

EDUCATIONAL RETIREMENT BOARD OF NEW MEXICO
ACTUARIAL VALUATION REPORT
FOR THE YEAR ENDING JUNE 30, 2007

December 7, 2007

Board of Trustees
Educational Retirement Board of New Mexico
P.O. Box 26129
Santa Fe, NM 87502-0129

Dear Members of the Board:

Subject: Actuarial Valuation as of June 30, 2007

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Educational Retirement Board of New Mexico (ERB) as of June 30, 2007.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion the results presented also comply with the relevant statutes, and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Both are Enrolled Actuaries and Members of the American Academy of Actuaries, and both are experienced in performing valuations for large public retirement systems. Both meet the Qualification Standards of the American Academy of Actuaries.

To the best of our knowledge, this report is based on benefit provisions in effect as of June 30, 2007, audited financial information prepared as of that date, member data gathered as of that date, and actuarial assumptions and methods previously adopted by the Board.

Actuarial Valuation

The primary purposes of the valuation report are to determine the adequacy of the current employer contribution rate, to describe the current financial condition of ERB, and to analyze changes in ERB's condition. In addition, the report provides information required by ERB in connection with Governmental Accounting Standards Board Statement No. 25 (GASB 25), and it provides various summaries of the data.

Valuations are prepared annually, as of June 30 of each year, the last day of ERB's plan and fiscal year.

Financing Objectives

The member and employer contribution rates are established by statute. In 2005, the enactment of SB 181 increased the employer contribution rate by 75 basis points (0.75%) each year through FY 2012, and it increased member contribution rates by 7.50 basis points (0.075%) each year through FY 2009. As of July 1, 2007, the current employer contribution rate is 10.90% and the current member contribution rate is 7.825%. The member rate will reach its ultimate level of 7.90% in FY 2009, and the employer rate will reach its ultimate level of 13.90% in FY 2012. In addition, certain higher education employers make an additional contribution equal to 3.00% of the total pay for their employees who elected to join the Alternative Retirement Program rather than ERB.

These rates are intended to be sufficient to pay ERB's normal cost and to amortize ERB's unfunded actuarial accrued liability (UAAL) in payments which are level as a percentage of payroll. Except for short-term fluctuations, the amortization period should not exceed the maximum 30-year period currently allowed under GASB No.25. (The amortization period, also referred to as the funding period, is the number of years expected to be required to completely amortize the UAAL, assuming that ERB's experience exactly follows the actuarial assumptions.) This funding policy is set by the Board of Trustees, and is considered reasonable by the actuary.

Progress Toward Realization of Financing Objectives

As of June 30, 2007, ERB has an infinite funding period. Therefore, if the employer contribution rate (10.90% as of July 1, 2007) and member contribution rate (7.825% as of July 1, 2007) were to remain in place, and all actuarial assumptions were exactly realized, including an 8.00% investment return on the actuarial value of assets, then the UAAL would never achieve complete amortization. The contribution that would be required in order to amortize the UAAL over 30 years is 13.84%. (Last year the rate was 14.51%.) Thirty years is the maximum funding period under GASB 25. As mentioned above, under current law, the employer and member rates will increase to 13.90% and 7.90%, respectively. However, GASB 25 does not permit the consideration of contribution rates not yet in effect, so an infinite funding period must be reported.

Our projections indicate that these increased contributions will result in the unfunded liability being fully amortized within about 19 years. (This projection reflects an assumption that active membership growth will average 1.50% per year. GASB 25 prohibits reflecting anticipated membership growth in the financial reports or required supplemental schedules.)

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from last year. The funded ratio at June 30, 2006 was 68.3%, while it is now 70.5%. Five years ago the ratio stood at 86.8%, and ten years ago the ratio was 77.1%. However, if the ratio were calculated using the market value rather than the actuarial value of assets, it would be 77.6% as of June 30, 2007, up from 71.9% as of June 30, 2006. During the last fiscal year, the UAAL decreased from \$3,622.4 million to \$3,598.7 million.

Future Expected Changes

All of the standard actuarial measurements, including the funded ratio and the funding period, are functions of the actuarial value of assets. The actuarial value of assets recognizes investment gains and losses—the positive or negative differences between the actual net investment return on market value and the expected 8.00% investment return—over a period of five years, at the rate of 20% per year. Therefore, 20% of the gain from FY 2004, 40% of the gain from FY 2005, 60% of the gain from FY 2006, and 80% of the gain in FY 2007 are not yet reflected in the actuarial measurements.

Because of the known asset gains which will be phased in over the next five years, we project that the funded ratio will increase next year, and that by the time the employer contribution reaches 13.90%, in FY 2012, the plans contributions will be larger than required under GASB 25. This could possibly occur even sooner, perhaps by FY 2010 or FY 2011.

Benefit Provisions

The actuarial valuation reflects the benefit and contribution provisions set forth in the relevant New Mexico statutes. There were no material benefit changes made to these provisions since the previous actuarial valuation. The increases to the contribution rates which are still being phased in are described above. There are no ancillary benefits (such as cost-of-living increases to retirees) funded by a source independent of ERB.

Assumptions and Methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. The last review of these assumptions occurred following the 2006 actuarial valuation, and the Board adopted our recommendation to leave the current set of assumptions unchanged.

We believe the recommended assumptions are internally consistent and are reasonably based on the actual experience of ERB. The actuarial assumptions and methods used in this report comply with the parameters for disclosure that appear in GASB 25.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods.

Member and Financial Data

Member data for retired, active, and inactive participants was supplied as of June 30, 2007, by the ERB staff. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was also supplied by the ERB staff.

We would like to thank the ERB staff for their assistance with this project.

Sincerely,

Handwritten signature of J. Christian Conradi in cursive script.

J. Christian Conradi, ASA, MAAA, EA
Senior Consultant

Handwritten signature of Leslie L. Thompson in cursive script.

Leslie L. Thompson, FSA, MAAA, EA
Senior Consultant

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Executive Summary

Valuation Date:	06/30/2007	06/30/2006
Fiscal Year Ending:	06/30/2008	06/30/2007
Membership <ul style="list-style-type: none"> • Number of <ul style="list-style-type: none"> - Active members - Retirees and beneficiaries - Inactive, vested - Inactive, nonvested - Total • Payroll 	62,687 29,969 8,298 <u>21,644</u> 122,598 \$ 2,341.1 million	61,829 28,539 8,369 <u>21,581</u> 120,318 \$ 2,219.4 million
Statutory contribution rates <ul style="list-style-type: none"> • Employer • Member 	10.90% 7.825%	10.15% 7.750%
Assets <ul style="list-style-type: none"> • Market value • Actuarial value • Return on market value • Return on actuarial value • Employer contributions • External cash flow % • Ratio of actuarial to market value 	\$ 9,455.8 million \$ 8,591.4 million 16.7% 11.6% \$ 255.9 million -1.3% 90.9%	\$ 8,219.3 million \$ 7,813.9 million 12.0% 6.4% \$ 226.5 million -1.4% 95.1%
Actuarial Information <ul style="list-style-type: none"> • Normal cost % • Unfunded actuarial accrued liability (UAAL) • Funded ratio • Funding period (years) • GASB Annual Required Contribution 	13.56% \$ 3,598.7 million 70.5% Infinite 13.84%	13.56% \$ 3,622.4 million 68.3% Infinite 14.51%
Gains/(losses) <ul style="list-style-type: none"> • Asset experience • Liability experience • Benefit changes • Assumption/method changes • Total 	\$ 275.3 million (91.8) million N/A - <u>\$ 183.5 million</u>	\$ (121.8) million (205.3) million N/A - <u>\$ (327.1) million</u>

Introduction

Table 1 shows the most significant actuarial results. Table 2 analyzes changes in the UAAL. Tables 3 and 4 show more detailed actuarial information. Tables 5a and 5b develop the GASB 25 Annual Required Contribution for the last fiscal year, and Tables 6a-6c show required GASB 25 disclosure information. Tables 7a, 7b, 15, 16 and 17 show statistical information about the membership, and Tables 8a-11b, and Table 13 show information about plan assets. Tables 12a and 12b show the calculation of the actuarial gains and losses. Table 14 shows the solvency test, used by some funds in their annual report. Finally, Appendix 1 is a summary of the benefit and contribution provisions of ERB, Appendix 2 is a summary of the actuarial methods and assumptions, and Appendix 3 is a Glossary.

Actuarial Information

The determination of the unfunded actuarial accrued liability (UAAL) and the funding period involves the following steps:

- The actuarial present value of future benefits is determined for the present members, including retired members, beneficiaries, inactive members and active members. This amounts to \$14,582.6 million, as shown on Table 3.
- The entry age normal funding method is used to allocate the actuarial present value of future benefits between the portion due for the current year (the normal cost), prior years (the actuarial accrued liability) and future years. The actuarial accrued liability is \$12,190.1 million, as shown in line 6d on Table 1.
- Under the entry age normal cost method the current and future normal costs are determined as a level percentage of payroll. Table 4 shows an analysis of the normal cost rate. The amount needed to fund the current and future normal costs is 13.56% of payroll inclusive of member contributions. This is the total (member plus employer) contribution rate needed to pay for the average new member.
- Part of the normal cost is paid by the employee contributions of 7.825%, leaving 5.735% to be funded by the employers. I.e., the current year's employer normal cost is 5.735% of payroll. This is shown in Line 3 of Table 1.

