MINUTES
of the
FIRST MEETING
of the
RETIREMENT SYSTEMS SOLVENCY TASK FORCE

June 8, 2010
Room 307, State Capitol
Santa Fe

The first meeting of the retirement systems solvency task force was called to order by Representative Mimi Stewart, co-chair, on June 8, 2010 at 10:10 a.m.

Present	**Absent**
Mr. Tito Chavez, Co-Chair	Mr. Diego Arencon
Rep. Mimi Stewart, Co-Chair	Mr. Oscar Arevalo
Mr. Bill Fulginiti	Mr. Charles Bowyer
Mr. Eduardo Holguin (for Charles Bowyer)	Sen. Pete Campos
Ms. Emily Kane	Ms. Jan Goodwin
Ms. Michelle Lewis	Sen. Phil A. Griego
Ms. Alexis Lotero	Rep. John A. Heaton
Sen. Steven P. Neville	Mr. David Heshley
Mr. Andrew Padilla	Mr. Bruce Malott
Mr. Jeff Riggs (for Jan Goodwin)	Mr. Wayne Propst
Mr. Terry Slattery	Mr. Ronald Sanchez
Sen. John Arthur Smith	Ms. Christine Trujillo
Mr. Jeff Varela	
Rep. Luciano "Lucky" Varela	

Staff
Raúl E. Burciaga, Director-Designate, Legislative Council Service (LCS)
Tom Pollard, LCS
Doris Faust, LCS
Claudia Armijo, LCS

Guests
The guest list is located in the meeting file.

Tuesday, June 8
Co-chair Stewart noted that a quorum of members would constitute 13, and there were 10 members present, so she advised that the meeting would begin as a subcommittee. She reminded those in attendance that only members could vote. Next, the co-chair asked the members to introduce themselves, which they did.

Co-chair Stewart asked Mr. Burciaga to address the task force. Mr. Burciaga advised the members about the mandate of the New Mexico legislative council that, as a cost-savings measure, all interim committee meetings are to be held in Santa Fe, unless justified in writing as necessary to be held in another location. He added that meetings should be scheduled in a manner so as to reduce conflicts for voting members. Mr. Burciaga apprised the members of the work of the government restructuring task force and asked the members, on behalf of the legislative council, to look closely at the agencies they oversee for ways to save money through efficiency and other cost-cutting measures. Mr. Burciaga advised the members that the retirement systems solvency task force will hold eight meetings, plus the organizational meeting. He then reviewed with the members the proposed schedule. The co-chair noted that the November meeting may be changed to another date to accommodate one of the members. It was determined that, if the meeting becomes necessary, the November meeting would be changed to November 3, 2010.

Mr. Burciaga asked the members to review the work plan from last year and pointed out that it could be revised if necessary. Lastly, Mr. Burciaga told the members that he is honored by his appointment and is looking forward to working with them in his new capacity as LCS director. He added that he and his staff of dedicated professionals would continue to serve the legislature as needed.

Mr. Burciaga next directed the members' attention to the handout regarding the summary of recent legislation pertinent to the work of the task force. He highlighted a number of the legislative initiatives that were enacted and noted the changes that resulted as a consequence of their enactment. Notably, he mentioned HB 854, which provides for the swap of 1.5% of retirement contribution from employers to the employees, saving the general fund $42 million in fiscal year 2010. This provision applies to both the public employees retirement association (PERA) and the educational retirement board (ERB), and is effective July 1, 2009 through June 30, 2011. He also noted Senate Floor Substitute for Senate Public Affairs Committee Substitute for Senate Bill 207, which is the "double dipping bill" that eliminates the ability of a public employee to retire and then be subsequently employed by an affiliated public employer while receiving a Public Employees Retirement Act pension. This law becomes effective July 1, 2010.

Mr. Burciaga pointed out that the task force considered a number of options last year, citing a roundtable discussion about what might be done as it relates to reviewing the soundness and solvency of New Mexico's pension funds. Staff was asked to have an actuarial firm look at some of the possible changes and potential outcomes. Staff began this process and was planning to develop the terms for a request for proposals (RFP). However, because the PERA was in the process of issuing an RFP for a similar review, this task force's RFP has been delayed and has yet to be issued. According to Mr. Burciaga, the LCS staff now needs direction from task force members as to what they would specifically like the actuarial firm to provide. Mr. Burciaga continued by suggesting that the task force could consider having an actuarial firm start from scratch and develop and issue a report. Or, the task force could have a third party review, audit or compare reports that have already been completed or are going to be completed to determine their validity. He noted that the latter option could be a money-saving option and clearly something for the task force to determine. Mr. Burciaga reminded the members that $150,000 of fiscal year 2011 funds have been approved by the legislative council for an actuarial analysis for this project. With that, Mr. Burciaga asked the co-chair if she would like to begin discussion.

The co-chair asked Mr. Slattery, PERA's executive director, if he could explain the purpose and scope of the PERA RFP. He said it was the normal four-year RFP. He added that the PERA is using a new firm for the first time, and he does not expect that the PERA will receive anything from the firm until October. The PERA board is in the process of developing an ideal plan for what the actuarial firm will look at. Mr. Slattery said that when the plan is developed, the PERA board could present it to this task force. He noted that the plan would possibly be another option that could be used by the task force. Mr. Slattery said the costs and contribution rates will be reviewed as early as August and might be available to be presented to this task force by late August.

Mr. Riggs, deputy director for the ERB, said that there is an annual study completed at the ERB, and he is certain that the task force could use the results of that study if it would be helpful.

