Comprehensive Annual Financial Report

New Mexico Educational Retirement Board

A Pension Trust Fund of the State of New Mexico

June 30, 2016

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016

Prepared by the staff of the New Mexico Educational Retirement Board
Available online at www.nmerb.org

Managing the Retirement Assets of New Mexico's Educational Employees Since 1957

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INTRODUCTORY SECTION

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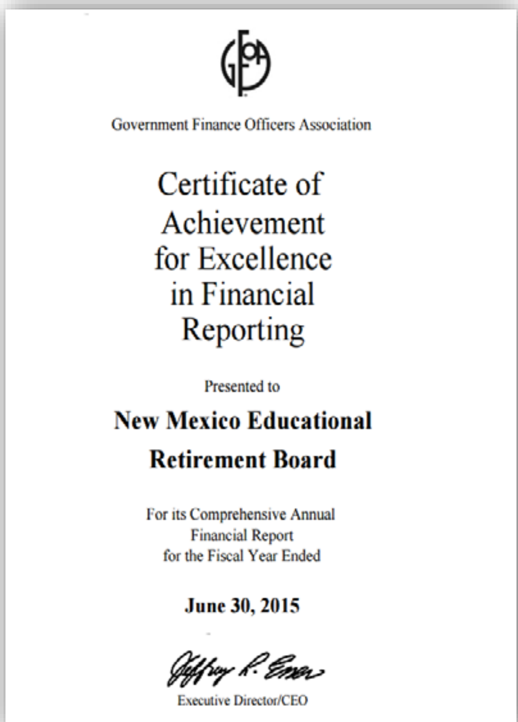


Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

New Mexico Educational Retirement Board

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

Public Pension Coordinating Council

Recognition Award for Administration

2016

Presented to

New Mexico Educational Retirement Board

In recognition of meeting professional standards for plan administration as set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)

National Conference on Public Employee Retirement Systems (NCPERS)

National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Program Administrator

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada awarded NMERB a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual financial Report (CAFR) for the fiscal year ended June 30, 2015. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. We believe our current CAFR also meets the Certificate of Achievement Program's requirements.

PUBLIC PENSION STANDARDS AWARD

The Public Pension Coordinating Council (PPCC) awarded a **Pension Standards Award for Standards and Administration** for the fiscal year ended June 30, 2016. This is the third consecutive year that NMERB has achieved this prestigious award. In order to be awarded a Public Pension Standards Award, a public pension program must meet the professional standards for plan design and administration as set forth in the Public Pension Standards guideline. This award is valid for a period of one year.

Executive Director's Letter

STATE OF NEW MEXICO

Educational Retirement Board

701 CAMINO DE LOS MARQUEZ
P.O. Box 26129
SANTA FE, NEW MEXICO 87502-0129
PHONE: (505) 827-8030
FAX: (505) 827-8010

December 31, 2016

**To the Trustees and Members of the
New Mexico Educational Retirement Board:**

I am pleased to submit the fiscal year 2016 Comprehensive Annual Financial Report (CAFR). The CAFR is a presentation of fiscal year financial results and provides useful information to evaluate the financial condition of the Plan. The year was marked by management's commitment to a sustainable and sound pension fund now and in the future.

Management assumes full responsibility for the completeness and reliability of the information in this report, based on a comprehensive framework of internal control that has been established for this purpose. CliftonLarsonAllen, LLP, Certified Public Accountants, have issued an unmodified opinion on the New Mexico Educational Retirement Board's financial statements for the year ended June 30, 2016. The independent auditors' report is located at the beginning of the financial section of this report. Management's discussion and analysis (MD&A) follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Background

The Educational Retirement Act (ERA) NMERB in 1957 established the NMERB Board of Trustees to administer the Educational Employees Retirement Plan (Plan). The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs.

The Plan is considered a component unit of the State of New Mexico's financial reporting entity. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan, which is a pension benefit trust fund of the State of New Mexico. NMERB is self-funded through investment income and educational employer and employee contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

Highlights

The year resulted in some growth for the New Mexico Educational Retirement Board Fund (Fund). The fair value of our public pension fund ended the year at $11.5 billion, with net position increasing $35.1 million, or 0.3% when compared to June 30, 2015. The Fund's investments returned 2.6% net of fees, outperforming the policy index by 1.0%; investment performance ranked in the top 6%, net of fees, in NMERB's peer group of U.S. public pension funds with assets of $1 billion or more, as measured by the Investor Force database. Over the past five years, the Fund returned 6.6%, net of fees, per annum, outperforming the policy index by 0.6% and ranking in the top 31st percentile of its peer group. NMERB preserved and sustained the integrity of its investment portfolio, despite facing challenging market conditions in fiscal year 2016.

The number of active members decreased from 60,998 to 60,057, or 1.5%, while the retiree population increased from 44,043 to 45,797, or 4.0%. These results are consistent with the trend seen over the last ten (10) years for a fairly stable active membership population size, compared to the growing retiree population.

Strategic Goals: Strategies, Priorities, and Long Range Plans

The Board of Trustees (BOT) adopted a Strategic Plan for 2014–2016, which sets specific goals, objectives, and initiatives to continuously improve customer service. We continue to focus on improving the financial condition of the fund, improving and increasing the quality of services we offer, managing risks inherent in administering a pension fund, and building strong relationships with stakeholders. Staff manage priorities and progress toward NMERB's multi-year strategic goals and objectives through a sound project management approach.

Budget Overview: Basis and Process

The Board of Trustees integrates the budgetary reporting process as a tool for monitoring the strength of internal controls and administration of the Plan. NMERB's budgetary process supports our strategic mission to provide secure retirement benefits to current and future retirees through strong oversight of the Fund's asset value and performance, and continued high quality services for membership. The fiscal year 2016 budget appropriation remained stable in comparison to the prior year, but continued to support efforts to enhance our core retirement software application.

Financial Reporting and Systems

The integrity and fairness of the information presented in this CAFR, including data, which of necessity, is based on estimates and judgments, are the responsibility of NMERB management. The accounting policies used to prepare the financial statements conform to accounting principles generally accepted in the United States. Financial information presented throughout this annual report is consistent with these accounting principles.

Our independent external auditor, CliftonLarsenAllen, LLP conducted an annual audit of the basic financial statements in accordance with auditing standards generally accepted in the United States, performing such tests and other procedures as they deemed necessary to express opinions on the basic financial statements in their report to the Board of Trustees (BOT). CliftonLarsenAllen, LLP had full and unrestricted access to the BOT to discuss their audit and related findings as to the integrity of the financial reporting and the adequacy of internal control systems.

Management is responsible for establishing and maintaining an internal control structure designed to ensure that NMERB assets are protected from loss, theft, or misuse, and that revenues are appropriately distributed. Responsibility for the accuracy, completeness, and fair presentation of the information, and all disclosures, rests with NMERB management. The basic financial statements were prepared in accordance with accounting principles generally accepted in the United States. Management assumes full responsibility for the completeness and reliability of the information contained in the financial statements, and in this report.

Funding

The funded condition of the plan, as measured by ratio of the actuarial value of assets to the actuarial accrued liability, increased slightly from 63.7% in fiscal year 2015 to 64.2% in fiscal year 2016. The increase was primarily due to the favorable cost of living adjustment experience.

NMERB has two primary revenue sources: 1) employer and employee contributions from New Mexico public schools, colleges, and universities; and 2) investment income. We continue to work with stakeholders (schools, educational associations, and retirees) to ensure efficient payment systems for reporting and payment of contributions, equitable reporting guidelines, a secure retirement outlook for New Mexico's educational employees, and a qualified workforce for participating educational employers. Total contributions in fiscal year 2016 were .4% higher than fiscal year 2015 contributions. This is consistent with the .4% increase in covered payroll in fiscal year 2016, as compared to 2015.

Fiscal year 2016 net investment income (net appreciation in the fair value of plan investments, dividend income, and interest income less investment expenses) was $364,571,123, as compared to $423,329,794 in fiscal year 2015. NMERB invests for the long term. It is important to keep in mind that NMERB's well diversified portfolio, especially in times of investment market volatility, is the best way to ensure a secure retirement for NMERB's members.

In Closing

I would like to extend a note of thanks to all of NMERB's staff, consultants and vendors for their contributions and hard work on this report and throughout the year.

Respectfully submitted,

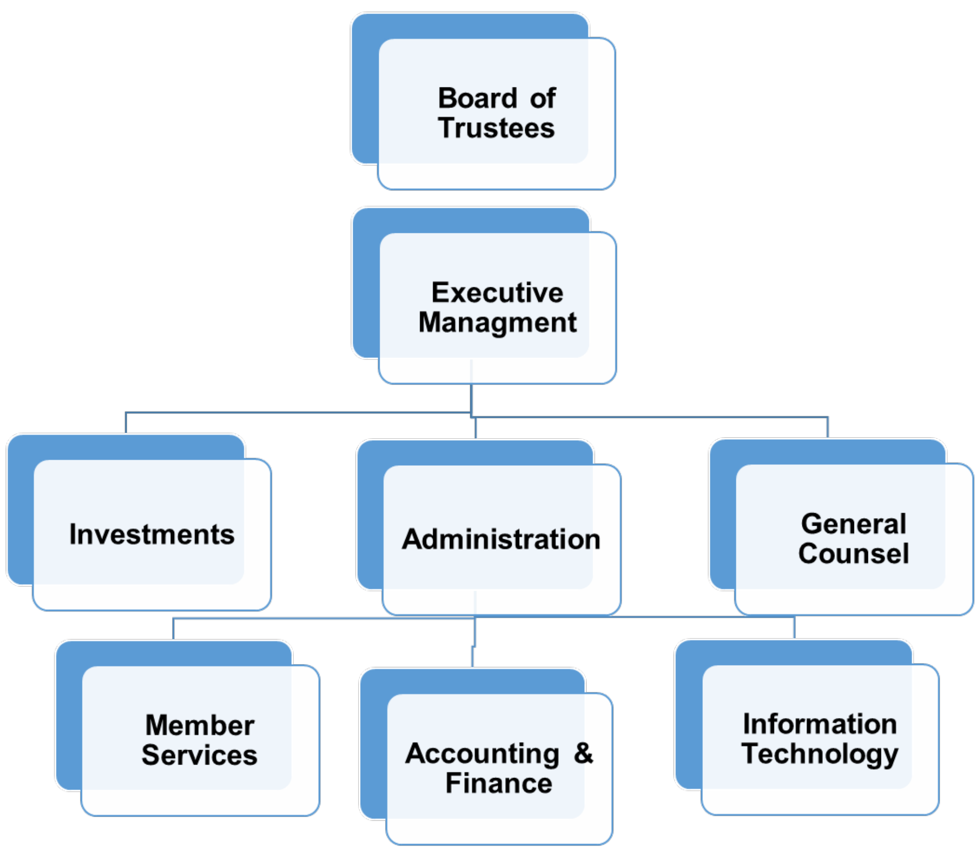
Jan Goodwin
Executive Director

About NMERB

The New Mexico Educational Retirement Board (NMERB) is headquartered in Santa Fe, New Mexico and provides retirement benefit services to more than 150,000 members and 218 public educational employers. NMERB was created by New Mexico's Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978 to administer the Educational Employees' Retirement Plan which provides retirement and disability benefits for certified teachers and other employees of the state's public schools, including public colleges, universities, and public technical and vocational institutions. As a defined benefit retirement plan, NMERB benefits are based on years of service, a benefit multiplier, and average compensation in the five highest consecutive years.

The management of NMERB is vested in a seven (7) member board. The organization functions through its five (5) interrelated work groups to serve the membership and the employers.

Functional Organization Chart



Functional Workgroups

Investments

NMERB's investment asset portfolio is invested, or reinvested, pursuant to the authority of the Educational Retirement Act, Section 22-11-13 in accordance with the Uniform Prudent Investor Act, Sections 45-7-601 through 45-7-612, NMSA 1978. Investing is conducted solely in the interest of, and for the exclusive purposes of, providing benefits to members and their beneficiaries and defraying reasonable administrative expenses. (A schedules of investment fees, profit share, and commissions can be found under the *investment section* of this report.)