- The unfunded actuarial accrued liability (UAAL) is determined by subtracting the actuarial value of assets from the actuarial accrued liability. (The actuarial value of assets is a smoothed market value, as discussed in more detail below.) The UAAL is \$3,598.7 million, as shown in line 8 on Table 1.
- Since the statutory employer contribution rate is 10.90%, and the employer normal cost rate is 5.735%, the difference of 5.165% is used to amortize the UAAL. The 3% contribution made on behalf of ARP members is also used to amortize the UAAL.
- Finally, the funding period is the anticipated period needed to reduce the UAAL to zero, assuming that plan experience exactly follows the assumptions, that no benefit changes are made, that payroll grows at 3.75% per year, and that the contributions are made as required. As shown in line 10 on Table 1, the current employer rate is not sufficient to amortize the UAAL over any period.

Analysis of Changes

Table 2 shows an analysis of the changes in the UAAL. Since the UAAL is an actuarial present value, with future anticipated benefits discounted using an 8.00% interest rate, the UAAL increases each year by the imputed interest rate, less employer contributions made to amortize the UAAL. (Keep in mind that part of the employer contribution is used to pay the normal cost, so only part of each year's contribution is available to amortize the UAAL.)

As shown on Table 2, the UAAL increased by \$289.8 million for imputed interest and decreased by \$130.0 million because of payments made. This means that the UAAL was expected to increase \$159.8 million before recognizing plan experience. The UAAL as of June 30, 2006 was \$3,622.4 million, and the expected UAAL at June 30, 2007, recognizing actual contributions made, was \$3,782.2 million.

The plan experienced a liability loss of \$91.8 million. This loss represents 0.8% of the total actuarial accrued liability.

However, we had previously anticipated that the plan would experience an actuarial gain on investments, because under the smoothing method used to determine the actuarial value of assets, we knew there were still substantial deferred gains from FY 2004, FY 2005 and FY 2006.

As expected the plan experienced an actuarial gain on investments of \$275.3 million. The investment gain resulted from the fact that the return on the actuarial value of assets, 11.6%, was

greater than the 8.00% assumed investment return rate. This gain was the result of recognizing an additional 20% of the gains from FY 2004, FY 2005, FY 2006 and FY 2007 and the remaining 20% of the loss from FY 2003. The market rate of return in FY 2007 was 16.7%.

There were no material benefit changes adopted since the last actuarial valuation, nor were any changes made to the actuarial assumptions or methods.

As a result of all the experience, the UAAL decreased from \$3,622.4 million to \$3,598.7 million, and the funding period remained infinite.

GASB 25 Disclosure

Governmental Accounting Standards Board Statement No. 25 (GASB 25) is the relevant accounting standard for governmental retirement systems like ERB.

Tables 5a and 5b show the calculation of the Annual Required Contribution (ARC) as computed under GASB 25, and they show what percent of this amount was actually received. For ERB, the ARC is defined to be the actual contributions required by statute, as long as this is not less than the minimum allowed under GASB 25. The GASB 25 minimum is equal to the employer normal cost, plus a 30-year amortization of the UAAL.

Tables 6a, 6b, and 6c show information required to be reported under GASB 25. Table 6a shows a history of funding progress--a comparison of the actuarial value of assets with the actuarial accrued liability and a comparison of the UAAL with covered payroll. This table shows steady progress over the years from 1992 to 2001, with the best funded ratio in 2001, 91.9%, then it decreased to 86.8% as of 2002, 81.1% as of 2003, 75.4% as of 2004, 70.4% as of 2005, and 68.3% as of 2006. These decreases were principally the result of investment experience in the 2001 – 2003 fiscal years, which were being phased into the actuarial value of assets. The ratio increased to 70.5% as of 2007 and is expected to continue to increase in the next few years as the investment gains from the 2004 – 2007 fiscal years continue to be phased in.

Table 6b shows a ten-year comparison of (a) the employer contributions actually received, with (b) the GASB 25 ARC. Note that this shows that 70.3% of the ARC was contributed during FY 2007, since the 10.15% employer contribution rate is less than the 30-year contribution calculated in last year's valuation (14.51%). For FY 2008, the financial reports prepared for ERB will show that only approximately 79% of the ARC was contributed. This is because the 10.90% statutory rate is less than the calculated 30-year contribution rate of 13.84%.

Table 6c shows other information which must be included in the notes section of the financial report. The auditor's notes should also disclose the following items that may affect the comparability of the trend information shown in Tables 6a and 6b:

- Actuarial assumptions were changed at June 30, 1998, June 30, 2001, June 30, 2003 and June 30, 2005.

Benefit Provisions

Appendix 1 summarizes the provisions of ERB. These have not been materially changed since the previous valuation.

This valuation reflects benefits promised to members by statute. There are no ancillary benefits - retirement type benefits not required by statutes but which might be deemed an ERB liability if continued beyond the availability of funding by the current funding source.

Actuarial Assumptions and Methods

In determining costs and liabilities, actuaries use assumptions about the future, such as rates of salary increase, probabilities of retirement, termination, death and disability, and an investment return assumption. ERB's Board adopts the assumptions used, taking into account the actuary's recommendations. The last review of these assumptions occurred following the 2006 actuarial valuation, and the Board adopted our recommendation to leave the current set of assumptions unchanged.

We believe the recommended assumptions are internally consistent and are reasonably based on the actual experience of ERB. Appendix 2 summarizes the current assumptions.

The most significant assumptions are (i) the assumed investment return, currently set at 8.00%, and (ii) the assumption regarding future salary increases, which is based on a table that varies by service.

In addition to the actuarial assumptions, the actuary also makes use of an actuarial funding method to allocate costs to particular years. In common with most public-sector plans, ERB uses the entry age normal method. This method produces a relatively level pattern of funding over time, and thereby provides equity between various generations of taxpayers. We continue to believe this method is appropriate for ERB.

Assets

ERB assets are held in trust. The ERB staff has provided the asset information used in this valuation.

Table 8a presents a summary of the market value of assets held by the fund, and Table 8b shows the allocation of assets held for investment. About 69% of the assets are now held in equities, compared to 72% last year. Table 9 shows a reconciliation of the assets from the beginning of the prior year to the valuation date.

Tables 10a and 10b show the development of the actuarial value of assets (AVA). The AVA is a smoothed market value. A smoothed value is used in order to dampen some of the year-to-year fluctuations that would occur if the market value were used instead. The method used phases in differences between the actual and expected market returns over five years. The expected return is determined using the 8.00% assumption and the plan's market value, adjusted for contributions received and benefits and refunds paid. Both the actual and expected returns are computed net of administrative expenses.

Note that the actuarial value is currently 90.9% of the market value. Over any short time period, a disparity between actuarial value and market value may appear, but in the long-run, we would expect the actuarial value and the market value to continue to track each other fairly closely.

Table 11a shows that the investment return rate for FY 2007 on market value was 16.7%, while it was 11.6% on actuarial value. Table 11b shows historical return rates since the current actuarial asset method was adopted.

Finally, Table 13 shows a history of cash flows to the trust, and the net cash flow measured as a percentage of the assets. The cash flow is slightly negative, 1.3% of market value, but this is not a sign of concern in a mature plan such as ERB.

Member Data

Membership data was provided on electronic files by the ERB staff. Data for active members includes sex, birthdate, service, salary paid in the prior year, and accumulated contributions. Data for inactive, nonretired members was similar, but includes the member's accrued benefit as well. For retired members, data includes status (service retiree, disabled retiree or beneficiary), sex, birthdate, pension amount, form of payment, beneficiary sex and birthdate if applicable, and date of retirement.

While not verifying the correctness of the data at the source, we performed various tests to ensure the internal consistency of the data and its overall reasonableness.

Table 7a summarizes data on all members. Table 7b is a history of key statistical information about active members, and Table 15 is a history of statistical information about retirees. Table 16 is an age/service distribution of active members and their average pay. Table 17 is a reconciliation that tracks changes in the plan population from last year to this year.

The number of active members increased 1.4% since last year, from 61,829 to 62,687.

Total payroll increased 5.5% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2006-07 member pay). However, this figure is increased by one year's pay increase to determine the member's rate of pay at July 1, 2007. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 4.0% since last year. Average pay for members active in both this valuation and the last year's valuation increased 5.7%. The difference between these two figures is due to the effect of retirements and terminations, and their replacement by new members who generally earn less.