There was a general discussion throughout the meeting regarding the members' overall concern about the solvency of the retirement funds and whether, considering the current liabilities and the current employees, the state's retirement funds are and will remain solvent throughout the necessary time frame. The discussion turned to the concepts of increasing employee contributions, and it was noted by Mr. Slattery that the PERA board's funding policy limits any increase in contributions to no more than 2% in any one year. Mr. Slattery reminded the members that the PERA will have a substantial amount of actuarial information available from the actuary firm in October 2010. Mr. Riggs said that he anticipates similar information for the ERB in December 2010.

The task force co-chair and members discussed their options at length. Of concern was what would be the best use of the funds set aside by the legislative council. The members were concerned that they not duplicate efforts performed by other agencies or groups and that they not "reinvent the wheel". There was a discussion involving whether the ERB and PERA studies will answer the questions the task force needs to answer in order to make critical decisions or to consider statutory changes or recommendations.

The members questioned Mr. Slattery and Mr. Riggs regarding their agencies' studies from previous years and what types of information they had received from those studies in the past. Mr. Riggs indicated that most of the annual studies provide information from which the agencies can then ask the actuaries to run certain "what if" scenarios using certain assumptions based on the information from the annual reports. He added that the actuaries can then make projections using the data and project out to 30 years.

A number of members asked if the annual reports would take into consideration changes made in statute, such as the increased contribution levels for newly hired state employees. Both Mr. Slattery and Mr. Riggs said not yet, as this will be the first year for the statutory changes to go into effect. Mr. Riggs said that they will look at the rule of 80 and other changes for the ERB if they can come up with a best guess scenario.

Again, the discussion returned to whether to review other actuarial reports of the PERA and ERB or to hire an actuarial firm for the task force or to hire a firm to review the reports generated by the two boards. The timing of the reviews and the outcomes was of prime consideration for the task force members. An additional consideration was the inability of the task force to mandate the specifications of the reviews. The co-chair pointed out that the task force needs to look at some very specific items of significance. There was discussion about the fact that there are fewer employees entering the state system than had been projected and how that could impact the system as a whole. Mr. Riggs offered that, if it would be helpful, the ERB board could ask its actuary firm to expand the information from the ERB annual report to take into account additional possibilities as might be requested by the task force.

The co-chair redirected the discussion to determine what the task force should focus on with the funds that have been set aside for the study. She specifically asked the members to determine what kind of study should be done. A suggestion was made to review the PERA four-year study and then use the rest of the money to dig deeper into the ERB study. There was discussion about what types of legislation should be considered regarding the liability side of the issues. Mr. Slattery noted that the PERA will not know the extent of the liability side until it receives the October report. Mr. Riggs said the ERB will look at a number of data points to analyze the assumptions used from last year to see if they are relevant for this year as well.

Again, members discussed the potential impact of increased employee contributions under HB 573 and the consequences it may have. They decided that it is critical to look at how the legislation will change projections, particularly to determine if it will save money in the long run and lead to solvency. Mr. Slattery noted that, like the ERB, the information regarding the new legislation is not valued in the upcoming PERA report. He said that the PERA has not projected the savings out. It will be part of the overall PERA evaluation, but it will not be separated out.

The co-chair asked if the members were leaning toward hiring out for another actuary study, even if it included looking at the ERB and PERA studies. There was also discussion of creating an "ideal plan" starting from nothing and determining what an ideal system might look like. Mr. Slattery offered that the PERA board plan is sound and that, perhaps, the task force would want to have it reviewed by the task force's actuary. There was a lot of discussion about how to approach the duties of the task force, especially due to the time constraints.

The members talked about the task force issuing an RFP and how it would be written; what services it would seek to assist the task force in looking at both the PERA and the ERB reports; what current laws and provisions it would look at; what various scenarios would cost; and how it would help the task force to develop a plan for moving forward. There was discussion about the task force coming up with actual proposals for the actuary to estimate costs based on the member data and the contribution rate.

The co-chair summarized the options of the task force, including reviewing the two plans (PERA and ERB), having the actuary review and analyze task force specific proposals, such as changes in vesting periods or, perhaps, having an actuary provide the projections on a handful of very specific issues. She noted that the items are interrelated.

David Abbey, director of the legislative finance committee, addressed the committee from the audience and said that changes can be made for nonvested employees and even for vested employees. In his opinion, the statutory changes last year helped for the long term but did not deal with the unfunded actuarial costs. He claimed that the demographic trends are getting worse because state employment is down 6% and the actuarial studies assume growth. He told the members that they need an expert to advise them on dealing with financial situations and to review their studies and options.

It was observed that an actuary firm could be hired to compare New Mexico to other states, to give advice that could help the task force members answer specific questions and to come up with other suggestions. Some thought that perhaps a more dynamic approach to look at the issues would be helpful.

With a quorum, a motion was made to approach the duties of the task force in the following manner: to initiate an RFP for an advisor or consultant to perform an independent verification and evaluation on the studies from the PERA and ERB plans and any other performance reviews that the task force assigns the advisor or consultant to review, including the impact of HB 573. The motion was seconded and then unanimously passed.

The co-chair clarified for staff that the RFP will need to contain information regarding HB 573, COLA and public safety. She further noted that staff will help determine the details for the RFP. The motion was amended for the task force to issue an RFP for an advisor to assist the task force with the items in the original motion. The motion to accept the work plan and meeting schedule dates was approved by the members.

There was no other business, so the meeting was adjourned at 11:59 a.m.