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

October 31-November 1, 2016
Room 322, State Capitol
Santa Fe

The fourth meeting of the Investments and Pensions Oversight Committee (IPOC) was called to order by Senator George K. Munoz, chair, on October 31, 2016 at 9:23 a.m. in Room 322 of the State Capitol.

Present
Sen. George K. Munoz, Chair (10/31)
Rep. Monica Youngblood, Vice Chair
Sen. Pete Campos
Sen. Jacob R. Candelaria (10/31)
Rep. Miguel P. Garcia
Rep. Larry A. Larrañaga
Sen. Bill B. O'Neill
Rep. Jim R. Trujillo
Rep. Luciano "Lucky" Varela
Sen. James P. White

Absent
Sen. Carroll H. Leavell
Sen. Steven P. Neville
Rep. Jane E. Powdrell-Culbert
Rep. William "Bill" R. Rehm

Advisory Members
Sen. Ted Barela (10/31)
Rep. Roberto "Bobby" J. Gonzales (11/1)
Sen. Stuart Ingle (10/31)
Rep. Tomás E. Salazar
Rep. James E. Smith
Rep. Sheryl Williams Stapleton

Sen. Carlos R. Cisneros
Rep. Patricia A. Lundstrom
Sen. Mary Kay Papen
Sen. William H. Payne
Sen. Michael S. Sanchez

(Attendance dates are noted for members not present for the entire meeting.)

Staff
Lisa Sullivan, Staff Attorney, Legislative Council Service (LCS)
Ric Gaudet, Researcher, LCS
Diego Jimenez, Research Assistant, LCS

Guests
The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Monday, October 31

Considerations for Public Action on Private Sector Retirement Savings Initiatives

Gerri Madrid-Davis, director, Financial Security and Consumer Affairs, State Advocacy and Strategic Integration, Government Affairs, AARP; and Angela Antonelli, executive director, Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University, presented research findings and policy options to increase retirement savings in the private sector. Ms. Madrid-Davis began by discussing New Mexico's longevity economy, defined as the sum of all economic activity that is supported by the consumer spending of households headed by a person age 50 or older. The total economic contribution of the longevity economy, at $32 billion in 2013, accounted for 35 percent of New Mexico's gross domestic product. It also accounted for 45 percent of the jobs in the state, 38 percent of employee compensation and 48 percent of state and local tax revenues. Sixty-one percent of New Mexicans age 50 and above are employed, compared to 72 percent for the 25 to 49 age group. Currently, 34 percent of the state's population is over 50 years of age, and that percentage is expected to grow to 40 percent by 2040.

Ms. Madrid-Davis discussed the National Institute on Retirement Security's recent State Financial Security Scorecards, which rank each of the 50 states in three sources of potential economic pressures for future retirees. The scorecards are measured by evaluating potential retirement income, major retiree costs and labor market conditions for older workers. In relation to other states, New Mexico scored worse than average for potential economic pressures facing future retirees. About 20 percent of the state's residents are currently receiving supplemental security income (SSI) from the Social Security Administration, with an average monthly distribution of $1,160. This is the only income received for about one-third of these recipients. More than 60 percent of the state's private sector workers do not have access to a retirement plan, and more than 50 percent of workers nearing retirement age are not covered by a plan. Sixty-eight percent of Hispanics in the state are not covered by a retirement plan. There is also a sizeable retirement savings gap when education, gender and income are analyzed.

Ms. Madrid-Davis discussed the contingent workforce, which is the workforce in which there is not a traditional employer-employee relationship. This workforce made up about 16 percent of the total workforce in 2015. These workers are more likely to be young, uneducated, low income, female or Hispanic and are more likely to work only part time or hold multiple jobs. They also tend to lack access to employer-sponsored retirement plans. They could contribute money to an individual retirement account (IRA), but most do not. There are potential solutions to the lack of retirement savings for the contingent workforce, including automatic IRAs, multiple employer plans (MEPs) and a new federally sponsored plan called MyRA. The state could also implement employer-facilitated retirement savings plans, making them portable and universal.

Ms. Antonelli discussed with the committee state initiatives undertaken across the country to close the retirement savings gap for private sector workers. States are beginning to take action because more than one-half of private sector workers nationwide do not have any retirement savings plans, and SSI benefits do not cover basic living expenses. There will be long-term negative economic and budgetary consequences for state governments if this situation is allowed to continue.

