. He noted that the increase would be accomplished with the removal of the sunset clause enacted when the contribution shift was put in place; and

2. effective July 1, 2014, and continuing for the following two fiscal years, an increase of 0.5% per fiscal year in all statutory employer contribution rates, resulting in a total employer contribution increase of 1.5% in FY 2016. Mr. Propst noted that the proposed employer contribution increases would be the first such increases since 1997, and the increases would provide a hedge against a lower-than-expected return on investments.

Committee members thanked Mr. Propst for his presentation and expressed thanks for the PERA board's commitment to look at plan changes and adoption of the proposed changes. That was followed by a general discussion regarding the need to reach consensus among legislators and stakeholders. Mr. Propst stated that the PERA has been working, and will continue to work, with the public safety members that have taken issue with some of the proposed changes. However, he feels it important to note that the evidence from which the PERA board came to its conclusions for plan changes indicates that, unlike what may be commonly believed, the public safety members live as long as the other general PERA members. That fact, coupled with the fact that public safety members retire at a younger age than general members, means that the pension of a public safety member costs the plan more in real dollars. Mr. Propst further noted that despite the greater expense to the plan associated with its public safety membership, the PERA board agreed to impose a retirement rule of 75 for public safety members and a rule of 85 for all other non-public safety PERA members, except judges, magistrates and legislators.

Lastly, Mr. Propst asked the IPOC members to consider that the board built into its plan proposal significant room to allow for uncertainty. He opined that even with the most recent valuation results, which reflect the increased unfunded liability, the fund is expected to reach 100% funded status on or before 2042 if the board's reform proposal is adopted. He added that the fund will continue to improve once the new tier of members begins to retire.

Proposal by the Administrative Office of the Courts (AOC) for Changes to the Judicial Retirement Act and the Magistrate Retirement Act

Justice Richard C. Bosson of the New Mexico Supreme Court, along with Arthur W. Pepin, executive director, AOC, and Oscar Arevalo, fiscal services director, AOC, addressed the committee. Justice Bosson explained that the Judicial Retirement Fund and Magistrate Retirement Fund are the least funded of all of the PERA plan funds. With this in mind, the judges and magistrates formed a small working group and developed a proposal, although not yet approved, as it remains under discussion. At this point, the judges and magistrates are seeking feedback from the committee so they can prepare draft legislation for presentation at the November 28 IPOC meeting.

The judges and magistrates are considering plan changes that would affect both employees and employer. Among the changes would be a two-year suspension of the COLA, beginning in 2014. After the suspension, the COLA would be tied to the Consumer Price Index. The proposed changes would also include a reduction in earned service credit. Most judges begin their judgeships between the ages of 40 and 50. The proposal would lower the multiplier to 3.5% per year, beginning July 1, 2013, and would apply to all judges and magistrates, not just new members.

Justice Bosson expressed his view that the judges and magistrates are concerned and are willing to work to improve the solvency of the plan. He noted that they understand that their plans are different and that the COLA increases affect low-wage retirees more than the judges and magistrates. Higher wage earners can better afford the impact of suspending a COLA. The proposed changes will be debated by the full court in the next few weeks.

Mr. Pepin reminded the committee members that the judges and magistrates are also seeking a $15 million appropriation to be distributed between the two funds, with $11 million going into the Judicial Retirement Fund and $4 million being appropriated to the Magistrate Retirement Fund.

There was a discussion about whether the proposed changes have been actuarially shown to affect the discrepancy that currently exists between contributions to the funds and the payout of benefits. Mr. Pepin said that he does not yet have the actuarial analysis from the PERA.

Many members expressed concern over the idea that, even after suspending the judges' and magistrates' COLAs for two years, they might then receive a 3% COLA, whereas state general members of the PERA would only receive a 2% COLA under the PERA board's proposal.

Some committee members questioned the fact that the PERA's board proposal does not include changes to the judges' and magistrates' plans, particularly because those plans are among the least funded of all the PERA plans. Mr. Propst acknowledged that the only part of the PERA board's approved changes that affect judges and magistrates would be a reduction in the COLA.