General Counsel

The Office of General Counsel serves as legal adviser to the New Mexico Educational Retirement Board and Agency management. The office ensures that the Board and Agency act in conformance with all applicable legal and regulatory requirements, and coordinates all Agency litigation.

Member Services

Member Services staff assists members throughout their careers and into retirement, acting as the primary customer service contact for assistance, information, and education about potential or current retirement benefits. Member Services provides educational outreach across New Mexico, conducts one on one onsite counseling, processes retirement applications and benefit estimates, and helps transition benefits to survivors. Member Services is a premier source of quality customer service to our membership.

Accounting and Finance

Accounting and Finance staff are responsible for all of the financial records administered by the Agency, including fiscal reporting, accounting, procurement, budgeting, and monthly Employer Contribution reporting and payment processing. Staff works closely with each of the Agency's functional workgroups, optimizing workflow and communication.

Information Technology

Information Technology staff provides technical hardware and software support for the Agency's data processing needs, the document imaging system, network capability, and the communication system. Staff uses a project management and customer service orientation to maintain a secure and stable environment that ensures customer satisfaction and collaboration.

NMERB's Staff as of June 30, 2016

Executive Management		
Executive Director		Jan Goodwin
Deputy Director		Rick Scroggins
Human Resources Manager		Patrick Herrera
Administrative Assistant		Margaret Riquelmy
Investment Division		
Chief Investment Officer		Bob Jacksha
Deputy Investment Officer		Kay Chippeaux
Deputy Investment Officer		Steve Neel
Aaron Armstrong	Mark Canavan	Marla Vigil
Alan Myers	Rita Lopez	Pete Werner
Legal Division		
General Counsel		Roderick Ventura
Deputy Counsel		Susanne Roubidoux
Assistant Deputy Counsel		Robert Shulman
Amanda Olsen		Margo Salazar
Member Services		
Member Services		Monica Lujan
Pension Benefit Manager		Raul Duran
Retirement & Member Services		Karla Leyba
	Renee Garcia	
Cordelia Anaya	Marinda Kippert	Melissa McFall
Jocelyn Coriz	Jerome Lopez	Lealia Nelson
Laura Crawforth	Starlene Lucero	Jennifer Vigil
Joan Duran Kuck	Jessica Maestas	Crystal Vigil
Barbara Feeney	Cynthia Martinez	Rosa Weese
Information Technology		
Chief Information Officer		Lawrence Esquibel
Arthur Acoya	Robert Hampton	Stefanie Rivera
Frank Arrellano	Joseph Avila	Shaun Oakely
Jonas Aylward		Bea Pacheco
Accounting and Finance		
Chief Financial Officer		Dianne L. Rossbach
Operations Manager		Debbi Lucero
School Reporting Manager		Megan Mannila
Elizabeth Fischer	Kevin Long	Audra Mena
Rosalie Garcia	Michelle Lopez-Montoya	Angelina Romero
Mary Jane Hogin	Tyler Runyan	David Roybal

Board of Trustees

The Board stands in a fiduciary relationship to the members covered under the Educational Retirement Act. Administrative management of the Fund is vested in the Executive Director who is appointed by the Board of Trustees to advise the Trustees on all matters pertaining to the retirement system, contractual obligations, and employment of the staff needed for operations.

Board and committee meetings are open to the public. The seven member Board of Trustees is comprised of elected, appointed, and ex-officio members to provide broad policy guidance and direction. Membership on the board is prescribed by the Educational Retirement Act in Section 22-11-3 NMSA, 1978.

- Secretary of the Public Education Department (PED), or a designee of the secretary who is a resident of New Mexico, a current employee of PED, and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management.
- State Treasurer, or a designee of the Treasurer who is a resident of New Mexico, a current employee of the State Treasurer's Office, and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management.
- One member to be elected for a term of four years by the members of the New Mexico Association of Educational Retirees.
- One member to be elected for a term of four years by the members of the National Education Association of New Mexico.
- One member to be elected for a term of four years by the members of the New Mexico members of the American Association of University Professors.
- Two members to be appointed by the governor for terms of four years each. Each member appointed shall have a background in investments, finance or pension fund administration.

Trustee Name	Title	Term
Ms. Mary Lou Cameron	Chair	June 30, 2017
Mr. H. Russell Goff	Vice-Chair	June 30, 2016
Mr. Larry Magid	Member	June 30, 2017
Dr. Donald Duszynski	Member	June 30, 2020
Mr. Tim Eichenberg, New Mexico State Treasurer	Ex-officio Member	
Ms. Hanna Skandera, Secretary, PED	Ex-officio Member	
Mr. Hipolito J. Aguilar	Designate for Ms. Hanna Skandera	

The Business of the Board of Trustees

The Trustees adopted a Strategic Plan document for 2014-2016 in April, 2014 that addresses their goals and objectives for management to incorporate into operational plans. In keeping with that Strategic Plan document, each year the Trustees and Executive Management ratify investment policies and asset allocation targets, approve the annual budget, update the Information Technology Plan, review actuarial assumptions, and address overall planning to administer their fiduciary responsibility to the pension plan trust.

Mission and Vision Statements

Mission Statement

…to provide secure retirement benefits for New Mexico's educational employees – past, present and future.

Vision Statement

…to be an effective and trusted manager of New Mexico's Educational Retirement System.

Strategic Planning

The Board of Trustees follows a formal strategic planning process which includes periodic review and update of NMERB's Strategic Plan. The goals set for fiscal years 2014-2016 are to 1) improve and maintain the financial condition of the fund, 2) continually improve the quality of member and employer service, 3) embark on agency-wide risk identification and management effort, and 4) build strong, effective relationships with all stakeholders. Each functional area implements the Strategic Plan through inter-divisional initiatives producing sound long-term benefits for membership and stakeholders alike. Multi-year initiatives include short-term, interim objectives and performance measures to manage the initiatives and measure their success.

Budget Planning

The Board of Trustees employs the budgetary reporting process as a tool to administer and establish priorities for the Plan. Annual budget preparation includes periodic monitoring of appropriations and benchmarking to mitigate risk. The Chief Financial Officer is responsible for monitoring the budget and related business processes to add value and improve effectiveness, efficiencies, and adaptability to NMERB operations. The Chief Financial Officer regularly apprises the Board of Trustees on NMERB's budgetary status and financial position.

The budget is adopted on the modified accrual basis of accounting, except for prior year obligations approved for payment by the New Mexico Department of Finance and Administration (DFA) per Section 6-10-4 NMSA 1978.

Key Consultants and Service Providers

Actuary	**Gabriel Roeder Smith & Company** 5605 N. MacArthur Blvd., Suite 870 Irving, TX 75038-2631
Auditor	**CliftonLarsonAllen, LLP** 500 Marquette, NW, Suite 800 Albuquerque, NM 87102
Alternative Retirement Plan Consultant	**Cammack Retirement** 40 Wall Street, 56th Floor New York, New York 10005
Internal Audit Services	**REDW, LLC** 7425 Jefferson Street NE Albuquerque, NM 87109
Investment Consultants	**NEPC, LLC** 255 State Street Boston, MA 02109 **Real Asset Portfolio Management** 15350 SW Sequoia Pkwy, Suite 105 Portland, OR 97224 **Top Tier Capital Partners, LLC** 600 Montgomery Street, Suite 480 San Francisco, CA 94111 **Caledon Capital Management, Inc.** 141 Adelaide Street, Suite 1500 Toronto, Ontario M5H 3L5
Custody Bank	**State Street Bank & Trust Company** 1776 Heritage Drive North Quincy, MA 02171
Legal Services	**Foster Pepper, PLCC** 1111 Third Ave Seattle, WA 98101 **Freedman Boyd Hollander Goldberg Urias & Ward PA** 200 3rd St NW, Suite 700 Albuquerque, NM 87102 **Groom Law Group, Chartered** 1701 Pennsylvania Avenue, NW Washington, DC 20006 **K & L Gates, LLP** 925 4th Ave Suite 290 Seattle, WA 98104
Software Maintenance	**ViTech Systems Group, LLC** 401 Park Ave South New York, NY 10016

FINANCIAL SECTION

Report of the Independent Auditors

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

The Members of the State of New Mexico
Educational Retirement Board
and Mr. Timothy M. Keller
New Mexico State Auditor

Report on the Financial Statements

We have audited the financial statements of the New Mexico Educational Retirement Board (ERB), which comprise the Statement of Fiduciary Net Position as of June 30, 2016, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related Notes to the Financial Statements, as listed in the table of contents. We have also audited the Schedule of Revenues and Expenditures - Budget and Actual for the New Mexico Educational Retirement Board presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

A member of Nexia International

The Members of the State of New Mexico
Educational Retirement Board
and Mr. Timothy M. Keller
New Mexico State Auditor

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the ERB as of June 30, 2016, and the respective changes in its net position and the Schedule of Revenues and Expenditures - Budget and Actual for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of ERB are intended to present the fiduciary net position and changes in fiduciary net position of only that portion of the State of New Mexico which are attributable to the transactions of the Funds administered by ERB. They do not purport to, and do not present fairly the financial position of the State of New Mexico as of June 30, 2016, and the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Auditors

The financial statements of ERB which comprise the Statement of Fiduciary Net Position as of June 30, 2015, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related Notes to the Basic Financial Statements, were audited by other auditors whose report dated November 12, 2015, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Changes in the Employers' Net Pension Liability, Employers' Net Pension Liability, Investment Returns and Employer Contributions, and related Notes, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit for the year ended June 30, 2016 was conducted for the purpose of forming an opinion on the ERB's financial statements. The Schedules of Budgeted Expenditures, Investment and Administrative Expenses and Cash and Short Term Investments, as listed in the table of contents, for the year ended June 30, 2016 are presented for purposes of additional analysis and is not a required part of the financial statements.

The Members of the State of New Mexico
Educational Retirement Board
and Mr. Timothy M. Keller
New Mexico State Auditor

The Schedules of Budgeted Expenditures, Investment and Administrative Expenses and Cash and Short Term Investments, as listed in the table of contents, are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements for the year ended June 30, 2016 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures described above and the report of the other auditors, the information is fairly stated, in all material respects, in relation to the financial statements as a whole for the year ended June 30, 2016. ERB's basic financial statements for the year ended June 30, 2015 were audited by other auditors whose report thereon, dated November 12, 2015, expressed unmodified opinions on the respective financial statements. The report of the other auditors dated November 12, 2015, stated that the schedule of cash and short term investments for the year ended June 30, 2015 were subjected to the auditing procedures applied in the audit of the 2015 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, were fairly stated in all material respects in relation to the basic financial statements as whole for the year ended June 30, 2015.

The Introductory, Actuarial, Investment and Statistical section, Accountability in Government Act Performance Measures and Schedule of Vendor Information, required by 2.2.2.10(A)(2)(g) NMAC, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 on our consideration of the ERB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ERB's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 1, 2016

Management Discussion and Analysis

INTRODUCTION

Management has compiled this narrative overview and analysis of the financial activities of the New Mexico Educational Retirement Board (NMERB) for the years ended June 30, 2016 and 2015. This narrative contains a discussion of financial position, financial highlights, and comparative information. Readers are encouraged to consider the information presented here in conjunction with the financial statements, the notes to the financial statements, and other required supplementary information.

NMERB, an agency of the State of New Mexico, was created to administer the Educational Employees' Retirement Plan (Plan), which was established to provide retirement, disability, and survivor benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs.

NMERB, governed by a seven member Board of Trustees (Board), stands in a fiduciary relationship to the members covered by the Educational Retirement Act (ERA). Administrative management of the fund is vested in the Executive Director who is appointed by the Board to advise the trustees on all matters pertaining to the retirement system, contractual obligations, and employment of the staff needed for operations.