Momentum for private sector retirement savings is growing across the country, and the movement in general is bipartisan. Since 2012, more than 30 states have considered private sector retirement initiatives, and eight states have enacted legislation.

Early on, states needed clarification on how their efforts would be compatible with the requirements of the federal Employee Retirement Income Security Act of 1974 (ERISA). In 2015, the president directed the federal Department of Labor (DOL) to issue rules to provide a path for states to create retirement savings programs. Final rules were issued a year later establishing a new "safe harbor" for states to implement mandatory automatic enrollment in IRAs that would be exempt from ERISA requirements. The department also issued an interpretive bulletin clarifying that states can implement MEPs, a defined contribution 401(k) prototype plan for certain classes of employers and a state-run marketplace system in which companies can be vetted to offer retirement savings plans to employers. These programs would be covered by ERISA.

One type of public initiative for private sector retirement savings is an auto-IRA plan. Auto-IRA plans would require employers to offer employees a state-run IRA plan. The plans would automatically enroll employees unless they opted out and would provide a default contribution. The contributions would be pooled and managed by professional funds, with fees kept at or below one percent. A drawback to the auto-IRA plans is that, since these plans are exempt from ERISA, employer contributions to the IRA would not be permitted.

Another type of public initiative for private sector retirement savings is a marketplace plan. Marketplace plans would consist of a state-run marketplace that contains pre-selected commercial low-fee retirement savings plans for employers to choose from. Employer contributions could be encouraged, since this model falls within the scope of ERISA. A drawback to the marketplace plans is that the costs for establishing the marketplace would be mostly borne by the private sector.

Ms. Antonelli discussed key plan design considerations for states to ponder when implementing retirement savings plans, including:

—choosing between voluntary or mandatory participation by employers;
—defining the role and responsibilities of the state and of employers;
—determining the types of employers and workers covered by the program;
—determining the types of products to be offered;

—setting default, minimum and maximum contribution levels;
—whether to auto-enroll employees and to auto-escalate contribution levels;
—whether to use tax or other incentives to encourage participation in the program;
—providing for initial funding of the program;
—providing for program administration;
—providing for marketing, outreach and education;
—determining rules to regulate withdrawal from the program and for portability; and
—whether to provide for annuitization of retirement income.

Ms. Madrid-Davis discussed in detail the alternative public initiatives for retirement savings for private sector workers: the marketplace approach and the auto-IRA approach. The marketplace model provides more flexibility for employers to choose a plan that best fits their needs and allows for an "apples-to-apples" comparison of plans being offered. Only those plans that meet the criteria set by the agency overseeing the program would be offered in the marketplace. Drawbacks of the marketplace model include more up-front work required of the employer in choosing and implementing a retirement savings plan to offer to its employees. In addition, the employer could, in some circumstances, be required to act as a fiduciary for its employees' retirement account. Under the auto-IRA model, an employer could either choose a retirement savings plan for its employees and operate it on its own or use the state-run plan. That plan would automatically enroll employees at a default contribution rate, unless they opt out. While the marketplace model has been discussed by some opponents of the auto-IRA model as being less regulatory on businesses, Ms. Madrid-Davis said that the auto-IRA model creates a very simple process for employers to sign up and maintain. The marketplace model would still require employers to choose a plan, choose a provider, hire lawyers and third party administrators and potentially operate under ERISA and make contributions on behalf of employees. She said that the marketplace model does little to minimize the administrative burden on employers.

Questions and comments from committee members included the following.

- Since states have begun implementing auto-IRA or marketplace programs, how much has participation increased in retirement savings plans? Ms. Antonelli said that no state has yet implemented a program, but the first program is set to begin in 2017. She said that a California feasibility study of the auto-IRA plan showed that even if only 25 percent of the projected number of workers in the plan enrolled, the program would still be viable financially.

- How many auto-IRA states allow for employer contributions for the employees? Ms. Antonelli said that since auto-IRA plans are not part of ERISA, employer contributions are not allowed. However, all states that have enacted auto-IRA legislation allow for employers to participate in other ERISA-covered plans. Employers are required to have a retirement savings plan, whether auto-IRA or some other type of plan.