This is the second year under ERB's new data administration system, IRIS. While we continue to see some minor changes in the reported member information due to the new system, none of the changes this year had a material effect on the results of the valuation. We will continue to work with ERB to fine-tune their reporting processes to ensure the integrity of future valuation results.

Actuarial Information

	June 30, 2007 (1)	June 30, 2006 (2)
1. Payroll		
a. Supplied by System (annualized)	\$ 2,341,146,395	\$ 2,219,411,615
b. Adjusted for one-year's pay increase	2,548,823,953	2,392,902,664
2. Actuarial present value of future pay	\$ 17,644,094,151	\$ 16,813,022,476
3. Normal cost rate (payable monthly)		
a. Total normal cost rate	13.560%	13.560%
b. Less: member contribution rate	(7.825%)	(7.750%)
c. Employer normal cost rate	5.735%	5.810%
4. Employer normal cost (Item 3c * Item 1b)	\$ 146,175,054	\$ 139,027,645
5. Actuarial accrued liability for active members		
a. Actuarial present value of future benefits	\$ 8,120,980,070	\$ 7,678,012,910
b. Less: actuarial present value of future normal costs (Item 3a * Item 2)	(2,392,539,167)	(2,279,845,848)
c. Actuarial accrued liability	\$ 5,728,440,903	\$ 5,398,167,062
6. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	\$ 5,807,324,572	\$ 5,347,533,306
b. Inactive members	654,315,102	690,623,822
c. Active members (Item 5c)	5,728,440,903	5,398,167,062
d. Total	\$ 12,190,080,577	\$ 11,436,324,190
7. Actuarial value of assets	\$ 8,591,417,402	\$ 7,813,888,383
8. Unfunded actuarial accrued liability (UAAL) (Item 6d - Item 7)	\$ 3,598,663,175	\$ 3,622,435,807
9. Amortization payment for next fiscal year		
a. Employer contribution rate	10.900%	10.150%
b. Less: Employer normal cost rate (Item 3c)	(5.735%)	(5.810%)
c. Amortization rate	5.165%	4.340%
d. Amortization contribution (Item 9c * Item 1b)	\$ 131,646,757	\$ 103,851,976
e. Expected ARP contribution	4,228,578	3,949,693
d. Total	\$ 135,875,335	\$ 107,801,669
10. Funding period based on current 10.9% employer contribution requirement, with payments increasing at assumed payroll growth rate	Infinite	Infinite

Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

Basis (1)	Year Ending	
	June 30, 2007 (2)	June 30, 2006 (3)
1. UAAL at prior valuation	\$ 3,622.4	\$ 3,134.3
2. Increases/(decreases) due to:		
a. Interest on UAAL	289.8	250.7
b. Amortization payments ¹	(130.0)	(89.7)
c. Liability experience	91.8	205.3
d. Asset experience	(275.3)	121.8
e. Changes in actuarial assumptions and methods	-	-
f. Benefit change	N/A	N/A
g. Total	\$ (23.7)	\$ 488.1
3. Current UAAL (1+2g)	\$ 3,598.7	\$ 3,622.4

Note : Dollar amounts in millions

¹ Actual contributions reduced by normal cost, and adjusted for timing.

Actuarial Present Value of Future Benefits

	June 30, 2007 <u>(1)</u>	June 30, 2006 <u>(2)</u>
1. Active members		
a. Service retirement benefits	\$ 7,302,873,574	\$ 6,900,267,455
b. Refunds and deferred termination benefits	653,696,362	621,558,992
c. Survivor benefits	74,628,983	70,745,394
d. Disability retirement benefits	89,781,151	85,441,069
e. Total	<u>\$ 8,120,980,070</u>	<u>\$ 7,678,012,910</u>
2. Retired members		
a. Service retirement	\$ 5,491,336,113	\$ 5,051,046,773
b. Disability retirement	60,775,680	57,697,077
c. Beneficiaries	255,212,779	238,789,456
d. Total	<u>\$ 5,807,324,572</u>	<u>\$ 5,347,533,306</u>
3. Inactive members		
a. Vested terminations	\$ 577,034,862	\$ 619,457,517
b. Nonvested terminations	77,280,240	71,166,305
c. Total	<u>\$ 654,315,102</u>	<u>\$ 690,623,822</u>
4. Total actuarial present value of future benefits	\$ 14,582,619,744	\$13,716,170,038

Analysis of Normal Cost

	<u>June 30, 2007</u> (1)	<u>June 30, 2006</u> (2)
1. Gross normal cost rate (payable monthly)		
a. Service retirement benefits	9.500%	9.500%
b. Refunds and deferred termination benefits	3.770%	3.770%
c. Disability retirement benefits	0.170%	0.170%
d. Survivor benefits	0.120%	0.120%
e. Total	<u>13.560%</u>	<u>13.560%</u>
2. Less: member contribution rate	<u>(7.825%)</u>	<u>(7.750%)</u>
3. Employer normal cost rate	5.735%	5.810%

**Calculation of GASB 25 ARC as Percent of Payroll
 (For Following Fiscal Year)**

	<u>June 30, 2007</u> (1)	<u>June 30, 2006</u> (2)
1. GASB 25 funding period (years)	30	30
2. Amortization contribution percentage		
a. Amortization payment	\$ 210,787,741	\$ 212,250,466
b. Less: expected payment for ARP members	<u>4,228,578</u>	<u>3,949,693</u>
c. Net (a-b)	\$ 206,559,162	\$ 208,300,773
d. Expected payroll	2,548,823,953	2,392,902,664
e. Amortization contribution percentage (c/d)	8.10%	8.70%
3. GASB 25 Annual Required Contribution		
a. Employer normal cost rate	5.74%	5.81%
b. Amortization percentage	<u>8.10%</u>	<u>8.70%</u>
c. Total	13.84%	14.51%
d. Statutory rate	10.90%	10.15%
e. ARC (max of (c,d))	13.84%	14.51%

**Actual Contributions as Percentage of
GASB 25 ARC for Year Ending 06/30/2007**

1. Actual contributions	
a. On behalf of ERB members	\$ 251,777,456
b. On behalf of ARP members	<u>4,075,738</u>
c. Total	\$ 255,853,194
2. Statutory employer contribution rate	10.15%
3. Imputed fiscal year payroll for ERB members (Item 1a / Item 2)	\$ 2,480,566,067
4. GASB 25 Annual Required Contribution	
a. Required GASB 25 employer contribution for ERB members as percent of payroll	14.51%
b. Required GASB 25 employer contribution for ERB members (Item 4a * Item 3)	\$ 360,052,710
c. GASB 25 ARC (Item 4b + Item 1b)	\$ 364,128,448
5. Percentage of ARC contributed (Item 1c / Item 4c)	70.3%

Schedule of Funding Progress
(As required by GASB #25)

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 1992	\$2,549.8	\$3,912.7	\$1,362.9	65.2%	\$1,150.4	118.5%
June 30, 1993	2,798.2	4,207.7	1,409.5	66.5%	1,191.0	118.3%
June 30, 1994	3,180.1	4,657.7	1,477.6	68.3%	1,258.7	117.4%
June 30, 1995	3,561.8	5,079.6	1,517.8	70.1%	1,356.5	111.9%
June 30, 1996	3,993.6	5,542.3	1,548.7	72.1%	1,413.6	109.6%
June 30, 1997	4,516.4	5,854.4	1,338.0	77.1%	1,448.7	92.4%
June 30, 1998	5,169.5	6,398.8	1,229.3	80.8%	1,542.8	79.7%
June 30, 1999	5,988.5	6,971.7	983.1	85.9%	1,637.5	60.0%
June 30, 2000	6,835.8	7,460.6	624.8	91.6%	1,795.7	34.8%
June 30, 2001	7,418.3	8,070.3	652.0	91.9%	1,819.6	35.8%
June 30, 2002	7,595.1	8,748.0	1,152.8	86.8%	1,978.5	58.3%
June 30, 2003	7,518.2	9,266.6	1,748.5	81.1%	2,032.5	86.0%
June 30, 2004	7,488.0	9,927.1	2,439.1	75.4%	2,142.4	113.8%
June 30, 2005	7,457.5	10,591.8	3,134.3	70.4%	2,209.1	141.9%
June 30, 2006	7,813.9	11,436.3	3,622.4	68.3%	2,219.4	163.2%
June 30, 2007	8,591.4	12,190.1	3,598.7	70.5%	2,341.1	153.7%

Note : Dollar amounts in millions

Schedule of Employer Contributions
(As required by GASB #25)

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1998	\$136,190,862	100.0%
1999	\$145,521,527	100.0%
2000	\$153,260,317	100.0%
2001	\$161,524,340	100.0%
2002	\$173,863,363	100.0%
2003	\$179,132,226	100.0%
2004	\$203,937,432	92.8%
2005	\$243,237,303	81.3%
2006	\$299,967,996	75.5%
2007	\$364,128,448	70.3%

**Notes to Required Supplementary Information
(as required by GASB #25)**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2007
Actuarial cost method	Entry Age Normal
Amortization method	Level payment, open
Amortization period for GASB 25 ARC**	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	5.00% to 13.50%
*Includes inflation at	3.00%
Cost-of-living adjustments	2.00%

** The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the employer normal cost plus a 30-year amortization of the UAAL, and (b) the statutory employer contribution rate, plus the 3.00% contribution on behalf of ARP members. Under GASB 25, the maximum allowable amortization period is 30 years. GASB 25 had allowed the use of a 40-year amortization during a transitional period that ended with FY 2006.