A summary of Plan provisions and the composition of the Board can be found in the Notes to the Financial Statements.

FINANCIAL HIGHLIGHTS

- In fiscal years ending June 30, 2016 and 2015 the additions to the Plan's fiduciary net position totaled $1,057,506,076 and $1,119,428,538, respectively. The components of additions are contributions, net investment income, and other income.

- Total deductions from the Plan's fiduciary net position of $1,022,391,240 in fiscal year 2016 and $967,781,247 in fiscal year 2015, resulted in increases of 6% and 5% over each prior fiscal year, respectively. These were primarily due to normal increases in total age and service benefits.

- As of June 30, 2016, NMERB's investment return, net of fees, since July 1, 1983 was 9%.

- The current fiscal year's net pension liability (NPL) of $7,196,433,561, measured as the total pension liability less the amount of the Plan's fiduciary net position as of June 30, 2016, was calculated based on an expected rate of return on Plan investments of 7.75%. The current NPL increased by 11.1% over the fiscal year 2015 NPL of $6,477,266,299.

- The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased to 64.2% as of June 30, 2016, from 63.7% in fiscal year 2015. The Plan's funding period as of the valuation date of June 30, 2016 is 45.0 years.

OVERVIEW OF THE FINANCIAL STATEMENTS

NMERB's financial statements have been prepared in conformity with standards promulgated by the Governmental Accounting Standards Board (GASB) for pension systems. The basic financial statements presented in this report are the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

The **Statement of Fiduciary Net Position** reports on the pension trust fund's assets, liabilities, and the resulting net position where Assets minus Liabilities equals Net Position restricted for pensions at the end of the fiscal year. It is a snapshot of the pension trust fund at that point in time.

- **Net Position Restricted for Pensions**: In the fiscal year ended June 30, 2016 the net position increased to $11,532,837,951, from the prior year net position of $11,497,723,115. Overall the net increase of $35,114,836 during fiscal year 2016 was the net result of short term changes to cash equivalents and accounts payable, and a modest growth in the investment portfolio.

Condensed Net Position Analysis (millions)

	2016	2015	2014
Net position restricted for pensions	$ 11,533	$ 11,498	$ 11,346
Net increase in net position	$ 35	$ 152	$ 1,154

- **Fair Value of Investments**: The primary element of NMERB's fiduciary net position is the fair value of the investment portfolio. Investment assets totaled $11,517,640,530 as of the fiscal year end 2016, which was $113,984,349 higher than the prior fiscal year. It is important to note that the net change year over year is not only due to changes in fair value, but is also impacted by the timing of purchases, sales, and redemptions.

Condensed Investment Portfolio, fair value (millions)

	2016	2015	2014
Short term investments	$ 213	$ 545	$ 276
Investments, at fair value	11,305	10,859	11,026
Total	$ 11,518	$ 11,404	$ 11,302

- **Annual Return:** The investment fund achieved a positive 2.6% return during the fiscal year, net of fees. Although this one year return falls short of the target return rate of 7.75%, the fund outperformed the policy index by 1.0%, ranking in the top 6th percentile of its peers within the Investor Force Public Funds > $1 Billion Universe. All NMERB asset classes were within target policy ranges at year end. The following table provides a summary of total fund performance (net of fees) as of June 30, 2016.

Fund Performance Summary at June 30, 2016

1 Year	3 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
2.6%	6.9%	6.6%	5.7%	5.8%	6.8%	8.3%	8.4%

- **Receivables and Payables -** Total current receivables for fiscal year 2016 decreased $5,801,618 from the prior year. In fiscal year 2015, receivables had increased by $92,442,621 over 2014. Total current payables for fiscal year 2016 increased $78,202,500 from the prior year. In fiscal year 2015, payables had increased by $48,724,311. Changes in year end balances were primarily caused by changes in year end broker sales and purchase proceeds.

Changes in broker receivables and payables relate to the volume of investments sold at or near the current fiscal year end as compared to the prior year. Securities sales and purchases in the United States equity markets are based on “trade + 3 days,” meaning the transactions will settle in three business days after initiation. The number of days varies in other U.S. and foreign securities markets.

Condensed Receivables & Payables Analysis (millions)

	2016	2015	2014
Investment proceeds receivable	$ 137	$ 143	$ 59
Contributions	86	85	76
Other	-	1	1
Total current receivables	$ 223	$ 229	$ 136
Investment broker payables	$ 209	$ 138	$ 88
Accounts payable	10	5	5
Member withdrawals	3	1	3
Accrued payroll & benefits	1	1	-
Total current payables	$ 223	$ 145	$ 96

The **Statement of Changes in Fiduciary Net Position** summarizes the pension trust fund’s financial transactions that occurred during the fiscal year where Additions minus Deductions equals the net increase (decrease) in net position. This statement describes the changes that have occurred during this fiscal year to the prior year’s ending net position.

- **Contributions -** NMERB’s funding objective is to meet long-term benefit obligations through member and employer contributions, as well as through investment earnings. Annual contributions for the current reporting year were $690,836,527, exclusive of contributions received to purchase prior service. This is an increase of $2,884,510, or 0.4%, over the prior fiscal year, attributable to the natural cycle of wage growth within the educational system. In fiscal year 2015 contribution income increased $56,795,489, or 9%, over fiscal year 2014. The increase in 2015 was caused by legislative changes to increase employer contribution rates. The Plan’s five (5) year active educational membership average year over year is 60,852 employees.
- **Investment income** net of external manager and custody banking fees was $364,571,123 for 2016, a decrease over the prior fiscal year total of $423,329,794 by $58,758,671, or 13.9%, due to a difficult market year and a volatile investment environment. The best performing asset classes in 2016 were in the private asset space. Private infrastructure returned a positive gain of 13.4%, private real estate returned 11.8%, and private equity returned 9.2% (all results noted are net of fees).
- **Net age and service benefits** paid in fiscal year 2016, including disability and death benefit payments, totaled $973,703,652, a 5.8% increase over the prior year’s net benefit payments. The increase in payments is in line with the growth in the retiree population by 4.0% from 44,043 in fiscal year 2015 to 45,797 in fiscal year 2016, and mirrors the consistent, though modest, annual growth in the total retiree population.

The **Notes to the Financial Statements** are an integral part of the financial statements, which include additional detailed information not readily evident within the financial statements themselves.

- **Net pension liability –** The Plan's net pension liability for fiscal year 2016 is $7,196,433,561. This year-end balance increased by $719,167,262, or 11.1%, over fiscal year 2015. The prior year experienced an increase of $771,535,486, or 13.5%, over the fiscal year 2014 balance of $5,705,730,813. The 2016 net pension liability stated as a percentage of covered payroll is 262.59%, up from 237.23% in fiscal year 2015. Changes in the net pension liability arise from changes in the total pension liability and the Plan's fiduciary net position. The net pension liability increase in fiscal year 2016 was primarily due to slowed growth in NMERB's investment assets, consistent with results in worldwide markets.

  The table below portrays NMERB's fiduciary net pension liability, calculated using the current discount rate of 7.75%, a discount rate 1% lower (6.75%), and 1% higher (8.75) than the current rate. The sensitivity analysis is shown below for fiscal years 2016, 2015, and 2014.

Fiscal Year	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
2016	$ 9,531,509,131	$ 7,196,433,561	$ 5,258,980,529
2015	$ 8,715,594,530	$ 6,477,266,299	$ 4,596,837,569
2014	$ 7,763,304,829	$ 5,705,730,813	$ 3,987,098,791

Schedules included in the Required and Other Supplementary Information section provide detailed and historical information considered useful in evaluating the financial condition of the Plan administered by NMERB.

- **NM Accountability in Government Act:** In 1999, the Accountability in Government Act (AGA) mandated performance-based budgeting across state agencies per Section 6-3A NMSA 1978 to improve program coordination and increase operational information available to the Governor, the Legislature, and the public. NMERB serves its membership through prudent asset management, efficient administration, membership training, and reliable payment processing. In support of these desirable outcomes, NMERB met all targeted goals for five-year investment performance, training satisfaction, payment processing, and benefit estimate volumes. Detailed AGA performance results are covered within Other Supplementary Information.

CONDENSED FINANCIAL INFORMATION

Condensed Statement of Fiduciary Net Position (millions)

	2016	2015	2014	$ Difference FY16-FY15	$ Difference FY15-FY14	% Difference FY16-FY15	% Difference FY15-FY14
Assets							
Cash & receivables	$ 449	$ 782	$ 414	$ (333)	$ 368	-42.6%	89.0%
Investments, fair value	11,305	10,859	11,026	446	(167)	4.1%	-1.5%
Capital assets - net	2	2	2	-	-	0.0%	0.0%
Total assets	11,756	11,643	11,442	113	201	1.0%	1.8%
Total current liabilities	223	145	96	78	49	53.9%	51.0%
Net position restricted for pensions	$ 11,533	$ 11,498	$ 11,346	$ 35	$ 152	0.3%	1.3%

Condensed Statement of Changes in Fiduciary Net Position (millions)

	2016	2015	2014	$ Difference FY16-FY15	$ Difference FY15-FY14	% Difference FY16-FY15	% Difference FY15-FY14
Additions							
Contributions	$ 691	$ 688	$ 631	$ 3	$ 57	0.4%	9.0%
Net investment income	365	423	1,444	(58)	(1,021)	-13.8%	-70.7%
Other income (expense)	2	8	3	(6)	5	-73.6%	186.5%
Total additions	1,058	1,119	2,078	(61)	(959)	-5.4%	-46.1%
Deductions							
Benefits & withdrawals	1,013	956	907	57	49	6.0%	5.4%
Administrative expenses	10	11	17	(1)	(6)	-9.4%	-36.1%
Total deductions	1,023	967	924	56	43	5.8%	4.7%
Net increase (decrease)	35	152	1,154	(117)	(1,002)	-76.8%	-86.8%
Net position restricted for pensions							
Beginning of the year	11,498	11,346	10,192	152	1,154	1.3%	11.3%
End of the year	$ 11,533	$ 11,498	$ 11,346	$ 35	$ 152	0.3%	1.3%

CURRENTLY KNOWN FACTS AND CONDITIONS

Rule Changes: After public meetings with employers, members and other stakeholders, the Board of Trustees adopted Rule changes primarily focused on bringing legal language into conformity with NMERB policy for processing employer wage and contribution reports. Changes to Rule 3 and 4 became effective as of June 30, 2016. Changes to Rule 2 and 9 will become effective on different dates in the first quarter of fiscal year 2017.

- NMERB Rule 2 – Membership – Where an individual is employed by more than one employer, the aggregate full time equivalency is considered to determine eligible service credit.
- NMERB Rule 3 – Member Contributions – Refund payments will be made pursuant to employer certification of termination and once final remittances are received.
- NMERB Rule 4 – Service Credit – Service credit is awarded based on the quarter of employment for services rendered. Employees are considered to have rendered services for each day the employee is paid salary, regardless of whether the payment is for annual, sick, administrative or other form of leave.
- NMERB Rule 9 – Administrative Unit Reports and Remittances - Employer reports shall encompass all local administrative unit employees (job category, classification, and FTE %), including employees identified as members and those specifically excluded from Plan coverage.
- NMERB Rule 9 – Administrative Unit Reports and Remittances – Late or incomplete reports submitted without showing good cause will be subject to a charge of fifty dollars ($50). This change creates a specific charge for late reports separately from payments, as well as a provision for a corresponding “good cause” waiver for late reports.