- How can states ensure that the self-employed workforce, which is expected soon to be one-third of the entire workforce, be covered by a retirement savings plan? Ms. Madrid-Davis said that contingent workers cannot be covered by an employer plan. There are many logistical and legal obstacles to ensuring that self-employed workers enroll in a plan. States are currently considering how to increase participation by that workforce segment.

- What protections for employees will be provided if a state enacts ERISA-exempt auto-IRA legislation? Ms. Antonelli said that the auto-IRA safe harbor rule requires that those programs be in the context of a state-run plan, which most likely would include similar protections that ERISA has.

- What steps should New Mexico take next to increase participation in private sector retirement plans? Ms. Antonelli said that the experience the state had in setting up educational savings plans could be helpful in setting up a system for retirement savings plans. The same arguments currently being made against a state plan for private sector retirement savings plans were also made against setting up educational savings plans two decades ago.

- Is the DOL considering allowing large cities and counties to adopt their own retirement savings programs? Ms. Antonelli said that the DOL will release its rule for local governments soon. However, she said that any state laws would be allowed to preempt local government plans.

- There is no guarantee that the second safe harbor created by the DOL for auto-IRA programs will withstand court challenges. In addition, start-up costs for these programs could be much higher than the $1.5 million to $2 million estimates provided to the committee. A fiscal impact report for the California auto-IRA program estimated start-up costs to reach as high as $134 million. Ms. Antonelli said that the lower estimate is the average cost to implement auto-IRA programs thus far, and that each program could recoup its start-up costs over time.

- Mandating auto-enrollment of workers in a retirement savings plan would be an unprecedented extension of government power in New Mexico; the marketplace approach is a much less intrusive program than the auto-IRA approach.

Approval of Minutes

The minutes from the August 29, 2016 meeting of the IPOC were approved by the committee.

Report on Private Sector Retirement Savings Marketplace Concepts

The committee heard a panel presentation about the benefits of the marketplace approach to retirement savings plans and the drawbacks of the auto-IRA approach. The panel included Leann Kravitz, senior director, public affairs, government relations and public policy, Fidelity Investments; Steven Trujillo, managing director, Northwestern Mutual; Jason A. Espinoza, president and chief executive officer, New Mexico Association of Commerce and Industry; and John Mangan, regional vice president, state relations, American Council of Life Insurers (ACLI). Ms. Kravitz said that there are already a multitude of low-cost retirement plans available for employers and employees, and the newly implemented federal MyRA program is a no-cost, no fees payroll deduction program that accomplishes most of what an auto-IRA program would do. State-run auto-IRA plans would be very costly to implement and administer, and would encourage employers to leave existing retirement plans in favor of the weaker state plans, according to Ms. Kravitz. The panelists prefer a public-private partnership approach to solving the problem of inadequate retirement savings in the private sector, such as marketplace programs.

Mr. Trujillo said that Northwestern Mutual agrees that there is a big retirement savings gap, but that accessibility to plans is not the main issue. There is plenty of outreach being done on a daily basis by his and other companies to potential clients. He suggested that any plan implemented should include a component that regulates distributions to retirees; otherwise, the state may find itself liable to private sector retirees who did not save enough money for their retirement.

Mr. Espinoza said that the regulatory environment for businesses, especially employer mandates, is a big problem in the state. Mandating employers to enroll employees in a retirement savings plan is a foolish idea, especially since there are many options that currently exist, and since the marketplace approach provides a simple, low-cost solution that does not further regulate businesses, according to Mr. Espinoza.

Questions and comments from committee members included the following.

- Have investment firms been active in other states that are considering retirement savings plans? Ms. Kravitz said that Fidelity Investments has been engaged with policymakers in every state that is considering plans. The company provides model legislation for the marketplace approach and also provides advice in implementing those programs. Mr. Mangan said that the ACLI supports the expansion of MEPs. Currently, there are legal barriers that restrict a MEP to businesses in the same industry. He commented that state-run plans operating outside of ERISA may be subject to new fiduciary requirements.

- The private sector is innovative, but state bureaucracies are not. A marketplace program that vets retirement savings plans for employers to choose is a very simple and cheap option.

- How would a marketplace program be paid for? Ms. Kravitz said that vendors could pay a fee to the state to offset educational outreach efforts. Mr. Mangan said that the ACLI is willing to pay for a portion of the cost of setting up a marketplace program.