Membership Data

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
	(1)	(2)
1. Active members		
a. Number	62,687	61,829
b. Total payroll supplied by System (annualized)	\$ 2,341,146,395	\$ 2,219,411,615
c. Average salary	\$ 37,347	\$ 35,896
d. Average age	45.9	45.7
e. Average service	9.3	9.2
2. Vested inactive members (excluding pending refunds)		
a. Number	8,298	8,369
b. Total annual deferred benefits	\$ 72,864,307	\$ 74,708,123
c. Average annual deferred benefit	\$ 8,781	\$ 8,927
3. Nonvested inactive members and vested pending refunds		
a. Number	21,644	21,581
b. Employee assessments with interest due	\$ 77,280,240	\$ 71,166,305
c. Average refund due	\$ 3,571	\$ 3,298
4. Service retirees		
a. Number	26,955	25,648
b. Total annual benefits	\$ 512,583,759	\$ 471,186,320
c. Average annual benefit	\$ 19,016	\$ 18,371
5. Disabled retirees		
a. Number	703	679
b. Total annual benefits	\$ 6,264,799	\$ 5,928,138
c. Average annual benefit	\$ 8,912	\$ 8,731
6. Beneficiaries		
a. Number	2,311	2,212
b. Total annual benefits	\$ 28,906,208	\$ 26,889,673
c. Average annual benefit	\$ 12,508	\$ 12,156

Note: Retirement benefits include impact of July 1 cost-of-living increases.

Historical Summary of Active Member Data

Year Ending June 30,	Active Members		Covered Payroll		Average Salary		Average Age	Average Service
	Number	Percent Increase	Amount in \$ Millions	Percent Increase	\$ Amount	Percent Increase		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1982	42,015	---	\$622	---	\$14,810	---	40.9	10.7
1984	40,385	-3.9%	670	7.7%	16,600	12.1%	42.0	9.9
1986	45,311	12.2%	786	17.3%	17,353	4.5%	41.7	9.7
1988	45,492	0.4%	863	9.8%	18,968	9.3%	43.9	10.1
1990	48,858	7.4%	1,033	19.7%	21,146	11.5%	42.6	8.5
1992	51,161	4.7%	1,150	11.3%	22,486	6.3%	43.0	8.9
1993	52,296	2.2%	1,191	3.6%	22,774	1.3%	43.2	8.9
1994	53,744	2.8%	1,259	5.7%	23,420	2.8%	43.3	9.0
1995	54,840	2.0%	1,356	7.7%	24,735	5.6%	43.2	9.0
1996	55,782	1.7%	1,414	4.3%	25,341	2.4%	43.7	9.1
1997	56,685	1.6%	1,449	2.5%	25,556	0.8%	43.9	9.1
1998	58,097	2.5%	1,543	6.5%	26,555	3.9%	44.0	9.0
1999	58,615	0.9%	1,637	6.1%	27,936	5.2%	44.3	9.2
2000	60,090	2.5%	1,796	9.7%	29,884	7.0%	44.5	9.1
2001	60,155	0.1%	1,820	1.3%	30,248	1.2%	44.9	9.2
2002	61,091	1.6%	1,979	8.7%	32,387	7.1%	45.2	9.3
2003	62,614	2.5%	2,032	2.7%	32,460	0.2%	45.3	9.3
2004	62,901	0.5%	2,142	5.4%	34,061	4.9%	45.6	9.4
2005	63,362	0.7%	2,209	3.1%	34,865	2.4%	45.6	9.3
2006	61,829	-2.4%	2,219	0.5%	35,896	3.0%	45.7	9.2
2007	62,687	1.4%	2,341	5.5%	37,347	4.0%	45.9	9.3

Plan Net Assets
(Assets at Market or Fair Value)

Item (1)	Valuation as of	
	June 30, 2007 (2)	June 30, 2006 (3)
1. Cash and cash equivalents	\$ 327,739,163	\$ 239,704,558
2. Receivables:		
a. Contributions	\$ 61,056,485	\$ 55,641,277
b. Investment income	30,243,773	27,881,569
c. Investment sales proceeds - brokers	887,335,140	19,075,687
d. Other	16,054	42,274
e. Total receivables	\$ 978,651,452	\$ 102,640,807
3. Investments		
a. U.S. treasury securities	\$ 303,532,895	\$ 232,306,719
b. U.S. government agencies	734,331,063	692,326,028
c. Domestic corporate bonds	1,279,739,340	1,132,490,442
d. Domestic equities	4,131,581,536	4,160,891,776
e. International equities	1,543,789,539	1,815,409,965
f. Mortgage backed securities	195,679,860	34,892,286
g. Other investments (includes alternative investments)	788,481,795	884,808
h. Total investments	\$ 8,977,136,028	\$ 8,069,202,024
4. Invested securities lending collateral	\$ 1,321,529,618	\$ 870,230,520
5. Properties : land, building, furniture and equipment (at cost, less accumulated depreciation)	\$ 7,528,949	\$ 7,428,225
6. Total assets	\$ 11,612,585,210	\$ 9,289,206,134
7. Liabilities		
a. Accounts payable	\$ 5,146,096	\$ 4,976,697
b. Accrued expenses	333,060	159,477
c. Refunds payable	1,432,279	2,652,016
d. Investment purchases payable - brokers	826,760,776	190,300,628
e. Due to other funds	1,587,527	1,596,822
f. Securities lending collateral	1,321,529,618	870,230,520
g. Total liabilities	\$ 2,156,789,356	\$ 1,069,916,160
8. Total market value of assets available for benefits (Item 6 - Item 7g)	\$ 9,455,795,854	\$ 8,219,289,974

Allocation of Cash and Investments

	<u>June 30, 2007</u> (1)	<u>June 30, 2006</u> (2)
1. Cash and short-term equivalents	3.5%	2.9%
2. U.S. treasury securities	3.3%	2.8%
3. U.S. government agencies	7.9%	8.3%
4. Domestic corporate bonds	13.8%	13.6%
5. Domestic equities	44.3%	50.1%
6. International equities	16.6%	21.9%
7. Other investments (includes alternative investments)	<u>10.6%</u>	<u>0.4%</u>
8. Total investments	100.0%	100.0%

Reconciliation of Plan Net Assets

	Year Ending	
	June 30, 2007 (1)	June 30, 2006 (2)
1. Value of assets at beginning of year		
a. Value reported in prior valuation	\$ 8,219,289,974	\$ 7,451,138,286
b. Prior period adjustments	-	-
c. Revised value	\$ 8,219,289,974	\$ 7,451,138,286
2. Revenue for the year		
a. Contributions		
i. Member contributions (including redeposits and service purchases)	\$ 193,657,706	\$ 182,048,655
ii. Employer contributions	251,777,456	222,672,399
iii. Employer contributions for ARP members	4,075,738	3,806,933
iv. Total	\$ 449,510,900	\$ 408,527,987
b. Income		
i. Interest, dividends, and other income	\$ 203,685,709	\$ 188,252,629
ii. Investment expenses	(20,836,471)	(17,074,105)
iii. Net	\$ 182,849,238	\$ 171,178,524
c. Net realized and unrealized gains	\$ 1,177,439,939	\$ 716,078,282
d. Total revenue	\$ 1,809,800,077	\$ 1,295,784,793
3. Expenditures for the year		
a. Refunds	\$ 27,525,131	\$ 28,305,855
b. Benefit payments	540,143,723	494,096,615
c. Administrative and miscellaneous expenses	5,625,343	5,230,635
d. Total expenditures	\$ 573,294,197	\$ 527,633,105
4. Increase in net assets (Item 2 - Item 3)	\$ 1,236,505,880	\$ 768,151,688
5. Value of assets at end of year (Item 1 + Item 4)	\$ 9,455,795,854	\$ 8,219,289,974

Determination of Excess Earnings to be Deferred

Year ended :	<u>June 30, 2004</u> (1)	<u>June 30, 2005</u> (2)	<u>June 30, 2006</u> (3)	<u>June 30, 2007</u> (4)
1. MVA at beginning of year	\$ 6,083,358,784	\$ 6,911,545,120	\$ 7,451,138,286	\$ 8,219,289,974
2. Net new investments				
a. Contributions	\$ 355,643,714	\$ 371,000,346	\$ 408,527,987	\$ 449,510,900
b. Benefits and refunds paid	<u>(448,803,379)</u>	<u>(482,198,127)</u>	<u>(522,402,470)</u>	<u>(567,668,854)</u>
c. Subtotal	\$ (93,159,665)	\$ (111,197,781)	\$ (113,874,483)	\$ (118,157,954)
3. MVA at end of year	\$ 6,911,545,120	\$ 7,451,138,286	\$ 8,219,289,974	\$ 9,455,795,854
4. Net MVA earnings (3 - 1 - 2c)	\$ 921,346,001	\$ 650,790,947	\$ 882,026,171	\$ 1,354,663,834
5. Assumed investment return rate	8.00%	8.00%	8.00%	8.00%
6. Expected return	\$ 482,942,316	\$ 548,475,698	\$ 591,536,084	\$ 652,816,880
7. Excess return (4 - 6)	\$ 438,403,685	\$ 102,315,249	\$ 290,490,087	\$ 701,846,954
8. Excess return deferral percent	20%	40%	60%	80%
9. Amount deferred	\$ 87,680,737	\$ 40,926,100	\$ 174,294,052	\$ 561,477,563

Note : MVA is market value of assets.