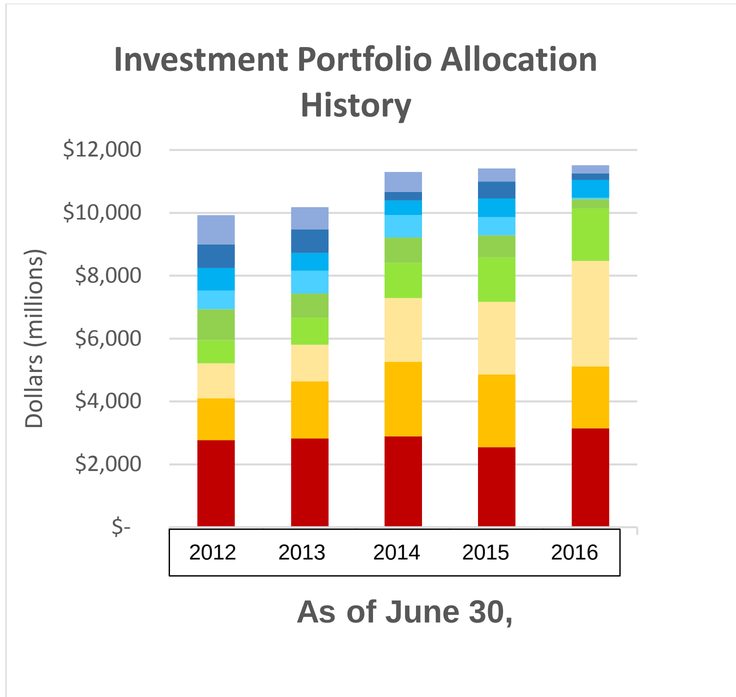
Investment Risk Exposure: At the close of fiscal year 2016, investment markets experienced increased volatility based on national and global economic trends. In formulating the Plan’s investment strategy, NMERB takes a long term perspective designed to meet the needs of our beneficiaries for many years to come. NMERB seeks to diversify the risks contained in the investment portfolio among the many categories of assets available to institutional investors. NMERB also manages liquidity to ensure the Plan’s ability to meet continuing pension benefit obligations. NMERB continues to pursue long term institutional strategies for growth at a minimum level of risk per unit of return.

Pending litigation and claims: During each business cycle, NMERB may be named as a defendant in administrative appeals arising from the normal course of business. Legal counsel believes resolution of any currently pending matters will not have a material effect on the financial statements.

COMPARATIVE SUMMARY INFORMATION

The following chart depicts growth and changes in investment allocations by portfolio category as of June 30 from fiscal year 2012 to 2016. Target investment allocations are reviewed at least annually by the Board of Trustees. Additional detail on fiscal year 2016 targets is available in the Notes to the Financial Statements.

Portfolio Legend
Hedge Funds
Cash and cash equivalents
U.S. Treasury and government agency securities
Asset and mortgage backed securities
Domestic corporate bonds
Private equity and real estate
Other investments
International stocks and bonds
Domestic stocks



FINANCIAL CONTACT

Any questions regarding the financial statements of NMERB should be directed to the NMERB Chief Financial Officer at (505) 476-6126 or by mail at 701 Camino de los Marquez, Santa Fe, New Mexico 87505.

Statement of Fiduciary Net Position

June 30, 2016 and 2015

	2016	2015
Assets		
Cash and short term investments	$ 226,259,296	$ 553,460,263
Receivables		
Contributions	86,116,588	85,415,894
Investment sales proceeds-brokers	122,251,638	129,165,192
Interest and dividends	14,119,890	13,464,480
Other, net	294,621	538,790
Total receivables	222,782,737	228,584,355
Investments, at fair value		
Equities portfolio	5,510,109,948	4,418,573,519
Alternative investment portfolio	4,738,920,510	4,127,060,293
Fixed income portfolio	1,055,568,768	2,312,860,829
Total investments	11,304,599,226	10,858,494,641
Capital assets, net of accumulated depreciation	2,219,128	2,003,792
Total assets	$ 11,755,860,387	$ 11,642,543,051
Current Liabilities		
Accounts payable	$ 5,298,417	$ 4,763,578
Accounts payable to state agencies	5,175,245	-
Accrued payroll and employee benefits	745,821	549,362
Refunds payable	2,730,653	1,260,934
Investment purchases payable	209,072,300	138,246,062
Total current liabilities	223,022,436	144,819,936
Net position restricted for pensions	$ 11,532,837,951	$ 11,497,723,115

See Accompanying Notes to Financial Statements

Statement of Changes in Fiduciary Net Position

For the Years Ended June 30, 2016 and 2015

		2016		2015
Additions				
Contributions				
Employer	$	396,988,557	$	395,129,621
Member		293,847,970		292,822,396
Total contributions		690,836,527		687,952,017
Investment income				
Net appreciation in fair value of plan investments		326,027,400		366,761,432
Dividend income		87,189,266		95,180,820
Interest income		39,237,943		37,823,427
Total investing activity gain		452,454,609		499,765,679
Investment expenses				
Management fees		(84,725,788)		(72,517,575)
Investment consulting fees		(1,743,502)		(1,486,871)
Custodial fees		(887,176)		(982,600)
Legal fees and other costs		(527,020)		(1,448,839)
Total investment expenses		(87,883,486)		(76,435,885)
Total net investment income		364,571,123		423,329,794
Other income		2,098,426		8,146,725
Total additions		1,057,506,076		1,119,428,536
Deductions				
Age and service benefit payments		973,703,652		920,755,421
Refunds to terminated members		34,988,313		32,313,405
Interest on refunds		4,038,765		4,114,576
Administrative expenses		9,660,510		10,597,846
Total deductions		1,022,391,240		967,781,247
Net increase in net position		35,114,836		151,647,291
Net position restricted for pensions				
Beginning of the year		11,497,723,115		11,346,075,824
End of the year	$	11,532,837,951	$	11,497,723,115

See Accompanying Notes to Financial Statements

Notes to Financial Statements

NOTE 1. GENERAL DESCRIPTION OF THE BOARD AND RETIREMENT PLAN

Background – The New Mexico Legislature passed the Educational Retirement Act (ERA) in 1957, establishing the NMERB Board of Trustees to administer the Educational Employees Retirement Plan (Plan). The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended.

Reporting Entity – The Plan administered by NMERB is considered a component unit of the State's financial reporting entity. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan which is a pension benefit trust fund of the State of New Mexico. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

The ERA defines the governing Board of Trustees for NMERB per 22-11-3 NMSA, 1978.

- The Secretary of Public Education, or a designee of the secretary who is a resident of New Mexico; is a current employee of the Public Education Department; and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management;
- The State Treasurer, or a designee of the Treasurer who is a resident of New Mexico; is a current employee of the State Treasurer's office; and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management;
- One member to be elected for a term of four years by members of the New Mexico Association of Educational Retirees;
- One member to be elected for a term of four years by the members of the National Education Association of New Mexico;
- One member to be elected for a term of four years by the New Mexico members of the American Association of University Professors; and
- Two members to be appointed by the governor for terms of four years each. Each member appointed shall have a background in investments, finance or pension fund administration.

NMERB applied criteria established by Generally Accepted Accounting Principles (GAAP) to determine whether other state agencies, boards or commissions which benefit the members of NMERB should be included within its financial reporting entity as component units. Those criteria include, but are not limited to, whether the Board exercises; financial interdependency; selection of governing authority; designation of management; an ability to

NOTE 1. GENERAL DESCRIPTION OF THE BOARD AND RETIREMENT PLAN (CONTINUED)

significantly influence operations and accountability for fiscal matters, scope of public service, and special financing relationships. Based on these criteria, the Board has determined that there are no component units that should be included in its financial reporting entity.

Defined Benefit Plan Description - The Plan administers a single cost-sharing, multiple-employer defined benefit pension plan. All accumulated assets are held in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined Section 22-11-2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

Active, retired, and inactive membership totaled 150,082 and 146,089 as of June 30, 2016 and 2015, respectively. The following schedule shows the number of members by category and year.

Schedule of Plan Membership by Year

Membership Status	2016	2015
Active working members	60,057	60,998
Retirees and beneficiaries currently receiving benefits	45,797	44,043
Inactive members, vested	10,219	9,513
Inactive members, nonvested	34,009	31,535
Total	150,082	146,089

Pension Benefit – A member's retirement benefit is determined by a formula which includes three component parts: 1) the member's final average salary (FAS), 2) the number of years of service credit, and 3) a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

Summary of Plan Provisions for Retirement Eligibility – For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member's age and earned service credit add up to the sum of 75 or more,
- The member is at least sixty-five years of age and has five or more years of earned service credit, or
- The member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 refunded all member contributions and then becomes re-employed after July 1, 2010 is as follows:

NOTE 1. GENERAL DESCRIPTION OF THE BOARD AND RETIREMENT PLAN (CONTINUED)

- The member's age and earned service credit add up to the sum of 80 or more,
- The member is at least sixty-seven years of age and has five or more years of earned service credit, or
- The member has service credit totaling 30 years or more.

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013 but terminated employment and subsequently withdrew all contributions, and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements.

- The member's minimum age is 55, and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55.
- The member's minimum age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits
- The member's age is 67, and has earned 5 or more years of service credit.

***Forms of Payment* –** The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

Benefit Options – The Plan has are three benefit options available.

- **Option A – Straight Life Benefit** – The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.
- **Option B – Joint 100% Survivor Benefit** - The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.
- **Option C – Joint 50% Survivor Benefit** - The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.

NOTE 1. GENERAL DESCRIPTION OF THE BOARD AND RETIREMENT PLAN (CONTINUED)

Cost of Living Adjustment **(COLA)** – All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

- Tier 1 membership is comprised of employees who became members prior to July 1, 2010
- Tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013
- Tier 3 membership is comprised of employees who became members on or after July 1, 2013

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%.

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

Disability Benefit – An NMERB member is eligible for disability benefits if they have acquired at least ten years of earned service credit and is found totally disabled. The disability benefit is equal to 2% of the member's Final Average Salary (FAS) multiplied by the number of years of total service credits. However, the disability benefit shall not be less than the smaller of (a) one-third of the member's FAS or (b) 2% of the member's FAS multiplied by total years of service credit projected to age 60.

Refund of Contributions - Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year.

Alternative Retirement Plan – Effective October, 1991, the New Mexico legislature established an Alternative Retirement Plan (ARP) through the enactment of ERA Sections 22-11-47 through 52 NMSA 1978 to provide eligible employees an election to establish an alternative retirement investment plan. In contrast to the defined benefit plan administered by NMERB, the ARP is a defined contribution plan. NMERB is the trustee of the ARP which is administered by two third party contractors for NMERB. The administrators approved to offer ARP plans to eligible participants are Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF), and Fidelity Investments.

NOTE 1. GENERAL DESCRIPTION OF THE BOARD AND RETIREMENT PLAN (CONTINUED)

These administrators have the authority to perform record keeping, enrollment education services, and other administrative duties for the ARP. The administrators are delegated any and all powers as may be necessary or advisable to discharge their duties under the ARP, and have certain discretionary authority to decide matters under the ARP. As the ARP trustee NMERB is responsible for selecting investment options that provide a prudent rate of return, and to ensure that all investments, amounts, property, and rights under the executed Plan-Trust are held for the exclusive benefit of Plan participants and their beneficiaries, as defined in the Plan Document.

Eligibility – Employees of the University of New Mexico, New Mexico State University, New Mexico Institute of Mining and Technology, New Mexico Highlands University, Eastern New Mexico University, and Western New Mexico University are eligible to make an election to participate within ninety days of employment. Information about the ARP is distributed by the employer. Those who do not elect to participate in the ARP remain members of the regular defined benefit retirement plan.

Section 22-11-47(D) NMSA 1978 allows an ARP participant a one-time option to make an irrevocable switch to the defined benefit retirement plan after seven years of ARP participation.

Form of Payment - Retirement, death, and other benefits are based upon contributions made and earnings accumulated on those contributions, in accordance with the terms of the applicable vendor contracts and Internal Revenue Service Code. Retirement benefits shall, at the option of the employee, be paid:

- in the form of a lifetime income, if held in an annuity contract,
- payments for a term of years, or
- a single-sum cash payment.

ARP retirement, death, and other benefits, including disability benefits, cannot be paid from the funds administered by NMERB.

