

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

November 12, 2009
State Capitol, Room 307
Santa Fe

The fourth meeting of the Retirement Systems Solvency Task Force was called to order by Representative Mimi Stewart, co-chair, on November 12, 2009 at 10:15 a.m. in Room 307, State Capitol.

Present

Tito Chavez, co-chair
Rep. Mimi Stewart, co-chair
Oscar Arevalo
Charles Bowyer
Jan Goodwin
Emily Kane
Michelle Lewis
Alexis Lotero
Bruce Malott
Sen. Steven P. Neville
Andrew Padilla
Wayne Propst
Terry Slattery
Sen. John Arthur Smith
Jeff Varela
Rep. Luciano "Lucky" Varela

Absent

Sen. Pete Campos
Sen. Phil A. Griego
Rep. John A. Heaton
David Heshley
Ronald Sanchez
Christine Trujillo

Staff

Raúl E. Burciaga
Peter Kovnat
Tom Pollard

Guests

The guest list is in the meeting file.

Handouts

Copies of all handouts and written testimony are in the meeting file.

Approval of Minutes

Upon a motion by Ms. Goodwin and a second by Representative Varela, the minutes for the August 10-11, 2009 and September 8, 2009 meetings were unanimously approved.

Public Employees Retirement Association (PERA) — Status of Actuarial Studies and Initiatives

—Mr. Slattery, Executive Director, PERA

—Ken Alberts, Gabriel, Roeder, Smith & Company (GRS — actuarial firm for PERA)

Mr. Slattery and Mr. Alberts discussed the most recent actuarial study conducted by GRS. The PERA has five major funds. Since the downturn, PERA members' assets went down but now have recovered somewhat. The fund dipped to a low of \$7.6 million in March 2009 but is currently at \$10.5 million. The PERA's current valuation is fairly strong at 84.21%. Current contributions are sufficient to amortize over 111 years, which is not a great result but not a terrible one, either, according to Mr. Slattery and Mr. Alberts. A recommendation will be made for a 2% increase in contributions to the fund. In 1997, there was a similar correction made and it was split evenly, 1% each between employer and employee.

Mr. Alberts indicated that GRS is not concerned about the PERA's status, although some minor adjustments may still be needed. GRS is concerned, however, about the judicial and magistrate funds, currently at 60% and 66%, respectively. The contributions to the fund are not sufficient, the assets are not sufficient to cover liabilities and both have negative cash flows. Part of this problem stems from contributions not being a percentage of payroll but based on docket fees. The recommendation is to replace the docket fee registration with payroll contributions. Mr. Alberts indicated that this is something that needs action sooner rather than later; either better investments or increased contributions are necessary to resolve the problem. Mr. Arevalo stated that he would obtain all of the funding information for the two funds and provide it to the task force.

Discussion ensued regarding the Volunteer Firefighters Retirement Fund. Like the judicial and magistrate funds, the Volunteer Firefighters Retirement Fund is small, but it is not problematic. In fact, it is overfunded and not payroll-related. Instead, it is funded by the Fire Protection Fund.

Mr. Slattery and Mr. Alberts indicated that GRS and the PERA would be looking at options for the PERA, under Phase I, by looking at other states like Utah, Wyoming, New Hampshire, Hawaii, Idaho and others. Phase II will be to look at the structure of each plan and compare replacement income and retirement outlays. Phase III will look at the entire PERA system and create an ideal plan that will produce an adequate benefit for a reasonable cost. The ideal plan, however, will not be available until after the upcoming session.

The task force generally discussed the various employer and employee contributions under the PERA and how they had to be examined to ensure consistency, fairness and, above all, sufficiency for sustainability.

Educational Retirement Board (ERB) — Status of Actuarial Studies and Initiatives

—Ms. Goodwin, Executive Director, ERB

Ms. Goodwin indicated that the ERB stacked up favorably to other states in terms of having a sustainable education retirement benefit. She indicated that in 2005, the legislature expanded the allowable investments and the fund is much more stable than if it were a 70-30 or 60-40 stock fund. The ERB has invested in hedge funds, real estate and other areas that have helped much more than if there had been more exposure on the stock market. The ERB is

planning a design meeting on December 4, 2009 with the board, the actuary (also GRS) and a pension attorney.

The task force discussed return-to-work issues relating to both the ERB and the PERA, including review of independent contractors by the PERA to ensure compliance with recent changes in the law.

Mr. Arevalo provided and discussed a handout regarding magistrate and metropolitan court filing fees. Mr. Arevalo emphasized the fact that the docket fees had not increased over time and, because they were not tied into payroll, contributed to the underfunding of the respective funds.

Retiree Health Care Authority (RHCA) — Status of Actuarial Studies and Initiatives
—Mr. Propst, Executive Director, RHCA

Mr. Propst indicated that not a lot had changed since the last time the task force met. He indicated that the RHCA does two studies every year. First is a solvency study in May or June of each year. It also conducts an evaluation under Statement No. 43 of the Governmental Accounting Standards Board that should be ready for distribution in November or December. The last report indicated that the shortfall had been reduced from \$4.1 billion to \$2.9 billion. He noted that the decrease was good, but that the shortfall was still substantial.

Since the last meeting, the RHCA had a switch enrollment, which made changes to both Medicare and non-Medicare. On the non-Medicare side, the RHCA went from two to three plans, and those included different premium costs. The RHCA is operating with a small surplus for the second year in a row. The RHCA combined what were the gold and silver plans to what is now known as the premiere plan.

The RHCA board has asked staff to consider assumptions as to long-term solvency projections to see if they would still hold true if the assumptions changed. Staff has the ability to review various in-house scenarios. It has assumed zero payroll growth through 2011, and also considered -1% payroll and -2% payroll contributions. Obviously, any negative payroll growth has significant impacts on the RHCA budget and fund.

Thanks to the legislature, there was an increase. However, if there was -1% or a delay in the employee contributions, the solvency would be diminished by four years; a -2% would reduce solvency by seven years. If payroll were reduced more than that, the solvency through 2028 would drop precipitously.

When asked about a health saving account, Mr. Propst indicated that at some point the RHCA could price itself out of the market. Healthy people would be able to find a better deal on the private market. If the RHCA lost the healthy members and only had sick members, it would make the situation worse.

Next Steps — Recommendations
—Task Force Staff

Senator Smith requested a presentation for next year on what is happening at the federal level and on bond rating, actuarial and any other information that will help the task force and the

legislature know how to move in the next three years.

Representative Stewart asked members if the task force would meet in December; it will not.

There being no further business, the task force adjourned at 2:45 p.m.