Development of Actuarial Value of Assets

1. Market value of assets as of valuation	\$	9,455,795,854
2. Deferred amounts for fiscal year ending June 30,		
a. 2007	\$	561,477,563
b. 2006	\$	174,294,052
c. 2005	\$	40,926,100
d. 2004	\$	<u>87,680,737</u>
e. Total	\$	864,378,452
3. Actuarial value of assets (1 - 2e)	\$	8,591,417,402
4. Actuarial value as percent of market value		90.9%

Estimation of Yields

	Year Ending	
	June 30, 2007 (1)	June 30, 2006 (2)
A. Market value yield		
1. Beginning of year market assets	\$ 8,219,289,974	\$ 7,451,138,286
2. Investment income (including realized and unrealized gains and losses)	\$ 1,360,289,177	\$ 887,256,806
3. End of year market assets	\$ 9,455,795,854	\$ 8,219,289,974
4. Estimated dollar weighted market value yield	16.7%	12.0%
B. Actuarial value yield		
1. Beginning of year actuarial assets	\$ 7,813,888,383	\$ 7,457,547,183
2. Actuarial return	\$ 895,686,973	\$ 470,215,683
3. End of year actuarial assets	\$ 8,591,417,402	\$ 7,813,888,383
4. Estimated actuarial value yield	11.6%	6.4%

History of Investment Return Rates

Plan Year Ending June 30 of	Market	Actuarial
(1)	(2)	(3)
1995	18.5%	11.5%
1996	12.2%	12.0%
1997	20.3%	13.4%
1998	19.6%	15.0%
1999	11.3%	16.4%
2000	13.1%	15.1%
2001	-11.1%	9.5%
2002	-8.8%	3.3%
2003	2.7%	0.1%
2004	15.3%	0.8%
2005	9.6%	1.1%
2006	12.0%	6.4%
2007	16.7%	11.6%
Average Returns		
Last 5 years	11.1%	3.9%
Last 10 years	7.5%	7.7%

Investment Experience Gain or Loss

Item (1)	Year Ending	
	June 30, 2007 (2)	June 30, 2006 (3)
1. Actuarial assets, beginning of year	\$ 7,813,888,383	\$ 7,457,547,183
2. Total contributions during year	\$ 449,510,900	\$ 408,527,987
3. Benefits and refunds paid	\$ (567,668,854)	\$ (522,402,470)
4. Assumed net investment income at 8%		
a. Beginning of year assets	\$ 625,111,071	\$ 596,603,775
b. Contributions	17,980,436	16,341,119
c. Benefits and refunds paid	<u>(22,706,754)</u>	<u>(20,896,099)</u>
d. Total	\$ 620,384,753	\$ 592,048,795
5. Expected actuarial assets, end of year (Sum of items 1 through 4)	\$ 8,316,115,182	\$ 7,935,721,495
6. Actual actuarial assets, end of year	\$ 8,591,417,402	\$ 7,813,888,383
7. Asset gain (loss) for year (Item 6 - Item 5)	\$ 275,302,220	\$ (121,833,112)

Total Experience Gain or Loss

Item (1)	Year Ending	
	June 30, 2007 (2)	June 30, 2006 (3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	\$ 3,622,435,807	\$ 3,134,261,306
2. Normal cost for the previous year	\$ 324,477,601	\$ 322,244,118
3. Less: contributions for the year	\$ (449,510,900)	\$ (408,527,987)
4. Interest at 8 %		
a. On UAAL	\$ 289,794,865	\$ 250,740,904
b. On normal cost	12,979,104	12,889,765
c. On contributions	(17,980,436)	(16,341,119)
d. Total	\$ 284,793,533	\$ 247,289,550
5. Expected UAAL (Sum of Items 1 - 4)	\$ 3,782,196,041	\$ 3,295,266,987
6. Actual UAAL	\$ 3,598,663,175	\$ 3,622,435,807
7. Total gain (loss) for the year (Item 5 - Item 6)	\$ 183,532,866	\$ (327,168,820)
B. Source of gains and losses		
8. Asset gain (loss) for the year	\$ 275,302,220	\$ (121,833,112)
9. Liability experience gain (loss) for the year	\$ (91,769,354)	\$ (205,335,708)
10. Assumption change	\$ -	\$ -
11. Benefit change	N/A	N/A
12. Total	\$ 183,532,866	\$ (327,168,820)

History of Cash Flow

Year Ending June 30, (1)	Contributions ¹ (2)	Expenditures					External Cash Flow for the Year ³ (8)	Market Value of Assets (9)	External Cash Flow as Percent of Market Value (10)
		Benefit Payments (3)	Refunds (4)	Administrative Expenses ² (5)	Other (6)	Total (7)			
1994	214.2	(175.3)	(19.8)	(1.7)	0.0	(196.8)	17.4	3,190.0	0.5%
1995	229.7	(193.1)	(22.3)	(2.0)	0.0	(217.4)	12.3	3,792.3	0.3%
1996	238.9	(210.6)	(23.9)	(2.3)	0.0	(236.8)	2.1	4,257.2	0.0%
1997	245.6	(231.6)	(24.7)	(1.9)	0.0	(258.2)	(12.6)	5,107.3	-0.2%
1998	260.9	(254.4)	(28.2)	(2.1)	0.0	(284.7)	(23.8)	6,082.1	-0.4%
1999	278.9	(274.8)	(30.0)	(2.7)	0.0	(307.5)	(28.6)	6,740.4	-0.4%
2000	295.9	(311.8)	(35.2)	(2.5)	0.0	(349.5)	(53.6)	7,567.5	-0.7%
2001	315.2	(340.6)	(36.6)	(3.5)	0.0	(380.7)	(65.5)	6,667.0	-1.0%
2002	328.6	(367.5)	(28.5)	(5.8)	0.0	(401.8)	(73.2)	6,011.2	-1.2%
2003	337.9	(396.1)	(28.3)	(4.3)	0.0	(428.7)	(90.8)	6,083.4	-1.5%
2004	355.6	(422.4)	(26.4)	(2.6)	0.0	(451.4)	(95.8)	6,911.5	-1.4%
2005	371.0	(455.0)	(27.2)	(5.3)	0.0	(487.5)	(116.5)	7,451.1	-1.6%
2006	408.5	(494.1)	(28.3)	(5.2)	0.0	(527.6)	(119.1)	8,219.3	-1.4%
2007	449.5	(540.1)	(27.5)	(5.6)	0.0	(573.2)	(123.7)	9,455.8	-1.3%

Amounts in \$ millions

¹ Column (2) includes employee and employer contributions, as well as employer contributions for ARP members.

² Excludes investment expenses starting in 1997.

³ Column (8) = Column (2) + Column (7).

Solvency Test

	<u>June 30, 2007</u> (1)	<u>June 30, 2006</u> (2)
1. Actuarial accrued liability (AAL)		
a. Active member contributions	\$ 2,022,591,866	\$ 1,918,438,460
b. Retirees and beneficiaries	5,807,324,572	5,347,533,306
c. Active and inactive members (employer financed)	<u>4,360,164,139</u>	<u>4,170,352,424</u>
d. Total	\$ 12,190,080,577	\$ 11,436,324,190
2. Actuarial value of assets	\$ 8,591,417,402	\$ 7,813,888,383
3. Cumulative portion of AAL covered		
a. Active member contributions	100%	100%
b. Retirees and beneficiaries	100%	100%
c. Active and inactive members (employer financed)	17%	13%

Historical Retired Participants' Data

<u>Year Ending June 30,</u> (1)	<u>Number</u> (2)	<u>Average Monthly Benefit</u> (3)
1984	8,462	\$430
1986	10,004	512
1988	11,375	663
1990	12,741	767
1992	14,107	846
1993	15,001	890
1994	15,814	966
1995	16,593	976
1996	17,381	1,011
1997	18,317	1,055
1998	19,244	1,104
1999	20,109	1,139
2000	21,186	1,228
2001	22,191	1,274
2002	23,052	1,315
2003	24,085	1,376
2004	24,947	1,420
2005	26,100	1,466
2006	28,539	1,472
2007	29,969	1,523

Note: Retirement benefits include impact of July 1 cost-of-living increases.