ARP Contributions - For the year ended June 30, 2016, colleges and universities contributed 10.90% of participating employees' gross salary to the ARP vendor on behalf of the participant, and 3% of the employees' gross salary to NMERB. The colleges and universities are responsible for submitting the balance of the employers' contribution, and the employees' contributions directly to the ARP vendors.

Employees participating in the ARP do not accrue rights to benefits in the defined benefit pension plan based on the 3% contributions to the Plan.

Employer contributions reported in the Statement of Changes in Fiduciary Net Position include amounts remitted on behalf of both the ARP defined contribution plan and the defined benefit plan. The 3% contribution remitted for fiscal years ended June 30, 2016 and 2015 were $5,480,144 and $5,362,304 respectively.

NOTE 1. GENERAL DESCRIPTION OF THE BOARD AND RETIREMENT PLAN (CONTINUED)

A breakdown of contributing employers by reporting category for fiscal year 2016 and 2015 follows. The "State agencies" category includes the State of New Mexico as the common paymaster for all state agencies with educational programs, the New Mexico Activities Association, and the nine (9) New Mexico Regional Education Cooperatives.

NMERB served a total of 218 and 216 educational employers in fiscal years 2016 and 2015, respectively.

Schedule of Contributing Employers by Year

Employer Category	2016	2015
Charter schools	99	97
Public schools	89	89
Universities and colleges	15	15
State agencies	11	11
Special schools	4	4
Total	218	216

For the fiscal year ended June 30, 2016 and 2015 educational employers contributed to the Plan based on the following rate schedule.

Schedule of Contribution Rates

Fiscal Year	Date Range	Wage Category	Member Rate	Employer Rate	Combined Rate	Increase over Prior Year
2016	7-1-15 to 6-30-16	Over $20K	10.70%	13.90%	24.60%	0.00%
2016	7-1-15 to 6-30-16	$20K or less	7.90%	13.90%	21.80%	0.00%
2015	7-1-14 to 6-30-15	Over $20K	10.70%	13.90%	24.60%	1.35%
2015	7-1-14 to 6-30-15	$20K or less	7.90%	13.90%	21.80%	0.75%

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Measurement Focus - The Board's financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. The New Mexico General Fund Appropriation Act establishes the modified accrual basis of accounting for governmental funds as the budgetary basis for the State. Prior-year encumbrances are not carried forward for single-year appropriations. Employer and member contributions are recognized as revenue in the period in which the member's services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Use of Estimates – In preparing financial statements in conformity with governmental accounting principles generally accepted in the United States, NMERB's management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of additions to and deductions from the Plan fiduciary net position during the reported period, and disclosures as of the date of the financial statements. Actual results could differ from those estimates and assumptions. Certain NMERB investment assets, in particular global real assets and global private equity funds, use estimates in reporting fair value in the financial statements. These estimates are subject to uncertainty in the near term, which could result in changes in the values reported for those assets in the Statement of Fiduciary Net Position.

Reclassifications – Certain 2015 amounts have been reclassified in conformity with the 2016 financial presentation. These reclassifications have no impact on the fiscal year end net position or changes therein.

Cash and Short Term Investments – Cash includes demand deposits and all short term instruments with maturities at the time of purchase of less than 90 days. Individual deposit accounts and investment accounts held by NMERB are shown on the Statement of Fiduciary Net Position at fair value as required by Section 12-6-5(A) NMSA 1978. Cash activity is accounted for within the Statewide Human Resources Accounting and Management System (SHARE) fund number 60500. NMERB earns interest on all monies held at the State Treasurer's Office and in NMERB's custodial investment account at State Street Bank. When a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date the cash remains with custodial agent bank. When this occurs, NMERB's money is invested overnight in a Short-Term Investment Fund (STIF).

Revenue Recognition – Pension contributions are recognized as additions in the period they become due based on Plan reporting requirements. Investment income includes net investment appreciation or depreciation in the fair value of investments, interest and dividend income, and foreign currency transaction gains and losses. Investment income is recognized when earned.

Investments – All investment securities are reported at fair value, which is defined as the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Due to the nature of investments, it is reasonable to expect that changes in the value of investment assets will occur in the near future and that changes could materially affect the amounts reported.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NMERB's financial assets are measured and reported at fair value, based on quoted prices in active markets, significant other observable inputs, and significant unobservable inputs. Additional information on the investment securities based on the fair value hierarchy can be found in Note 6 based on GASB Statement 72, *Fair Value Measurement and Application*. There are certain market risks, credit risks, foreign exchange currency risks, or events that may subject the Plan's investment portfolio to economic changes occurring in certain industries, sectors, or geographic markets.

Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, and investment expenses which include management and custodial fees, and all other significant investment related costs. Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

NMERB's investments in limited partnerships are valued at an estimated fair value based on their proportionate share of the partnership's fair value as recorded in the partnership's financial statements. The limited partnerships allocate gains, losses and expenses to the partners based on the ownership percentage as described in the partnership agreements. As of June 30, 2016, NMERB's additional future contribution commitments to limited partnerships totaled $2.38 billion.

Other investments, as presented in the Statement of Fiduciary Net Position, include investments in swap agreements, distressed debt, option agreements, real estate investment trusts, and timber partnerships.

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of pension plan investments. Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

Capital Assets - Capital assets represent the cost of assets, net of accumulated depreciation, used for the administration of the Plan. Capital assets include NMERB's administration building located in Santa Fe, New Mexico. NMERB's capitalization policy, based on the requirements from Section 12-6-10 NMSA 1978, is to include all assets with a useful life of more than one year and a cost basis of at least $5,000. Assets with an original cost less than $5,000 but categorized as sensitive, primarily IT equipment, are also capitalized for tracking and control purposes. All additions are capitalized at historical cost as of the date of acquisition; depreciation is calculated on a straight-line basis over the asset's estimated useful life with no salvage value.

Estimated useful asset lives are as follows:

Buildings and building improvements	25 years
Depreciable land improvements	10 years
Furniture and equipment	10 years
Data processing equipment (including software)	5 years

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting - Formal budgetary integration is used by the Board of Trustees as a tool for monitoring internal controls and administering the Plan. The budget for NMERB, a New Mexico State agency is adopted on the modified accrual basis of accounting, except for prior year obligations approved for payment by the New Mexico Department of Finance and Administration (DFA) per Section 6-10-4 NMSA 1978.

Each year the New Mexico Legislature approves multi-year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the multi-year budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. Budget presentations in these financial statements are consistent with this budgeting methodology.

Only administrative expenses are budgeted, while significant revenues and non-administrative expenses are not. The budget recognizes encumbrances and capital expenses as current expenses, excludes depreciation expense, and recognizes revenue when cash is received. Budgetary comparisons for the Plan are presented in the schedule of revenues and expenditures, included in Other Supplemental Information.

The Accountability in Government Act, Chapter 15, Laws of 1999, requires implementation of performance-based budgeting over a four-year period. NMERB developed performance measures which were approved by the State Budget Division (SBD), a division of the DFA, and the Legislative Finance Committee (LFC), an interim committee of the New Mexico Legislature, and included in the General Appropriations Act. NMERB is required to report annually to the SBD and the LFC on these performance measures. Performance results are included in Other Supplemental Information.

To establish the annual budget, NMERB has the following procedures:

(1) NMERB prepares a Budget Appropriation Request for the Board of Trustees' approval, and to present at a Legislative Finance Committee (LFC) hearing. The request includes proposed expenses and the means of financing them.

(2) The Budget Appropriation Request is submitted to the State Budget Division (SBD) of DFA and the LFC.

(3) DFA makes recommendations and adjustments to NMERB's Budget Appropriation Request, which becomes the Governor's proposal to the legislature.

(4) The LFC holds hearings on the Budget Appropriation Request during the legislature's interim period. Recommendations and adjustments are made prior to presenting the Budget Appropriation Request to the legislature.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(5) Both DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget. The final budget approved by the legislature is then sent to the Governor's office for final approval.

(6) NMERB submits its annual operating budget to DFA and LFC based on the final appropriation recommendation from the Legislature and approval by the Governor.

(7) Per Section 9 of the General Appropriation Act of 2012, all agencies, including legislative agencies, may request category transfers among personal services and employee benefits, contractual services, and other costs. The legal level of budgetary control for NMERB's operating budget is the enacted appropriation program.

Refunds Payable - Refunds payable represents the total amount due and payable as of June 30 to terminated members who have submitted valid claims for a full refund of contributions. These refunds are processed in early July 2016, as soon as the state's ledgers are available to process the new fiscal year's transactions.

Due to Other State Agency - Retiree Healthcare Authority – NMERB's financial statements reflect retiree healthcare insurance premiums due to the Retiree Healthcare Authority (RHCA) in the amount $5,175,244 as payment of the June annuitant retiree healthcare deductions. This amount was transferred via an Operating Transfer to RHCA on July 1, 2016.

Accounting Pronouncements - This year NMERB implemented GASB Statement 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. Changes in financial reporting in compliance with this new statement are included within Note 6. Comparative schedules of investments and short term holdings have been measured at fair value and classified according to the GASB 72 leveling hierarchy.

NOTE 3. NET PENSION LIABILITY

Governmental employers participating in the Plan are required to report their proportionate share of the Plan's net pension liability, pension expense, and deferred outflows and inflows of resources within their financial statements, as well as to disclose financial information about the Plan.

The net pension liability is measured as the total pension liability, less the amount of the Plan's fiduciary net position. In actuarial terms, this is analogous to the accrued liability less the market value of assets (not the smoothed actuarial value of assets used in actuarial valuations based on the Board's adopted assumptions and methods).

A single discount rate of 7.75% was used to measure the total pension liability as of June 30, 2016 and 2015. This single discount rate was based on an expected rate of return on Plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The projection of cash flows used this single rate assuming that Plan contributions will be made at the current statutory levels. Additionally, contributions received through NMERB's Alternative Retirement Plan (ARP) are included in the projection of cash flows. ARP contributions are assumed to remain a level percentage of Plan payroll, where the percentage of payroll is based on the most recent five-year contribution history.

Net Pension Liability of Plan Membership - The components of the net pension liability at June 30, 2016 and 2015, were as follows:

	2016	2015
Total pension liability	$ 18,729,271,512	$ 17,974,989,414
Plan fiduciary net position	(11,532,837,951)	(11,497,723,115)
Employer net pension liability	$ 7,196,433,561	$ 6,477,266,299
Plan fiduciary net position as a percent of total pension liability	61.58%	63.97%
Employer covered employee payroll	$ 2,740,526,669	$ 2,730,320,345
Net pension liability as a percentage of covered employee payroll	262.59%	237.23%

NOTE 3. NET PENSION LIABILITY (CONTINUED)

Actuarial assumptions - The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The total pension liability was rolled forward from the valuation date to the Plan's year ending June 30, 2016 using generally accepted actuarial principals. The liabilities reflect the impact of Senate Bill 115, signed into law on March 29, 2013, and new assumptions adopted by the Board of Trustees on June 12, 2015. Specifically, the liabilities measured as of June 30, 2016 and 2015 incorporate the following assumptions:

- All members with annual salary of more than $20,000 will contribute 10.70% during the fiscal year ending June 30, 2015 and thereafter,
- Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67,
- COLAs for most retirees are reduced until NMERB attains a 100% funded status,
- The new assumptions adopted by the Board on June 12, 2015 in conjunction with the six-year experience study period ending June 30, 2014, and
- For purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years.

The actuarial assumptions and methods used to determine Total Pension Liability (TPL) included in the measurement methodology are as follows:

Methods and Assumptions Used to Determine the Total Pension Liability

Actuarial Cost Method	Entry age normal
Remaining Amortization Period	Amortized over a closed thirty-year period from June 30, 2012 ending June 30, 2042
Asset Valuation Method	Five-year smoothed market
Inflation	3.00%
Salary Increases	Composed of 3.00% inflation, plus .75% productivity increase rate, plus step-rate promotional increases for members with less than ten years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table of rates based on age and service. Adopted by NMERB on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014
Mortality	Healthy males: RP-2000 Combined Mortality Table with white collar adjustments, generational mortality improvements with scale BB. Healthy females: GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with scale BB from the table's base year of 2012.