- The state could create a marketplace program, in cooperation with the private sector, without any legislation being enacted.

Proposed Legislation from the Public Employees Retirement Association (PERA)

Karyn Lujan, deferred compensation plan manager, PERA, presented proposed legislation that would make changes to the deferred compensation plan offered by the PERA to public employees. Language changes mostly reflect the current practices of the PERA and are not substantive. In addition, the bill draft would allow for a public employee to sign up for the deferred compensation plan electronically, which will make the enrollment process much simpler.

Greg Trujillo, deputy director, PERA, presented another piece of proposed legislation that would change the payment and accounting process for payments made to the Educational Retirement Board (ERB) for retirees who have service credit from the PERA but are receiving pension benefits from the ERB. This contains mostly technical changes, will make accounting for these payments simpler and will reduce confusion currently encountered by retired members about the payments.

Proposed Legislation from the ERB

Jan Goodwin, executive director, ERB, presented two pieces of proposed legislation for the committee's consideration. The first bill draft makes many technical and clarification changes to ERB statutes; puts into statute current best practices for using a medical authority to establish disability status for members; and clarifies language regarding provisional members. No substantive changes are proposed in this bill draft, said Ms. Goodwin.

The second bill proposed by the ERB would exempt certain investment positions from the Personnel Act. The ERB manages some investments in-house, and the state personnel plan's restrictive salary structures for investment managers makes it impossible for the ERB to hire and retain the most qualified persons for those positions, according to Ms. Goodwin.

Questions and comments from committee members included the following.

- How much would passage of the salary exemption legislation cost? Ms. Goodwin said that the changes would increase the cost by $335,000.

- Why does the ERB need this exemption from the state personnel plan, and the PERA apparently does not need it? Ms. Goodwin said that the ERB manages some of its investments, at a cost savings to its members of millions of dollars annually. The PERA manages all of its investments externally.

- Ms. Goodwin was asked to provide the committee with supporting documentation for the personnel legislation, including a cost-benefit analysis.

- The ERB, PERA and State Investment Council are paying huge fees to out-of-state companies to manage their investments. It would be more prudent for those agencies to hire the most qualified people to manage some investments in-house.

Potential Legislation—Municipal Post-Employment Benefits Trust

Lou Hoffman, director, Finance and Administrative Services Department, City of Albuquerque, and Tom Horan, lobbyist, City of Albuquerque, presented proposed legislation for the committee's consideration about municipal post-employment benefits trusts. Mr. Horan said that Albuquerque has for many decades provided its employees with life insurance benefits during employment and after retirement. Recent accounting requirements imposed by the Governmental Accounting Standards Board (GASB) forced the city to set up a trust fund to pay for these post-employment benefits. The proposed legislation sets up parameters and investment options for a municipality to set up such a trust fund. Identical or very similar legislation has been endorsed by the IPOC in the past two years, but the legislation thus far has not been enacted into law. Mr. Hoffman said that the legislation will save the city $15 million in present value terms over the next several decades by allowing the fund to be invested in a wide variety of investment instruments, rather than the current, limited investment options provided by Section 6-10-10 NMSA 1978.

Questions and comments from committee members included the following.

- How much does the City of Albuquerque spend each year on its life insurance program for employees and retirees? Mr. Hoffman said that the city budgets between $3 million and $4 million annually for life insurance benefits.

Report from the New Mexico Retiree Health Care Authority (NMRHCA)

Mark Tyndall, executive director, NMRHCA, presented to the committee a report on the recent activities and status of the retiree health care program. The authority was created in 1990 and began paying full benefits to more than 16,000 retirees in 1991. It currently has approximately 100,000 active employees from more than 300 state, educational and local governments and nearly 61,000 covered retirees and eligible dependents. The Retiree Health Care Fund currently has $483.9 million in its long-term investment account. The authority's fiscal year (FY) 2017 operating budget calls for $309.9 million in health care expenditures and $3.1 million in operating expenses. Income sources were budgeted for the fiscal year, prior to the reductions made in the recent special session of the legislature, totaling $312.8 million. The authority offers several health care insurance programs, including Medicare supplemental plans, pre-Medicare plans, dental plans, vision plans and life insurance plans.