**Distribution of Active Members by Age and by Years of Service
As of 06/30/2007**

Attained Age	Years of Credited Service												Total	
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over		
	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	
Under 25	471 \$16,473	509 \$20,899	224 \$19,631	69 \$17,913	27 \$20,475	14 \$20,370	0 \$0	1,314 \$18,926						
25-29	530 \$23,429	1,045 \$27,773	804 \$29,315	568 \$30,848	414 \$34,305	546 \$32,629	9 \$29,017	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	3,916 \$29,318
30-34	430 \$24,883	828 \$28,894	705 \$28,944	598 \$32,045	503 \$33,255	2,080 \$38,435	305 \$38,964	3 \$23,683	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	5,452 \$33,533
35-39	1,131 \$24,494	1,437 \$27,285	771 \$28,845	639 \$32,471	564 \$33,657	2,194 \$37,400	1,405 \$42,412	213 \$40,257	4 \$29,543	0 \$0	0 \$0	0 \$0	0 \$0	8,358 \$33,408
40-44	391 \$26,510	718 \$26,556	638 \$27,379	571 \$31,019	498 \$31,262	2,147 \$34,370	1,564 \$40,142	1,032 \$44,583	225 \$43,991	6 \$38,032	0 \$0	0 \$0	0 \$0	7,790 \$35,031
45-49	367 \$24,609	726 \$27,617	610 \$28,750	609 \$30,558	492 \$32,006	2,455 \$34,904	1,884 \$38,963	1,417 \$45,438	1,029 \$49,852	259 \$47,743	7 \$41,219	0 \$0	0 \$0	9,855 \$37,383
50-54	293 \$28,300	610 \$29,825	504 \$31,508	494 \$34,080	447 \$33,816	2,304 \$35,266	1,993 \$39,898	1,724 \$46,689	1,222 \$51,593	777 \$55,825	215 \$52,285	3 \$35,248	3 \$35,248	10,586 \$40,936
55-59	239 \$28,816	448 \$34,778	462 \$33,715	414 \$34,951	351 \$36,521	1,763 \$37,656	1,570 \$41,954	1,701 \$45,565	1,159 \$51,566	687 \$59,116	392 \$60,800	55 \$60,708	55 \$60,708	9,241 \$43,572
60-64	133 \$32,296	231 \$32,461	227 \$30,439	227 \$34,308	194 \$36,757	951 \$38,193	795 \$41,963	696 \$45,246	500 \$52,878	337 \$57,174	182 \$67,427	82 \$71,886	82 \$71,886	4,555 \$43,615
65 & Over	51 \$28,394	93 \$24,645	121 \$26,144	99 \$33,580	88 \$29,476	361 \$33,236	249 \$36,835	181 \$39,884	129 \$49,461	99 \$51,008	77 \$70,459	72 \$75,025	72 \$75,025	1,620 \$39,178
Total	4,036 \$24,504	6,645 \$27,912	5,066 \$29,046	4,288 \$32,045	3,578 \$33,382	14,815 \$36,149	9,774 \$40,499	6,967 \$45,321	4,268 \$50,831	2,165 \$55,843	873 \$60,779	212 \$69,534	212 \$69,534	62,687 \$37,347

**NEW MEXICO EDUCATIONAL RETIREMENT BOARD
Reconciliation of Members by Status for Year Ending June 30, 2007**

	Active Members	Inactive, Nonretired Members		Annuitants			Grand Total
		Vested	Nonvested	Service Retirees	Disabled Retirees	Beneficiaries	
Number at beginning of year	61,829	8,369	21,581	25,648	679	2,212	120,318
Refund paid (non-death)	(1,669)	(467)	(3,375)				(5,511)
Refund due	(4,507)		4,507				0
Deferred terminations	(2,294)	2,312	(12)	(6)			0
Retirements (nondisabled)	(563)	(1,341)	(22)	1,926			0
Disabled retirements	(28)	(23)			51		0
Death before retirement - refund	(1)	(6)					(7)
Death before retirement - annuity	(65)					65	0
Death of annuitant - survivor benefit due				(122)	(12)	134	0
Death of annuitant - no further benefits due				(507)	(15)	(100)	(622)
Payments ceased - certain period ended							0
New hires	8,329						8,329
Reemployments	1,653	(562)	(1,077)	(14)			0
Adjustments and corrections	3	16	42	30			91
Number at end of year	62,687	8,298	21,644	26,955	703	2,311	122,598

Summary of Plan Provisions

1. Effective Date: July 1, 1957.
2. Plan Year/Fiscal Year: Twelve-month period ending June 30th.
3. Administration: The Educational Retirement Board is responsible for administration of the System and investment of System assets.
4. Type of Plan: The System is a qualified, defined benefit, governmental retirement plan. For government accounting purposes, it is a cost-sharing multiple-employer PERS.
5. Eligibility: All teachers, nurses, and administrators employed by public schools in New Mexico, including public colleges and universities, participate in the System. These are the "regular members", and their participation is a condition of employment. However, see the section on the Alternative Retirement Plan below for an exception. Generally, other employees of these schools are also required to participate, although such employees employed continuously since June 30, 1971 may exempt themselves from membership. Employees of state schools and certain state agencies also participate.
6. Member Contributions: Members must contribute a percentage of their salary to the System. "Salary" for this purpose includes substantially all earnings. The member contribution rate is set by statute, and has been changed from time to time. It was most recently changed from 7.60%, the rate effective for the fiscal year ending June 30, 2005 (FY 2005), to 7.90%. The increase was phased in over four years as shown in the following schedule. Employee contributions are "picked up" by the local employer for federal income tax treatment.

<u>Fiscal Year</u>	<u>Member Contribution Rate</u>
FY 2005 and earlier	7.600%
FY 2006	7.675%
FY 2007	7.750%
FY 2008	7.825%
FY 2009 and later	7.900%

7. Employer Contributions: The school district or other local administrative unit which employs a member contributes a percentage of the member's salary to the System. "Salary" for this purpose includes substantially all earnings. The employer contribution rate is set by statute, and has been changed from time to time. The following schedule shows recent and future employer contribution rates. In addition, state universities, colleges and junior colleges contribute 3% of the earnings of non-members who are participating in the Alternative Retirement Plan.

Fiscal Year	Employer Contribution Rate
FY 2005 and earlier	8.65%
FY 2006	9.40%
FY 2007	10.15%
FY 2008	10.90%
FY 2009	11.65%
FY 2010	12.40%
FY 2011	13.15%
FY 2012 and later	13.90%

8. Service: Employees receive credit for each calendar quarter in which they are contributing members. Credit is also granted for service prior to the System's effective date, and certain military service. Credit may also be purchased for some out-of-state service under certain circumstances.
9. Final Average Compensation (FAC): The average of the member's earnings for the last five consecutive years, or such other five consecutive year period that gives the largest average. Monthly benefits are based on one-twelfth of this amount.

10. Normal Retirement

- a. Eligibility: A member may retire upon Normal Retirement on the earliest of (i) the date he/she attains age 65 with credit for 5 years of service, or (ii) the date the member completes 25 years of service, or (iii) the date that the sum of the member's age and service is at least 75, provided the member is at least age 60.
- b. Monthly Benefit: 2.35% of FAC (monthly) times years of service.
- c. Payment Form: Benefits are paid as a monthly life annuity, with a guarantee that if the sum of payments made does not exceed the member's accumulated contributions with interest, determined as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. Optional forms of payment are available; see below.

11. Early Retirement

- a. Eligibility: A member may take early retirement once the sum of his/her age and service equals or exceeds 75.
- b. Monthly Benefit: 2.35% of FAC (monthly) times years of service, multiplied by the early retirement factor below.
- c. Early Retirement Factor:

Age at Retirement	Factor
60 or later	1.000
59	.976
58	.952
57	.928
56	.904
55	.880
54	.808
53	.736
52	.664
51	.592
50	.520
49	.448
48	.376
47	.304
46	.232
45	.160

- d. Payment Form: Same as for Normal Retirement above.

12. Disability Retirement

- a. Eligibility: A member is eligible provided (i) he/she has credit for at least 10 years of service, and (ii) the disability is approved by the Board.
- b. Monthly Benefit: 2% of FAC (monthly) times years of service, but not less than the smaller of (i) one-third of FAC, or (ii) 2% of FAC times years of service projected to age 60.
- c. Payment Form: The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that if the payments made do not exceed the sum of the member's accumulated contributions with interest as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are available.