NOTE 3. NET PENSION LIABILITY (CONTINUED)

The target long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following:

- Rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.)
- Application of key economic projections (inflation, real growth, dividends, etc.)
- Structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class

Sensitivity of the net pension liability to changes in the discount rate assumption - The following table provides the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2016 and 2015. In particular, the table presents the Plan's net pension liability, if it were calculated using a single discount rate that is one-percentage-point lower (6.75%) or one-percentage-point higher (8.75%) than the single discount rate:

Fiscal Year	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
2016	$ 9,531,509,131	$ 7,196,433,561	$ 5,258,980,529
2015	$ 8,715,594,530	$ 6,477,266,299	$ 4,596,837,569

Rate of Return - Disclosure of the annual money-weighted return is a requirement of GASB 67. It incorporates both the size and timing of cash flows to determine an internal rate of return, and expresses investment performance adjusted for the changing amounts actually invested. The requirements of the calculation are listed below.

- The rate is computed net of investment expenses, but not net of administrative expenses.
- External cash flows used as inputs should be determined on at least a monthly basis.
- Cash flows should be determined on an accrual basis of accounting.
- Cash flow weighting should be representative of the Plan's actual external cash flow timing.

For the years ended June 30, 2016 and 2015, the annual money-weighted rates of return on pension plan investments were 2.68% and 4.06%, respectively, net of fees.

NOTE 3. NET PENSION LIABILITY (CONTINUED)

Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation for 2016 and 2015 for 30-year return assumptions are summarized net of fees and inflation in the following table by asset class.

Schedule of Long-Term Rate of Return by Asset Class

Asset Class	2016 Percentage	2015 Percentage
Cash	-0.25%	0.00%
U.S. Treasuries	0.00%	0.25%
IG Corp Credit	1.75%	1.50%
Mortgage Backed Securities	0.25%	0.50%
Core Bonds*	0.64%	0.73%
Treasury Inflation Protected Securities	0.75%	0.75%
High-Yield Bonds	2.50%	2.50%
Bank Loans	2.75%	2.75%
Global Bonds (Unhedged)	-0.50%	-1.00%
Global Bonds (Hedged)	-0.38%	-0.84%
Emerging Market Debt External	2.75%	2.75%
Emerging Market Debt Local Currency	3.25%	3.50%
Large Cap Equities	4.25%	4.25%
Small/ Mid Cap Equities	4.50%	4.50%
International Equities (Unhedged)	4.75%	4.75%
International Equities (Hedged)	5.14%	5.22%
Emerging International Equities	6.25%	6.00%
Private Equity	6.25%	6.25%
Private Debt	4.75%	4.75%
Private Real Assets	4.50%	4.50%
Real Estate	3.25%	3.25%
Commodities	2.25%	2.50%
Hedge Funds	3.25%	3.50%

Note

* Core Bonds assumption based on market weighted blend of components of Aggregate Index (Treasuries, IG Corp Credit, and Mortgage Backed Securities).

NOTE 4. STATE GENERAL FUND INVESTMENT POOL

The State General Fund Investment Pool (SGFIP) is the State of New Mexico's main cash account. In compliance with Section 6-10-3 NMSA 1978, and to optimize the state's cash management and investment practices, funds of various state agencies are deposited in the SGFIP. This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled at a "business unit by fund" level since the inception of SHARE (the State's centralized accounting system) in July 2006 through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and system configuration changes made during the Cash Management Remediation Project Phase I the Department of Finance and Administration (DFA) began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a *point forward basis* beginning February 1, 2013. In March 2015, the Financial Control Division within DFA implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation. The claims to resources reconciliation process has been successfully applied from that point forward through June 2016. DFA has made the following assertions:

- The difference between statewide agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims has remained within a relatively narrow range over the periods in which the reconciliation process has been used.
- Agency claims on the SGFIP will be honored in their entirety. An adjustment necessary to the claims balance will be applied against the General Operating Reserve. No portion of the adjustment shall be allocated to any specific agency that participates in the SGFIP.

NMERB believes the cash invested in STO's Overnight Pool is represented fairly and with no material misstatements due to reconciliation procedures performed by NMERB. NMERB has established internal control procedures based on the State's Manual of Model Accounting Practices (MAP). These procedures are designed to avert accounting errors and violations of state and federal law and rules related to financial matters.

NMERB uses the State's financial software general ledger system, SHARE, monitoring balances through internal reporting, and performing reconciliation procedures throughout the fiscal year, following DFA's policies and procedures for fiscal safeguards. Cash balances posted in SHARE are correct to the extent that NMERB has control (i.e., collection, depositing, reconciling, and documentation of outstanding items) of the cash, and its receipts and transfers to the SGFIP and other state agencies are made pursuant to DFA's current policies and procedures. Each deposit, payment voucher, investment, and other transactions that affect cash are verified to ensure the amounts are accurate and correctly classified in SHARE.

NOTE 4. STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

NMERB does not collect any revenues that contribute to, or revert to, the SGFIP, but does maintain all deposits on account at STO which are identified by NMERB's business unit and fund number. NMERB's cash balances are required to be managed by STO per Section 8-6-3 NMSA 1978. Accordingly, NMERB's investments include an interest in the SGFIP equal to the cash balance on hand that is managed by STO for business unit 35200 and fund 60500.

On June 30, 2016 and 2015, NMERB had $13,008,495 and $7,891,352, respectively, invested in the SGFIP.

Interest Rate Risk - STO has an investment policy that limits investment maturities to five years or less on allowable investments. This policy enables STO to manage interest rate risk exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance (SBOF).

Credit risk - The STO investment pools are not rated. For additional GASB 40 disclosure information regarding cash held by STO, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal years ended June 30, 2016 and 2015.

Cash and Short Term Investments - In addition to the overnight investment of funds deposited to the SGFIP at STO, NMERB invests in the Short-Term Investment Fund (STIF) held by State Street Bank. The STIF is used to facilitate more efficient trade procedures among NMERB's external money managers. Net cash balances in each of the custody bank internal and external investment managers' portfolios are swept into the STIF at the end of each day. STIF investments and cash equivalents of $213,041,304 and $545,161,540 as of June 30, 2016 and 2015, respectively, are reported as cash and short term investment balances in NMERB's statement of net position. Even though investments in the STIF are considered to be cash equivalents, they may be still subject to credit risk, concentration risk, and custodial credit risk.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, NMERB will not be able to recover deposits or will not be able to recover collateral securities held in the possession of an outside party. NMERB's investment securities, including cash invested overnight in a short term investment fund, are held by State Street Bank, a third party custodian, independent of any counterparty. State Street Bank by agreement holds sufficient assets to minimize the risk that NMERB would not be able to recover the value of investments held for NMERB. To minimize risk to operating cash held in the State's depository bank, management utilizes the services of STO for overnight investment in a commingled short term investment fund (STIF).

NOTE 5. REFUND OVERPAYMENTS

In June 2010, the Board adopted a revised method for computing interest due on refunds of contributions to members that have terminated employment and elected to withdraw their contributions, and on refunds paid to a beneficiary of a deceased member, with an effective date of July 1, 2010. During implementation, a programming error resulted in 834 individuals receiving overpayments totaling $1,691,929, and ranging from less than one dollar to $306,264.

The State Constitution requires every reasonable effort be made to recover these funds and that interest be assessed on the overpayments. As of June 30, 2016, the uncollected balance including interest assessed, net of uncollectible amounts due to settlement, bankruptcy, or death, is $269,642. The agency continues to take all reasonable actions to collect and settle these outstanding amounts.

NOTE 6. FAIR VALUE MEASUREMENT

NMERB investments are measured and reported at fair value, and classified according to the following hierarchy:

- Level 1 – Investments reflect prices quoted in active markets.
- Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 – Investments reflect prices based on unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as an indication of investment risk.

Debt, equities, and investment derivatives classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. NMERB uses internal fair values provided by the investment manager for mortgage and asset backed securities classified in Level 3 due to lack of an independent pricing source. Fair value reporting for the fiscal years ending June 30, 2016 and 2015 is provided below.

NOTE 6. FAIR VALUE MEASUREMENT (CONTINUED)

Schedule of Investments and Short Term Holdings Measured at Fair Value by Level (000s)

Investments by fair value level	Fair Value 2016	Quoted Prices-Active Markets for Identical Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Debt securities				
Foreign obligations	$ 167,079	$ -	$ 164,134	$ 2,945
Mortgage and asset backed securities	272,937	-	272,937	
Municipal obligations	1,229	-	1,229	-
U.S agency obligations	26,809	-	26,809	-
U.S. corporate obligations	290,122	-	290,122	-
U.S. government	312,354	-	312,354	-
Total debt securities	1,070,530	-	1,067,585	2,945
Equity securities				
Foreign stocks	370,482	370,482	-	-
U.S. common & preferred stock	2,861,410	2,856,653	4,017	740
Total equity securities	3,231,892	3,227,135	4,017	740
Total investments by fair value level	$ 4,302,422	$ 3,227,135	$ 1,071,602	$ 3,685
Investments measured at the Net Asset Value (NAV)				
Commingled bond funds	93,062			
Commingled global asset allocation	854,375			
Commingled international equity funds	1,391,523			
Hedge funds	1,743			
Opportunistic credit funds	2,419,206			
Private equity funds	1,236,930			
Private real estate funds	1,005,338			
Investments measured at the NAV	7,002,177			
Total investments	$ 11,304,599			
Short term investments by fair value level				
Short term investment fund	$ 213,147	$ -	$ 213,147	$ -
Investment derivative instruments				
U.S. equity derivatives	$ 16,054	$ 16,054	-	-
Foreign currency spot contracts	(55)	(55)	-	-
Total derivative instruments	$ 15,999	$ 15,999	-	-

NOTE 6. FAIR VALUE MEASUREMENT (CONTINUED)

Schedule of Investments and Short Term Holdings Measured at Fair Value by Level (000s)

	Fair Value 2015	Quoted Prices-Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments by fair value level				
Debt securities				
Foreign obligations	$ 178,764	$ -	$ 177,856	$ 908
Mortgage and asset backed securities	274,356	-	273,324	1,032
Municipal obligations	7,596	-	7,596	-
U.S agency obligations	23,454	-	23,454	-
U.S. corporate obligations	295,714	-	295,714	-
U.S. government	336,182	-	336,182	-
Total debt securities	1,116,067	-	1,114,127	1,940
Equity securities				
Foreign stocks	314,983	314,983	-	-
U.S. common & preferred stock	2,665,411	2,664,671	-	740
Total equity securities	2,980,394	2,979,655	-	740
Total investments by fair value level	4,096,461	$ 2,979,655	$ 1,114,127	$ 2,680
Investments measured at the Net Asset Value (NAV)				
Commingled bond funds	81,305			
Commingled global asset allocation	859,983			
Commingled international equity funds	1,466,178			
Hedge funds	127,993			
Opportunistic credit funds	2,459,526			
Private equity funds	1,024,731			
Private real estate funds	742,319			
Investments measured at the NAV	6,762,034			
Total investments	$ 10,858,495			
Short term investments by fair value level				
Short term investment fund	$ 550,885	$ -	$ 550,885	$ -
Investment derivative instruments				
U.S. equity derivatives	$ (260)	$ (260)	$ -	$ -
Foreign currency spot contracts	(3,634)	(3,634)	-	-
Foreign fixed derivatives	(66)	-	-	(66)
Total derivative instruments	$ (3,960)	$ (3,894)	$ -	$ (66)

NOTE 6. FAIR VALUE MEASUREMENT (CONTINUED)

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the tables below by fiscal year.