In 2012, the board of directors of the authority adopted a five-year strategic plan to ensure the solvency of the fund and program. It has been implementing the plan for the past four years, which has increased the solvency of the fund to 20 years, up from 2007's solvency projection of just seven years. However, the legislature has yet to enact the key component of the solvency plan — increasing employer and employee contributions. In 2017, the board of directors took several steps to further improve on the solvency of the program, including:

- elimination of the costly Premier Plus plan and moving those members enrolled to the Premier PPO plan;

- creation of the Value HMO plan;

- introduction of value-based incentives;

- adjustment of rates commensurate with new risk pools;

- beginning to default eligible members to the most appropriate Medicare Advantage plan;

- elimination of subsidies for over-the-counter drugs;

- elimination of multiple dependent subsidies; and

- implementation and enforcement of open enrollment periods.

The retiree health care program is currently 11 percent funded, with an unfunded liability of $3.8 billion. This unfunded liability was $4.2 billion prior to the board's solvency measures. During the recent special session, a $3 million distribution to the fund was repealed, and a separate increase in distributions to the fund was temporarily delayed. These changes reduced the solvency period for the fund by three to four years.

The GASB imposed accounting standards that the NMRHCA will begin complying with in FY 2017. GASB Statement 74: Financial Reporting for Postemployment Benefits Other Than Pension Plans imposes similar accounting requirements to standards that the PERA and ERB already are complying with regarding pension plans, and GASB 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions imposes reporting requirements on local governments to report their share of the unfunded liability from the retiree health care program. The new standards have just taken effect this fiscal year. The biggest impact on the reported unfunded liability of the program is that the NMRHCA will have to use a much lower discount rate in calculating its net pension liability (NPL).

Questions and comments from committee members included the following.

- Does the NMRHCA offer any "Cadillac" plans, which would be subject to a federal tax because they are too generous? Mr. Tyndall said that the recently discontinued Premier Plus plan would have been subject to that tax. He said that the board is committed to not offering any plans that would be subject to the tax. However, there is a problem with the way that Cadillac plans are calculated, because the cost of the plans is indexed to the regular consumer price index, and not to health care cost increases. Over time, many current plans currently not considered Cadillac plans may fall into that category.

● Do the recent premium price hikes being offered through health insurance exchanges have any impact on the retiree health care plans? Mr. Tyndall said that the NMRHCA is self-funded, and those premium increases have no impact on the program.

The committee recessed at 4:29 p.m.

<u>**Tuesday, November 1**</u>

The committee was reconvened on Tuesday, November 1, at 9:08 a.m. by Representative Youngblood.

Update on GASB Statement 67

Natalie Cordova, chief financial officer, PERA, made a presentation to the committee about PERA's reporting under GASB Statement 67, which provides for new standards for financial reporting on pension plans. The GASB changes were intended to promote consistency and transparency of employer reporting. Coupled with GASB Statement 68, which provides standards for governments to report their share of pension liabilities, the new standards will provide more transparency on government financial reports by reporting the long-term benefit obligations and the long-term financial health of governmental entities. GASB Statements 67 and 68 provide for the separation of accounting and funding and moves the NPL to the balance sheet of government employers, rather than a footnote. NPL is calculated by determining the total pension liability (TPL) and subtracting the pension plan's fiduciary net position. The calculation of TPL is a three-step process:

● the total future pension costs for current and former employees is calculated, based on the terms of the plan and on dozens of standardized actuarial assumptions, such as length of expected service, salary projections and life expectancy after retirement;

● projected benefit payments are discounted to their present value; and

● those present value projections are then attributed to the periods when they will be earned by retirees.

This calculation is separate from actuarial valuations used to make funding decisions, and is exclusively used for accounting purposes, to get an accurate picture of actual liabilities. The PERA's TPL for the previous fiscal year was $20 billion, and its net position was $13.8 billion. This results in an NPL of $6.2 billion, which figure is then used to calculate the unfunded liability for each government employer participating in the plan. Ms. Cordova noted that the market value of assets used in the calculation of NPL is different from, and more volatile than, the traditional method pension plans use to calculate their unfunded actuarial accrued liability (UAAL). UAAL is calculated using a four-year smoothing of asset values, while GASB 67 requires a calculation to be a snapshot in time. Fluctuations in the fair market value of a pension plan's assets can have great impacts on the plan's NPL from year to year.