Members expressed serious concerns regarding the $15 million appropriation and inquired as to how that figure was reached. Mr. Pepin said that the figure represents 20% of the unfunded liability. He said that consideration was given to the size of the funds and the number of retirees. When asked whether he looked at plan changes that would not include the $15 million appropriation, Mr. Pepin replied that he had not.

Committee members expressed their opinions that the State of New Mexico needs one class of retirees, not more than one. They stressed that employees should not be treated differently. They asked Mr. Propst to provide financial information actuarially related to the judicial and magistrate proposal. Mr. Propst said that he would try to get that information.

Public Safety Members' Input Regarding the PERA Board's Proposed Retirement Plan Changes

The committee heard from representatives of public safety members, including Carter Bundy, legislative director, Association of Federal, State, County and Municipal Employees, Lieutenant Jimenez and Diego Arencon, president, Firefighters Local 244.

Mr. Bundy expressed his opinion that it is important to have a systemic plan, which he believes the PERA board has provided in its proposed legislation. He added that his membership would accept either the rule of 75 or a 25-and-out provision for public safety members.

Kevin Bruno, representing a non-collective bargaining group of the New Mexico State Police Association, said that everyone will be affected by the changes, but his group supports the PERA plan. Other supporters include the Motor Transportation Division of the Department of Public Safety and the New Mexico Association of the Chiefs of Police. Travis Trout, fire chief for the Las Cruces Fire Department, said he was speaking on behalf of both the fire department and the police department in Las Cruces. He said the departments support the PERA proposal, except they do not support the proposal providing that the new tier would affect members going back to July 1, 2010. Instead, they believe the effective date for the new tier should be July 1, 2013.

There was a discussion regarding the overall support of the PERA proposal, with some expressing concerns over the current municipality pick-ups of employee contributions. Regina Romero, intergovernmental relations director for the New Mexico Municipal League (NMML), said she hopes discussions regarding the pick-ups will continue. She noted that New Mexico's larger municipalities contribute 75% of their employee contributions. She added that the NMML supports an effective date of the proposed provisions of July 1, 2013.

David Heshley, director of New Mexico's Fraternal Order of Police, and Mr. Arencon both expressed disagreement with the proposed PERA plan changes. Mr. Arencon said that the PERA board's proposed changes may be close to what the firefighters would accept, but his members want to have more input into proposed plan changes. He added that the firefighters would likely agree to pay the 1.5% employee contribution increase and are willing to reduce the COLA by 1% as long as there is a review of it.

Educational Retirement Board (ERB) Proposed Pension Solvency Legislation

Jan Goodwin, executive director for the ERB, spoke with the members about the ERB's proposal for legislation designed to ensure the solvency of the pension plan. She began by acknowledging the board members present at the meeting, including the chair, Mary Lou Cameron, and Vice Chair Russell Goff. Ms. Goodwin directed the committee members' attention to the ERB handout dated October 23, 2012, referring them to the chart on page 1, which provides a breakdown of the membership. She noted that the plan currently has 61,673 active members, 35,457 retirees and beneficiaries and 33,011 inactive members.

Ms. Goodwin reminded committee members that the ERB statute currently provides three ways for its members to retire:

1. at age 65, with five years of service credit;
2. at any age, if the sum of the member's age and earned service credit equals at least 75 (rule of 75); and
3. at any age, with 25 years of earned service credit.

Next, Ms. Goodwin directed committee members' attention to the ERB handout and reminded them that the group of stakeholders who were participants in the Educational Retirement Act plan met on several occasions throughout the state. On July 17, 2012, as a consequence of those meetings, a consensus on changes was reached. The stakeholders presented their proposal for plan changes to the ERB at its August 2012 meeting. The group of participants included individuals from 15 groups representing ERB plan stakeholders. The proposal would increase all active members' employee contribution rates to 10.7% in a phased-in process reaching the increased rate in FY 2015. Additionally, the proposal would create a new tier of employees hired on and after July 1, 2013. The retirement age, service requirements and benefits for members in the new tier would include a minimum retirement age of 55. Retirement eligibility would occur:

- at age 67, with five years of earned service credit;
- at any age, if the sum of the member's age and years of earned service credit equals at least 80 (rule of 80); or
- at any age, with 30 or more years of earned service credit.