13. Vested Termination Benefit

- a. Eligibility: A member with at least 5 years of service who does not withdraw his/her contributions from the fund is eligible for a vested termination benefit.
- b. Monthly Benefit: 2.35% of FAC (monthly) times years of service. Both FAC and service are determined at the time the member leaves active employment.
- c. Payment Form: Benefits commence when the participant attains his/her normal retirement age. Optionally benefits may commence at the early retirement age, applying the same reduction factors as are used for regular early retirement. The form of payment is the same as for Normal Retirement above.

14. Withdrawal (Refund) Benefit

- a. Eligibility: All members leaving covered employment with less than 5 years of service for a reason other than the member's death. Optionally, members eligible for other benefits may withdraw their contributions in lieu of the regular benefits due.
- b. Benefit: The member who elects to withdraw receives a lump-sum payment of his/her employee contributions, plus interest computed at a rate set by the Board of Trustees.

15. Death in Service

Benefit: Upon the death of an active member, the beneficiary may receive a refund of the member's contributions, plus interest based upon a rate set by the Board of Trustees. If the member has five or more years of service, the beneficiary may elect to receive an annuity determined as though the member had retired, elected option B below, and then died, in lieu of the refund. If the member is not eligible for early or normal retirement, this benefit may still be elected, with payments deferred until the member would have been eligible for retirement.

16. Optional Forms of Payment: There are optional forms of payment available on an actuarially equivalent basis, as follows:

- a. Option B - A Joint and 100% Survivor annuity with a "pop-up" feature. The regular life annuity amount is reduced to provide a Joint and 100% Survivor benefit, i.e., a benefit payable as long as either the member or his joint annuitant shall live. However, if the joint annuitant predeceases the member, then the member's benefit amount reverts back to the regular life annuity amount. The "pop-up" feature is subsidized by the System.

- b. Option C - A Joint and 50% Survivor annuity with a pop-up feature. The benefit is reduced to provide a Joint and 50% Survivor benefit, i.e., a benefit payable as long as both the member and the joint annuitant are alive, reducing to 50% of this amount upon the member's death, if the joint annuitant is still living. If the joint annuitant predeceases the member, the benefit reverts to the regular life annuity amount. The pop-up feature is subsidized by the System.
17. Cost-of-living Increase: All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit each July, beginning in the year they attain age 65. The adjustment is equal to one-half the percentage increase in the cost-of-living index, except that the adjustment shall not exceed four percent, nor be less than two percent. However, this increase shall not be greater than the actual percentage increase in the cost-of-living index. Members retired prior to July 1, 1984 are also entitled to an increase of the lesser of 2% or the percentage increase in the cost-of-living index for years prior to the attainment of 65. Members on disability retirement are entitled to an adjustment commencing on July 1 of the calendar year in which the third anniversary of disability retirement occurs.
18. Alternative Retirement Plan (ARP): Beginning July 1, 1991, new faculty members employed by state universities may elect participation in the ARP rather than in this System. If this election is not made, the employee remains a member of this System permanently. No benefits are paid to ARP members from ERB. Also as discussed in the section on Employer Contributions above, the employer of an ARP makes a contribution of 3.00% of the member's salary to ERB.

Summary of Actuarial Methods and Assumptions

I. Valuation Date

The valuation date is June 30th of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

II. Actuarial Cost Method

The contribution rate is set by statute for both members and for the employers. The funding period is determined, as described below, using the Entry Age Normal actuarial cost method.

The Entry Age Normal actuarial cost method assigns the plan's total unfunded liabilities (the actuarial present value of future benefits less the actuarial value of assets) to various periods. The unfunded actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are the normal costs for future years. Each year's contribution is composed of (i) that year's normal cost, plus (ii) a payment used to reduce the unfunded actuarial accrued liability.

The normal cost is the level (as a percentage of pay) contribution required to fund the benefits for a new member. This is determined based upon a hypothetical group of new entrants. This group is based on the age-pay-sex distribution at hire for members joining ERB during the five-year period ending June 30, 2004. Part of the normal cost is paid from the employees' own contributions. The employers pay the balance from their contributions.

The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of assets.

The balance of the employers' contributions--the remainder after paying their share of the normal cost--is used to reduce the unfunded actuarial accrued liability. The funding period is the length of time required for the unfunded actuarial accrued liability to be completely amortized, assuming that the portion used to reduce the unfunded remains level as a percentage of total payroll, which is assumed to grow 3.75% per year. The 3.00% contribution made by employers to ERB on behalf of employees who elected to participate in the Alternative Retirement Plan is also used to amortize the unfunded actuarial accrued liability.

It is assumed that all contributions are made monthly at the end of the month.

III. Actuarial Value of Assets

The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (less than) expected investment income. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). Returns are measured net of all investment and administrative expenses.

IV. Actuarial Assumptions

A. Economic Assumptions

1. Investment return: 8.00%, compounded annually, net of expenses. This is composed of a 3.00% inflation rate and a 5.00% real rate of return.
2. Salary increase rate: Inflation rate of 3.00% plus productivity increase rate of 2.00% plus step-rate/promotional as shown:

Years of Service	Annual Step-Rate/Promotional Component Rates of Increase	Total Annual Rate of Increase
0	8.50%	13.50%
1	2.75%	7.75%
2	1.75%	6.75%
3	1.25%	6.25%
4	1.00%	6.00%
5	0.75%	5.75%
6	0.50%	5.50%
7	0.25%	5.25%
8	0.25%	5.25%
9	0.25%	5.25%
10 or more	0.00%	5.00%

3. Three-Tier Licensure Increased: In 2003, the legislature adopted a new framework for classroom teacher salaries with minimum salaries mandated for certain classes of teachers beginning in FY 2004. For teachers who met the mandated minimum salary of \$30,000 in FY 2004, their salaries were assumed to meet the mandated minimum of \$35,000 in FY 2005 and \$40,000 in FY 2006 and later years for “professional” teachers if they had at least three years of service at each respective valuation date. Likewise, for teachers who met the mandated minimum salary of \$30,000 in FY 2004, their salaries were assumed to meet the mandated minimum of \$45,000 in FY 2007 and \$50,000 in FY 2008 and later years for “master” teachers if they had at least six years of service at each respective valuation date.

4. Cost-of-living increases: 2% per year, compounded annually. Note that increases are deferred until age 65 or, for disabled retirees, until the third year following retirement. Also, members who retired prior to July 1, 1984 and who are younger than age 65 receive an annual increase.
5. Payroll growth: 3.75% per year (with no allowance for membership growth)
6. Contribution accumulation: Member contributions are assumed to have grown at 5.50% per year, with 6.00% interest, compounded annually.

B. Demographic Assumptions

1. Mortality after termination or retirement -

- a. Healthy males - 1994 Uninsured Pensioner Mortality Table for males, set back three years
- b. Healthy females - 1994 Uninsured Pensioner Mortality Table for females, set back two years
- c. Disabled males and females - 1981 Disability Table

See sample rates below:

Age	Deaths per 100 Lives		
	Healthy Males	Healthy Females	Disabled Males and Females
40	.10	.06	1.76
45	.13	.09	2.08
50	.20	.13	2.42
55	.35	.21	2.83
60	.60	.36	3.29
65	1.09	.72	3.76
70	1.94	1.26	4.36
75	3.06	1.97	5.62
80	4.86	3.41	8.84
85	8.12	5.90	12.95

2. Mortality rates of active members - As shown below for sample ages:

Age	Deaths per 100 Members	
	Males	Females
25	.10	.02
30	.10	.02
35	.08	.04
40	.08	.03
45	.11	.05
50	.15	.10
55	.23	.17
60	.31	.24
65	.46	.31

3. Disability - As shown below for selected ages (rates are only applied to eligible members — members with at least 10 years of service):

Age	Occurrences of Disability per 100 Members	
	Males	Females
25	.00	.00
30	.00	.03
35	.06	.07
40	.13	.12
45	.19	.16
50	.24	.19
55	.26	.20
60	.24	.19
65	.18	.16

4. Retirement - Select and ultimate as shown below for selected ages (rates are only applied to members eligible for retirement):