Investments Measured at Net Asset Value (000's)

	2016	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled bond funds	$ 93,062	$ -	Monthly	2 Months
Commingled global asset allocation	854,375	-	Monthly, Quarterly, Semi-annual, Annual	30-120 Days
Commingled international equity funds	1,391,523	-	Daily, Monthly	5-15 Days
Hedge funds	1,743	-	In liquidation process	N/A
Opportunistic credit funds	2,419,206	519,436	Daily, Monthly, Quarterly, Semi-Annual	30-180 Days
Private equity funds	1,236,930	1,087,630	N/A	N/A
Private real estate funds	1,005,338	776,100	N/A	N/A
	$ 7,002,177	$ 2,383,166		

Commingled Bond Funds and Equity Funds: One (1) bond fund and five (5) international equity funds are considered to be commingled in nature. Each are valued at the NAV of units held at the end of the period based on the fair value of the underlying investments.

Commingled Global Asset Allocation/ Risk Parity Funds: Consisting of four (4) funds, this strategy invests across multiple asset sectors based upon outcomes of economic and technical analysis and may allocate risk across the portfolio in order to achieve optimal portfolio diversification. These investments are valued at the NAV per share.

Opportunistic Credit Funds: Consisting of twenty (20) funds, this strategy's main focus is to invest in a variety of credit securities to enhance investment risk-adjusted returns and increase total portfolio diversification. These investments are valued at NAV per share. While many of these funds are currently eligible for redemption, some of the fund distributions received as underlying investments are liquidated, which may be up to ten (10) years from the commencement of the fund.

Hedge Funds-Absolute Return: Consisting of four (4) funds, these investments are valued at NAV per share. A majority of these investments have been wound down, and due to contractual lock up restrictions, the remaining redeemable balance of these investments is difficult to determine.

Private Equity: Consisting of sixty-five (65) funds, investing primarily in buyout, distress, growth equity, and secondaries, with some exposure to mezzanine and venture, the fair value of these funds has been determined using the most recent financial information. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds liquidated, which on average can occur over the duration of five (5) to ten (10) years.

NOTE 6. FAIR VALUE MEASUREMENT (CONTINUED)

Real Assets: Consisting of forty-seven (47) funds, investing primarily in real estate, natural resources, and infrastructure, the fair values of these funds have been determined using the most recent financial information. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds when liquidated, which on average can occur over the duration of five (5) to ten (10) years.

Investments Measured at Net Asset Value (000's)

	2015	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Comingled bond funds	$ 81,305	$ -	Monthly	2 Months
Comingled global asset allocation	859,983	-	Monthly, Quarterly, Semi-annual, Annual	30-120 Days
Commingled international equity funds	1,466,178	-	Daily, Monthly	5-15 Days
Hedge funds	127,993	-	In liquidation process	N/A
Opportunistic credit funds	2,459,526	454,827	Daily, Monthly, Quarterly, Semi-Annual	30-180 Days
Private equity funds	1,024,731	882,027	N/A	N/A
Private real estate funds	742,319	935,271	N/A	N/A
	$ 6,762,034	$ 2,272,125		

Commingled Bond Funds and Equity Funds: One (1) bond fund and five (5) international equity funds are considered to be commingled in nature. Each are valued at the NAV of units held at the end of the period based on the fair value of the underlying investments.

Commingled Global Asset Allocation/ Risk Parity Funds: Consisting of six (6) funds, this strategy invests across multiple asset sectors based upon outcomes of economic and technical analysis and may allocate risk across the portfolio in order to achieve optimal portfolio diversification. These investments are valued at the NAV per share.

Opportunistic Credit Funds: Consisting of twenty (20) funds, this strategy's main focus is to invest in a variety of credit securities to enhance investment risk-adjusted returns and increase total portfolio diversification. These investments are valued at NAV per share. While many of these funds are currently eligible for redemption, some of the fund distributions received as underlying investments are liquidated, which may be up to ten (10) years from the commencement of the fund.

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NOTE 6. FAIR VALUE MEASUREMENT (CONTINUED)

Private Equity: Consisting of sixty-five (65) funds, investing primarily in buyout, distress, growth equity, and secondaries, with some exposure to mezzanine and venture, the fair value of these funds has been determined using the most recent valuation information. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds liquidated, which on average can occur over the duration of five (5) to ten (10) years.

Real Assets: Consisting of forty-seven (47) funds, investing primarily in real estate, natural resources, and infrastructure, the fair values of these funds have been determined using the most recent financial information. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds when liquidated, which on average can occur over the duration of five (5) to ten (10) years.

NOTE 7. INVESTMENTS

NMERB is authorized to invest or reinvest the fund in accordance with the Uniform Prudent Investor Act Section 45-7-601 NMSA 1978. Key provisions per the Uniform Prudent Investor Act are summarized below. Provisions of the Act:

- Set a higher standard of care and prudence for investments, above and beyond the previous standard and guiding principles of law,
- Apply to the trust as a whole, rather than individual investments,
- Require investment strategy to be based on suitable risk and reward strategies, and
- Require diversification unless the trustees reasonably determine it is not in the best interest of the fund.

Asset Allocation Policy – NMERB has adopted a strategic Asset Allocation Plan, containing weights, ranges, and benchmarks for each asset class. Over time this strategy is expected to achieve NMERB's assumed overall rate of return on Plan assets of 7.75%. Achieving the target weights is a long-term goal. In the short term, a particular asset position may represent an intermediate point in the process of attaining its target weight.

NMERB's investment allocation policy was reviewed and amended by the Board of Trustees on August 26, 2016. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following schedule shows the asset allocation policy adopted on August 26, 2016 as well as the prior allocation policy targets.

Schedule of Target Investment Allocations

Asset Class	After 8/26/2016	Prior to 8/26/2016
Equities		
Domestic Equities		
Large cap equities	16%	18%
Small-mid cap equities	3%	2%
Total equities	19%	20%
International Equities		
Developed	5%	5%
Emerging markets	9%	10%
Total equities	14%	15%
Fixed Income		
Opportunistic credit	18%	20%
Core bonds	6%	6%
Emerging market debt	2%	2%
Total fixed lincome	26%	28%
Alternatives		
Real estate - REITS	7%	7%
Real assets	8%	8%
Private equity	13%	11%
Global asset allocation	4%	5%
Risk parity	3%	5%
Other	5%	0%
Total Alternatives	40%	36%
Cash	1%	1%
Total	100%	100%

NOTE 7. INVESTMENTS (CONTINUED)

Investments held by NMERB's custody agent in the name of NMERB (excluding cash and cash equivalents) as of June 30, are described below by year end.

Investments, at fair value	2016	2015
Other investments	$ 3,362,868,898	$ 2,309,072,716
Domestic stocks	3,145,341,943	2,542,692,435
International stocks	1,797,696,501	1,875,881,084
Private equity	1,200,163,791	1,028,279,120
U.S. government and agency securities	577,345,485	585,177,300
Private real estate	469,007,216	380,197,078
Domestic corporate bonds	291,669,042	701,482,119
Hedge fund funds	255,831,752	409,511,379
Non-U.S. government bonds	90,054,353	109,849,871
Non-U.S. corporate bonds	77,919,515	328,554,498
Domestic asset and mortgage-backed securities	36,700,730	587,797,041
Total	$ 11,304,599,226	$ 10,858,494,641

NOTE 7. INVESTMENTS (CONTINUED)

Foreign Currency Risk - Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the underlying securities. NMERB's exposure to foreign currency risk is derived from positions held in foreign currency and currency-denominated investments. Managers are given discretion to hedge this risk. NMERB's foreign currency exposure as of June 30, 2016 and 2015, was $378,266,294 and $668,437,274, respectively. Detail schedules reflecting foreign currency exposure are shown next.

Schedule of Foreign Currency Risk Exposure as of June 30, 2016

Currency	Equity Securities	Cash (overdraft)	Net Foreign Currency Risk
Australian Dollar	$ -	$ -	$ -
Argentine Peso	255,162	1	255,164
Bahraini Dinar	-	(24,443)	(24,443)
Brazilian Real	10,170,224	(91,058)	10,079,166
British Pound Sterling	15,598,700	734,280	16,332,980
Canadian Dollar	1,779,510	(4,037)	1,775,473
Chilean Peso	-	-	-
Chinese Yuan	-	8,557	8,557
Colombian Peso	2,371,997	122,145	2,494,142
Czech Koruna	-	44	44
Danish Krone	-	-	-
Euro	99,482,627	9,147,638	108,630,265
Hong Kong Dollar	45,936,321	283,753	46,220,074
Hungarian Forint	1,720,673	32,043	1,752,717
Indian Rupee	28,488,947	-	28,488,947
Indonesian Rupiah	17,168,898	137,744	17,306,642
Israeli Shekel	-	-	-
Japanese Yen	-	109,818	109,818
Malaysian Ringgit	4,067,532	13,168	4,080,700
New Mexican Peso	11,837,959	(72,504)	11,765,455
New Romanian Leu	-	-	-
New Russian Ruble	2,892,688	205,538	3,098,226
New Taiwan Dollar	28,789,009	672,504	29,461,513
New Zealand Dollar	-	-	-
Nigerian Naira	-	-	-
Norwegian Krone	(1,316,503)	1,399,091	82,588
Omani Rial	-	(7,371)	(7,371)
Peruvian Nuevo Sol	527,597	-	527,597
Philippine Peso	429,099	-	429,099
Polish Zloty	5,042,933	(20,310)	5,022,623
Qatari Rial	-	160	160
Romanian Lue	935,568	-	935,568
Saudi Riyal	46,616	95,819	142,436
Singapore Dollar	2,600,498	739	2,601,237
South African Rand	22,363,214	278,277	22,641,491
South Korean Won	48,914,963	(43,150)	48,871,812
Swedish Krona	-	1	1
Swiss Franc	-	-	-
Thai Baht	6,178,385	32,737	6,211,122
Turkish Lira	8,972,404	85	8,972,489
Total subject to risk	365,255,022	13,011,271	378,266,294
Investments not subject to risk	11,090,922,885	200,030,033	11,290,952,917
Total investments	$ 11,304,599,226	$ 213,041,304	$ 11,517,640,530

NOTE 7. INVESTMENTS (CONTINUED)

Schedule of Foreign Currency Risk Exposure as of June 30, 2015

Currency		Equity Securities	Cash (overdraft)	Net Foreign Currency Risk
Australian Dollar	$	3,192,557	12,462	3,205,019
Brazilian Real		10,226,578	27,664	10,254,242
British Pound Sterling		79,615,791	1,093,873	80,709,664
Canadian Dollar		3,707,300	95,491	3,802,791
Chilean Peso		191,915	-	191,915
Chinese Yuan		120,536	-	120,536
Colombian Peso		7,070,679	477	7,071,156
Danish Krone		510,500	-	510,500
Euro		179,126,368	2,134,291	181,260,659
Hong Kong Dollar		66,259,495	187,313	66,446,808
Hungarian Forint		4,628,337	-	4,628,337
Indian Rupee		24,533,003	61,256	24,594,259
Indonesian Rupiah		13,807,058	64,787	13,871,845
Israeli Shekel		2,824,959	-	2,824,959
Japanese Yen		60,289,710	-	60,289,710
Malaysian Ringgit		9,577,936	26,920	9,604,856
New Mexican Peso		11,630,791	38,601	11,669,392
New Romanian Leu		2,249,931	-	2,249,931
New Russian Ruble		4,159,527	28,273	4,187,800
New Taiwan Dollar		28,797,229	-	28,797,229
New Zealand Dollar		-	1,099	1,099
Nigerian Naira		330,237	-	330,237
Norwegian Krone		3,567,850	59	3,567,909
Peruvian Nuevo Sol		1,748,200	-	1,748,200
Philippine Peso		455,090	-	455,090
Polish Zloty		9,242,965	1,989	9,244,954
Qatari Rial		1,589,289	862	1,590,151
Saudi Riyal		63,773	-	63,773
Singapore Dollar		5,605,741	74	5,605,815
South African Rand		32,584,330	(125,718)	32,458,612
South Korean Won		40,686,749	126	40,686,875
Swedish Krona		10,159,387	-	10,159,387
Swiss Franc		24,094,333	3,250	24,097,583
Thai Baht		8,086,954	1,990	8,088,944
Turkish Lira		13,864,884	182,153	14,047,037
Total foreign currency subject to risk		664,599,982	3,837,292	668,437,274
Investments not subject to risk		10,193,894,659	541,324,248	10,735,218,907
Total investments	$	10,858,494,641	545,161,540	11,403,656,181

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, NMERB will not be able to recover the value of investments or collateral securities that are in the possession of an outside party.