Each year, the PERA calculates its NPL and then calculates each employer allocation of that NPL. These employer allocations are distributed to each government employer, along with information needed to assist employers in completing their balance sheets pursuant to GASB Statement 68 requirements. FY 2016 schedules are anticipated to be available in early 2017, which will be used to complete FY 2017 audits later that year.

Questions and comments from committee members included the following.

- Some governments in other states have gone bankrupt because their pension plans were severely underfunded. What would happen if the PERA funding level were to get to those levels? Ms. Cordova said that the PERA is continually monitoring its investments and funding status, and can react quickly if changes need to be made. Wayne Propst, executive director, PERA, said that in Detroit, pensions were reduced by an average of 18 percent after that city declared bankruptcy, and that this would be theoretically possible in New Mexico. However, the Constitution of New Mexico provides protections for retirees and employees covered by the PERA and the ERB. In 2013, the legislature enacted comprehensive reform of both plans to ensure the financial integrity of the pension plans and can make more changes if needed in the future.

- GASB Statement 68 will probably have more impacts on local governments because their financial statements will be affected by their share of NPL. In addition, local governments will be required to perform more accounting work to comply with the standards. Ms. Cordova estimated that local governments would see a five percent increase in accounting costs. The PERA has made it very easy for local governments to comply with the new standards.

- Does the reduction in the number of state and local employees have a negative impact on the PERA's NPL? Ms. Cordova said that fewer public employees means less money contributed to the fund, which over time could have an impact on the NPL.

Update on GASB Statement 68

Ms. Goodwin presented to the committee an update on how the ERB is assisting its government employers in complying with GASB Statement 68, which requires governmental entities to report their share of a pension plan's NPL on their individual balance sheets. One of the biggest worries about the new standards was that those liabilities would negatively affect credit ratings of governments, which in turn would increase bond issuance expenses. However, Ms. Goodwin reported that although some governments may show a negative balance in their audits, that is not necessarily a sign of financial distress. Much more important is cash flow, which is not affected by the new GASB standards. The rating agency Standard & Poor's Financial Services LLC reported in 2015 that it does not expect any significant credit differentiation based solely on the new reporting requirements.

Government employers began reporting under the new standard in FY 2016, using FY 2015 data. The GASB allows for the use of the previous year's pension financial statements in order to provide enough time for NPL to be calculated and for governmental audits to be filed timely. New information that government employers began reporting include:

- a description of the pension plan and the benefits provided;

- a listing of the significant assumptions used in the calculation of NPL and any changes made in those assumptions;

- each governmental employer's portion of the NPL and a report of that year's deferred outflows and inflows related to the pension;

- an analysis of the NPL's sensitivity to changes in the discount rate; and

- a 10-year supplementary report.

Ms. Goodwin said that the NPL and deferrals are cumulative balances on a governmental employer's balance sheet and represent a snapshot at a particular time. She pointed out, however, that the requirements do not create a new liability or obligation or change what government employers are required to contribute.

The ERB decided to provide its participating employers with all of the information needed to comply with GASB Statement 68. The ERB prepares a schedule of allocations for all employers, including journal entry elements and all required disclosures. Each participating employer's allocation of NPL is calculated by dividing each employer's contributions by the total amount contributed. This information reduces the work needed for employers in preparing their audits. The ERB continually provides outreach and training to its participating employers and auditors. The ERB has committed to be in compliance with the American Institute of Certified Public Accountants' best practices, which will ensure that a participating employer's auditor can rely on the ERB's schedule of allocations as being correct. However, employers still have the responsibility to correctly report census data to the ERB, as well as correctly reporting the information provided by the ERB.

The ERB reported a NPL for FY 2015 of $6.48 billion. Deferred outflows totaled $583 million, deferred inflows totaled $509 million and the pension plan expense for the year was $489 million.

Questions and comments from committee members included the following.

- How does the recent downgrade of the state's credit rating affect the ERB? Ms. Goodwin said that the main reason given for the rating change was the downturn in the state's revenues. The status of the state's pension plans was not mentioned.

- How does the ERB conduct training, especially for small, rural school districts? Ms. Goodwin said that ERB staff had a series of meetings across the state, with detailed training of how to comply with the new standard. Some trainings were also videotaped and are now available on the ERB's website.