Retirement Per 100 Members

Age	Males					
	Years of Service					
	0-4	5-9	10-14	15-19	20-24	25+
45	0.00	0.00	0.00	0.00	0.00	20.00
46	0.00	0.00	0.00	0.00	0.00	20.00
47	0.00	0.00	0.00	0.00	0.00	20.00
48	0.00	0.00	0.00	0.00	0.00	20.00
49	0.00	0.00	0.00	0.00	0.00	20.00
50	0.00	0.00	0.00	0.00	0.00	20.00
51	0.00	0.00	0.00	0.00	2.00	20.00
52	0.00	0.00	0.00	0.00	2.00	20.00
53	0.00	0.00	0.00	0.00	2.00	20.00
54	0.00	0.00	0.00	0.00	2.00	20.00
55	0.00	0.00	0.00	0.00	5.00	20.00
56	0.00	0.00	0.00	6.00	6.00	20.00
57	0.00	0.00	0.00	7.00	7.00	20.00
58	0.00	0.00	0.00	8.00	8.00	20.00
59	0.00	0.00	0.00	10.00	10.00	20.00
60	0.00	0.00	0.00	15.00	20.00	25.00
61	0.00	0.00	20.00	20.00	20.00	20.00
62	0.00	0.00	40.00	40.00	35.00	35.00
63	0.00	0.00	30.00	30.00	30.00	30.00
64	0.00	0.00	25.00	25.00	25.00	30.00
65	0.00	25.00	40.00	45.00	45.00	45.00
66	0.00	15.00	20.00	25.00	30.00	30.00
67	0.00	15.00	20.00	25.00	30.00	30.00
68	0.00	15.00	20.00	25.00	30.00	30.00
69	0.00	15.00	20.00	25.00	30.00	30.00
70	100.00	100.00	100.00	100.00	100.00	100.00

Retirement Per 100 Members

Age	Females					
	Years of Service					
	0-4	5-9	10-14	15-19	20-24	25+
45	0.00	0.00	0.00	0.00	0.00	20.00
46	0.00	0.00	0.00	0.00	0.00	20.00
47	0.00	0.00	0.00	0.00	0.00	20.00
48	0.00	0.00	0.00	0.00	0.00	20.00
49	0.00	0.00	0.00	0.00	0.00	20.00
50	0.00	0.00	0.00	0.00	0.00	20.00
51	0.00	0.00	0.00	0.00	5.00	20.00
52	0.00	0.00	0.00	0.00	5.00	20.00
53	0.00	0.00	0.00	0.00	5.00	21.00
54	0.00	0.00	0.00	0.00	5.00	22.00
55	0.00	0.00	0.00	0.00	6.00	23.00
56	0.00	0.00	0.00	16.00	8.00	24.00
57	0.00	0.00	0.00	17.00	10.00	25.00
58	0.00	0.00	0.00	18.00	12.00	27.00
59	0.00	0.00	0.00	19.00	14.00	28.00
60	0.00	0.00	0.00	20.00	15.00	30.00
61	0.00	0.00	40.00	25.00	25.00	35.00
62	0.00	0.00	50.00	35.00	35.00	40.00
63	0.00	0.00	40.00	20.00	20.00	30.00
64	0.00	0.00	35.00	25.00	25.00	30.00
65	0.00	35.00	35.00	35.00	35.00	35.00
66	0.00	20.00	20.00	20.00	20.00	20.00
67	0.00	15.00	15.00	15.00	15.00	15.00
68	0.00	15.00	15.00	15.00	15.00	15.00
69	0.00	20.00	20.00	20.00	20.00	20.00
70	100.00	100.00	100.00	100.00	100.00	100.00

5. Termination (for causes other than death, disability or retirement) - Select and ultimate as shown below for selected ages:

Terminations per 100 Members

Males

Years of Service

Age	0	1	2	3	4	5	6	7	8	9	10+
25	45.10	33.50	23.39	17.10	13.75	11.68	10.21	8.94	7.79	7.10	8.86
30	42.28	28.78	20.12	14.85	11.95	10.34	9.17	8.08	7.04	6.28	5.99
35	40.37	26.82	18.43	13.40	10.65	9.29	8.37	7.48	6.58	5.80	3.84
40	39.28	26.65	17.89	12.64	9.85	8.56	7.82	7.13	6.38	5.65	2.40
45	38.59	26.98	18.04	12.55	9.58	8.20	7.49	6.94	6.37	5.79	1.81
50	37.83	27.06	18.60	13.10	9.90	8.24	7.35	6.83	6.45	6.13	2.50
55	36.87	26.97	19.58	14.29	10.83	8.70	7.43	6.77	6.54	6.59	5.30
60	35.79	27.22	21.09	16.11	12.36	9.58	7.69	6.74	6.57	7.11	10.67
65	34.67	28.18	23.21	18.55	14.47	0.00	0.00	0.00	0.00	0.00	0.00

Females

Years of Service

Age	0	1	2	3	4	5	6	7	8	9	10+
25	40.50	29.30	21.62	17.88	16.08	14.90	13.60	11.81	9.39	6.66	7.55
30	36.06	25.45	18.97	15.08	12.93	11.68	10.69	9.58	8.12	6.36	5.47
35	33.25	23.24	16.75	12.79	10.57	9.37	8.62	7.94	7.11	6.03	3.87
40	31.79	22.00	15.10	11.14	9.05	7.99	7.34	6.86	6.35	5.66	2.76
45	31.29	21.37	14.28	10.40	8.46	7.48	6.83	6.32	5.87	5.32	2.20
50	31.49	21.39	14.49	10.65	8.71	7.71	6.96	6.32	5.74	5.18	2.27
55	32.32	22.32	15.72	11.79	9.67	8.47	7.57	6.76	6.02	5.39	3.10
60	33.76	24.34	17.95	13.71	11.24	9.62	8.51	7.54	6.72	6.07	4.95
65	35.82	27.54	21.14	16.33	13.36	0.00	0.00	0.00	0.00	0.00	0.00

Rates are not applied after the member is eligible for reduced or unreduced retirement benefits.

C. Other Assumptions

1. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses. All beneficiaries are assumed to be spouses.
2. Percent electing annuity on death: It is assumed that beneficiaries of deceased members will elect to receive the refund of contributions with interest, unless the member is eligible for early or normal retirement, in which case the beneficiary will elect to receive the survivor annuity.
3. Percent electing deferred termination benefit: All vested active members terminating prior to eligibility for a retirement benefit are assumed to elect the more valuable of (i) an immediate refund, or (ii) a deferred annuity commencing when the member is eligible for an unreduced retirement benefit.
4. Assumed age for commencement of deferred benefits: Members electing to receive a deferred benefit are assumed to commence receipt when eligible for an unreduced benefit (or attained age if later).
5. Administrative expenses: The assumed investment return rate is intended to be the net rate of return after payment of all investment and administrative expenses.
6. Percent married: For valuation purposes 100% of members are assumed to be married.

V. Participant Data

Participant data was supplied in electronic files for (i) active members, (ii) inactive members, who are entitled to either a future deferred benefit or a refund of their employee contributions and the accumulated interest, and (iii) members and beneficiaries receiving benefits.

The data for active and inactive, non-retired members include birth date, sex, years of service, salary, and accumulated employee contributions (without interest). For retired members and beneficiaries, the data included date of birth, sex, beneficiary or joint annuitant date of birth (where applicable), current monthly benefit, date of retirement, and a form of payment code.

Salary supplied for the current year was the total earnings for the year preceding the valuation date. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data.

Glossary

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of Future Plan Benefits which is not provided for by future Normal Costs. It is equal to the Actuarial Present Value of Future Plan Benefits minus the actuarial present value of future Normal Costs.

Actuarial Assumptions: Assumptions as to future experience under the Plan. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and future investment and administrative expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

Actuarial Cost Method or Funding Method: A procedure for allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability. These items are used to determine the ARC.

Actuarial Gain or Actuarial Loss: A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Plan's assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

- a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)
- b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
- c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of those benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive, nonretired members either entitled to a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.

Actuarial Valuation: The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB 25, such as the funded ratio and the ARC.

Actuarial Value of Assets or Valuation Assets: The value of the Plan's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly actuaries use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ARC.

Actuarially Determined: Values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.

Amortization Method: A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.

Amortization Payment: That portion of the pension plan contribution or ARC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Annual Required Contribution (ARC): The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB 25. The ARC consists of the Employer Normal Cost and the Amortization Payment.

Closed Amortization Period: A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.

Decrements: Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.

Defined Benefit Plan: A retirement plan that is not a Defined Contribution Plan. Typically a defined benefit plan is one in which benefits are defined by a formula applied to the member's compensation and/or years of service.

Defined Contribution Plan: A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, and the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.

Employer Normal Cost: The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.

Experience Study: A periodic review and analysis of the actual experience of the Plan which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.

Funded Ratio: The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA, although GASB 25 reporting requires the use of the AVA.

Funding Period or Amortization Period: The term "Funding Period" is used in two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ARC. This funding period is chosen by the Board of Trustees. In the second sense, it is a calculated item: the number of years in the future that will theoretically be required to amortize (i.e., pay off or eliminate) the Unfunded Actuarial Accrued Liability, based on the statutory employer contribution rate, and assuming no future actuarial gains or losses.

GASB: Governmental Accounting Standards Board.

GASB 25 and **GASB 27:** Governmental Accounting Standards Board Statements No. 25 and No. 27. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 25 sets the rules for the systems themselves.

Normal Cost: That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated. Under the entry age normal cost method, the Normal Cost is intended to be the level cost (when expressed as a percentage of pay) needed to fund the benefits of a member from hire until ultimate termination, death, disability or retirement.

Open Amortization Period: An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

Valuation Date or Actuarial Valuation Date: The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.