Additionally, members in the new tier can expect a COLA typically of 2% annually once they reach the age of 67.

Ms. Goodwin further explained that the stakeholder proposal is projected to reduce the ERB's unfunded liability, and according to those projections, the fund would be 75% funded by 2030 and would reach 100% funded status in 2043. Ms. Goodwin noted the various charts and graphs provided in the ERB handout that illustrate the upward trend in the funding ratio anticipated if the stakeholder proposal is enacted after the upcoming 2013 legislative session.

Members asked if the proposed increase in member contributions would be applied to members making less than $20,000 a year, and they urged Ms. Goodwin to ask the board to consider exempting those members from the increased contributions. It was noted that under the stakeholder proposal, employer contributions rates would be 13.9%, which is the statutory rate. Ms. Goodwin agreed that she would speak to the board about the carve-out for those employees making less than $20,000 a year. She noted that the board had decided that all employees would pay the 10.7% contribution rate and that the cost of having employees making less than $20,000 would be about $7 million annually, but she was waiting for the actual numbers from the actuary.

Committee members thanked Ms. Goodwin for her presentation and for the hard work of the board.

Retiree Health Care Authority (RHCA) Legislative Proposals

Mark Tyndall, executive director for the RHCA, addressed the committee regarding legislation providing for contribution increases to the Retiree Health Care Fund. He said that by year 2018, the RHCA would pay out more money than it takes in. Although the RHCA is better off than it was five years ago, steps need to be taken to ensure solvency.

Mr. Tyndall reported that the RHCA board unanimously approved a five-year strategic plan involving contribution increases. To achieve the contribution increases, the board is seeking legislative support.

There was a broad discussion about whether delaying the employee and employer contribution increases to the Retiree Health Care Fund is a good idea. Mr. Tyndall advised the members that implementing the increases in contributions earlier is acceptable to the board.

State Investment Council (SIC) Legislative Initiatives

Steve Moise, state investment officer, told members that although he did not have legislation to present to the committee, the SIC is working on legislation and would be seeking IPOC endorsement at the November meeting. The drafts and the areas of concern include the structure of the SIC, the removal of all restrictions on investment, the dissolution of the Private Equity Investment Advisory Committee and allowing the SIC to have full budget and personnel autonomy and responsibility.

Mr. Moise explained that to ensure its judiciary responsibility, the SIC needs it budgetary restrictions removed. In prior years, about 10% of the SIC investments were managed in-house. But now, the portion of funds managed in-house is much lower, and using outside management costs significantly more. Additionally, the SIC needs to hire high-quality people, and that means the SIC must be able to pay competitive wages. Mr. Moise said that he is prepared to provide the IPOC with any information needed to justify the SIC requests.

There was a general discussion about personnel issues involving the SIC and other state agencies. Members suggested that the SIC request a budget adjustment.

Some members requested that Mr. Moise ask his staff to electronically send committee members a copy of the Hewitt EnnisKnupp report. Mr. Moise said he would be happy to get the report sent to them, and he mentioned that it is also available on the SIC web site.

There was a discussion about pending court cases and recoveries sought for the State of New Mexico by the SIC. Mr. Moise said that the SIC board is confident in its decision to hire the Day Pitney LLP law firm to handle the litigation. Two defendants, Hank Morris and Alan Hevesi, have been dismissed as the result of a New Mexico Supreme Court decision. The court said that in New Mexico, a person has to set foot in New Mexico to be sued, and those defendants had not done so.

After a discussion related to the cost of the litigation, Mr. Moise reminded committee members that the litigation is being handled on a contingency basis. He noted that it is important to preserve the state's rights in the litigation.

With no further business, the committee adjourned at 4:00 p.m.