- Why does a decrease in the discount rate significantly increase the NPL? Ms. Goodwin said that compounded interest has a profound impact on NPL, which is a long-term liability calculation. NPL is very sensitive to changes in the discount rate. This is why the ERB evaluates its expected return on investment every two years.

Public Pension Solvency: Actuarial Reports on Unfunded Liability; Market Value of Pension Obligations; Possible Measures to Safeguard the Solvency of Pension Plans

Mr. Propst and Ms. Goodwin presented to the committee their agencies' actuarial valuation reports. Mr. Propst began with the PERA report. He said that in July, the PERA adopted a new expected investment rate of return of 7.25 percent, down from the previous 7.75 percent. There was a modest increase in the overall solvency of the plan in the past fiscal year, from 74.9 percent to 75.3 percent. The UAAL increased by $108 million, primarily due to changes in assumptions. The current statutory rates are expected to fully amortize the UAAL in 56 years. The PERA fund performed poorly in the past fiscal year, returning only .49 percent, compared to the more than 17 percent return the previous year. On June 30, the PERA fund balance was approximately $14.1 billion. In FY 2016, benefit payments of $1.04 billion were paid to retirees.

Ms. Goodwin then presented the ERB's actuarial valuation for 2016. The actuarial funded ratio of the ERB improved from the previous fiscal year from 63.7 percent to 64.2 percent. The UAAL increased by approximately $100 million, totaling $6.6 billion. The funding period of the plan increased from 43 years to 45 years. The Educational Retirement Fund returned 2.8 percent in FY 2016. Active membership decreased 1.5 percent, to 60,057 members, but total payroll of members increased slightly, to $2.612 billion. The number of retirees increased four percent, to 45,797, with an annual average retirement benefit of $21,976. The fund's value increased slightly, with a balance on June 30 of $11.49 billion. The ERB distributed $1.022 billion in FY 2016.

Questions and comments from committee members included the following.

- Why was there a decrease in the number of active ERB members? Ms. Goodwin said that the decrease was partially due to retirements and a change in jobs, but part of the decrease can be attributed to a decline in hiring.

- Why has the ERB kept its discount rate at 7.75 percent, when it has not performed at that level for many years? Ms. Goodwin said that the ERB is beginning a new experience study, which will include a thorough review of the expected rate of return on investment. The ERB lowered its discount rate from eight percent to the current rate a few years ago.

- When will the ERB and the PERA pension plans be fully funded? Ms. Goodwin said that the ERB plan is projected to be fully funded in 2061. Mr. Propst said that the PERA public employee plan is expected to be fully amortized in 2069.

Improving Transparency in the Financial Reports Sent to Members

Mr. Propst and Ms. Goodwin discussed with the committee what the ERB and PERA have been doing and plan on doing to improve the transparency of the agencies' activities. Mr. Propst said that the PERA provides a tremendous amount of information to the legislature and other entities, but has not provided very much financial information to its members. He distributed copies of the Colorado PERA's *2015 Summary Annual Financial Report*, which provides a summary of the agency's performance and activities for the past year. Mr. Propst said that the New Mexico PERA is in the process of preparing a similar report for its members, which should be completed by the end of 2016.

Ms. Goodwin discussed the ERB's transparency policy, which the board adopted in June 2016 to formalize practices already occurring. The ERB makes available on its website many detailed reports, including annual actuarial and financial reports; asset allocation and asset liability reviews; board and committee meeting announcements, agendas and minutes; board governance policies; funding policies; investment performance reports; investment policies; and member information. The ERB has endorsed the Institutional Limited Partners Association fee template disclosure, which provides a best-practices approach to disclosing investment fees.

Ms. Goodwin discussed the ERB's publication of its annual *Popular Annual Financial Report* (PAFR), which provides a brief summary of the financial performance and activities of the ERB for the previous year. The ERB has published a PAFR since 2013, and sends it to all active members and retirees. The PAFR contains information on investment performance; actuarial metrics, including the UAAL, funded ratio and funding period; the fiduciary net position over time; demographic information; asset allocations; board member information; retirement benefits by county; and contribution rates.

Questions and comments from committee members included the following.

- Why does the ERB's PAFR include investment returns gross of fees? Ms. Goodwin said that the upcoming PAFR will report those returns net of fees.

Adjournment

There being no further business, the committee adjourned at 11:47 a.m.