All investment securities were held in a custodial position by State Street Bank (Boston, Massachusetts) during fiscal years 2016 and 2015 in the name of NMERB. Deposits and securities held by the custody bank are collateralized with securities held by State Street Bank's trust department, as described in our custody agreement.

NOTE 7. INVESTMENTS (CONTINUED)

Interest Rate Risk - Interest rate risk relates to changes in interest rates that will adversely affect the fair value of an investment. NMERB's investing activities may lead earnings and capital to be exposed to movements in interest rates. Interest rate risk management is handled is managed through duration, and by operating within defined risk parameters. NMERB uses a weighted average method to determine the duration of its investments.

Schedule of Interest Rate Risk

Investment Type	2016	2015	Duration (Years) 2016	Duration (Years) 2015
U.S. treasury securities	$ 312,354,236	$ 336,182,244	6.14	6.11
U.S. government and government related obligations	276,078,670	246,231,807	4.01	4.25
International government obligations	146,276,285	230,542,041	6.73	7.89
Corporate obligations	811,227,498	903,877,940	4.98	3.77
Asset and mortgage backed securities	191,330,357	202,893,562	2.61	2.63
Total	$ 1,937,405,458	$ 2,295,112,393	4.09	4.21

Concentration of Credit Risk - Concentration risk is identified by the amount of investment in any one issuer that represents 5% or more of the fiduciary net position. As of June 30, 2016 and 2015, with the exception of U.S. Government and Agency securities, NMERB was not exposed to any concentration risk greater than 5%.

Credit Risk - Credit risk for investments is the risk that an issuer or other counterparty to an investment agreement will not fulfill its obligations. Credit risk is managed through diversification and by operating within NMERB defined parameters instead of using a benchmark index. Excluding those investments issued by, or explicitly guaranteed by, the U.S. government, which are not considered to have credit risk, NMERB's credit quality distribution for investments with credit risk exposure at June 30, 2016 and 2015, is presented in the Summary of Investments by Rating schedule. NMERB's investments were rated and categorized according to Standard & Poor's rating standards. The schedule below summarizes the investments subject to credit risk by category as of June 30, 2016 and 2015. Detail schedules of investments by category and credit risk follow.

Summary of Investments Subject to Credit Risk, at Fair Value

	2016	2015
Asset & mortgage backed securities	$ 294,196,344	$ 283,762,353
Collateralized debt obligations	16,408,696	27,037,901
Corporate securities	662,392,417	685,421,361
Bank loans, bonds & treasury bills	588,511,908	336,115,428
Other fixed income	33,626,612	156,419,763
Subtotal assets subject to credit risk	1,595,135,977	1,488,756,805
Investment not subject to credit risk	9,709,463,249	9,369,737,836
Total investments	$ 11,304,599,226	$ 10,858,494,641

NOTE 7. INVESTMENTS (CONTINUED)

Detail comparative schedules of investments by category, credit risk, and fiscal year follow.

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year						
Investment Type	Rating		2016	Rating		2015
Asset and mortgagebacked securities						
Asset backed securities	A	$	1,024,466	A	$	1,099,316
	AA+		-	AA+		-
	AAA		2,348,575	AAA		3,241,584
	B		-	B		691,149
	BB+		-	BB+		-
	BBB		360,543	BBB		494,094
	BBB-		-	BBB-		-
	BBB+		637,304	BBB+		-
	CC		-	CC		1,153,757
	CCC		-	CCC		-
	CCC-		-	CCC-		322,826
	D		154,281	D		164,786
	NR		2,838,601	NR		2,986,418
Subtotal assetbacked securities			7,363,770			10,153,930
Commercial mortgage backed securities	A		1,087,291	A		2,826,195
	A-		1,613,111	A-		367,461
	A+		211,334	A+		875,115
	AA		2,316,272	AA		3,046,656
	AA-		673,834	AA-		-
	AA+		2,484,292	AA+		3,381,924
	AAA		3,016,388	AAA		4,867,260
	B		308,825	B		1,114,049
	B-		827,684	B-		500,560
	B+		329,063	B+		654,660
	BB		-	BB		52,541
	BB+		86,294	BB+		165,788
	BBB		50,263	BBB		-
	BBB-		1,013,954	BBB-		1,050,608
	BBB+		1,954,449	BBB+		4,960,198
	CCC		318,350	CCC		-
	CCC+		-	CCC+		-
	D		-	D		-
	NR		7,883,953	NR		8,260,028
Subtotal commercial mortgage backed			24,175,357			32,123,043
Non commercial mortgage backed securities	AA-		9,606,100	AA-		1,105,129
	AA+		239,980,217	AA+		232,695,452
	NR		10,485,267	NR		4,735,165
Subtotal non commercial mortgage backed			260,071,584			238,535,746
Residential mortgage-backed security	CCC		2,585,633	CCC		2,949,634
Total asset and mortgage backed securities		$	294,196,344		$	283,762,353

NOTE 7. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year						
Investment Type	Rating		2016	Rating		2015
Collateralized debt obligations						
Collateralized debt-loan obligations	A-		1,342,580	A-	$	-
	A+		294,032	A+	$	-
	AA-		-	AA-		83,773
	AA+		-	AA+		2,832,141
	B		-	B		-
	B-		-	B-		649,766
	B+		673,163	B+		1,818,900
	BB		972,293	BB		531,576
	BB-		599,612	BB-		-
	BB+		410,523	BB+		1,054,040
	BBB		110,953	BBB		-
	BBB-		153,849	BBB-		-
	BBB+		200,152	BBB+		-
	CCC		-	CCC		373,307
	CCC-		351,125	CCC-		-
	CCC+			CCC+		635,976
	NR		1,403,724	NR		1,638,913
Subtotal collateralized debt loan			6,512,006			9,618,393
Collateralized mortgage obligation/Real Estate Mortgage Investment Conduit	A-		346,743			869,879
	A+		614,804	A+		757,939
	AA		1,791,964	AA		2,226,577
	AA-		360,379	AA-		352,351
	AA+		-	AA+		-
	AAA		1,002,029	AAA		2,034,580
	B		-	B		-
	BBB		-	BBB		-
	BBB-		374,308	BBB-		1,695,616
	BBB+		367,597	BBB+		466,384
	CC		-	CC		761,247
	CCC		-	CCC		-
	D		452,038	D		555,888
	NR		4,586,828	NR		7,699,047
Subtotal collateralized mortgage obligation			9,896,690			17,419,508
Total collateralized debt obligations		$	16,408,696		$	27,037,901

NOTE 7. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year				
Investment Type	Rating	2016	Rating	2015
Corporate securities				
Corporate bonds	A	23,977,008	A	$ 32,536,377
	A-	56,241,692	A-	60,868,317
	A+	16,888,265	A+	15,750,496
	AA	3,196,515	AA	4,493,496
	AA-	14,120,005	AA-	13,561,582
	AA+	8,388,483	AA+	5,502,444
	AAA	6,070,002	AAA	3,859,182
	B	19,845,586	B	30,340,803
	B-	70,207,795	B-	45,442,098
	B+	16,736,409	B+	11,501,904
	BB	9,539,243	BB	3,986,095
	BB-	14,944,434	BB-	787,193
	BB+	(381,519)	BB+	17,909,299
	BBB	64,834,353	BBB	71,922,281
	BBB-	58,871,858	BBB-	58,040,638
	BBB+	96,660,831	BBB+	83,256,376
	C	-	C	2,569,968
	CC	7,329,783	CC	13,050
	CCC	24,483,736	CCC	9,779,349
	CCC-	15,891,562	CCC-	7,842,654
	CCC+	24,255,294	CCC+	64,233,090
	D	8,842,536	D	10,959,855
	NR	27,899,843	NR	38,098,600
Subtotal corporate bonds		588,843,714		593,255,149
Corporate convertible bonds	CCC	-		1,899,333
	NR	12,311	NR	11,125,350
Subtotal convertible bonds		12,311		13,024,684
Common stock	N/A	70,226,411	N/A	75,492,827
Preferred stock	D	591,229	D	683,692
Preferred stock	NR	2,718,752	NR	2,965,010
Subtotal stock		73,536,392		79,141,529
Total corporate securities		$ 662,392,417		$ 685,421,361

NOTE 7. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year

Investment Type	Rating		2016	Rating		2015
Bank Loans, Bonds, and Treasury Bills						
Bank loans	B	$	15,113,533	B	$	2,278,929
	B-		20,303,544	B-		29,826,271
	B+		7,089,604	B+		5,213,763
	BB		-			230,234
	BB-		409,218	BB-		2,402,156
	BB+		-			2,424,224
	CCC		6,497,154	CCC		6,751,736
	CCC-		2,197,041	CCC-		2,938,487
	CCC+		24,459,545	CCC+		21,743,380
	D		3,593,669	D		10,713,862
	NR		84,481,588	NR		105,565,399
Subtotal bank loans			164,144,896			190,088,441
Municipal and provincial bonds	A		199,067	A		-
	A-		-	A-		7,411,718
	AA-		-	AA-		184,322
	AA+		1,559,091	AA+		1,483,605
	BBB+		1,029,597			-
	CC		7,584,878	CC		-
	CCC-		-	CCC-		2,623,656
	NR		1,543,848	NR		1,379,664
Subtotal municipal and provincial bonds			11,916,481			13,082,965
Foreign government bonds	A		5,820,747	A		18,630,179
	A-		3,760,329	A-		7,291,537
	A+		1,208,977			
	AA-		-	AA-		1,396,745
	AA+		1,957,093	AA+		1,824,238
	AAA		-	AAA		3,005,640
	B		2,563,568			
	B-		7,230,031	B-		-
	B+		3,389,000	B+		486,983
	BB		10,917,888	BB		-
	BB-		5,373,131	BB-		-
	BB+		9,479,403	BB+		5,302,387
	BBB		4,624,656	BBB		2,287,012
	BBB-		3,642,667	BBB-		7,262,045
	BBB+		7,822,700	BBB+		24,821,102
	CCC		460,245	CCC		161,175
	CCC-		-	CCC-		691,538
	NR		31,845,859	NR		35,218,942
Subtotal foreign government bonds			100,096,294			108,379,521
Treasury bills	AA+		312,354,237	AA+		24,564,500
Subtotal treasury bills			312,354,237	NR		24,564,500
Total bank loans, bonds, and treasury bills		$	588,511,908		$	336,115,428

NOTE 7. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year					
Investment Type	Rating	2016	Rating	2015
Other Investments					
Other fixed income	AAA	$ (1,831,001)	AAA	$ (10,254,111)
	B	5,249,718	B	1,312,405
	B/B-	-	B/B-	139,159,637
	B-	-	B-	5,110,316
	B+	-	B+	3,612,788
	BB	6,000,242	BB	3,019,170
	BB-	5,246,733	BB-	-
	BB+		BB+	204,496
	BBB	732,248	BBB	-
	BBB-	751,088	BBB-	821,496
	C		C	139,394
	CC	56,151	CC	91,378
	CCC-	-	CCC-	70,351
	CCC+	601,518	CCC+	637,328
	D	-	D	142,924
	NR	16,819,915	NR	12,352,191
Total other fixed income		33,626,612		156,419,763
Other investments not subject to credit risk		9,709,463,249		9,369,737,836
Grand total investments, fair value		$ 11,304,599,226		$ 10,858,494,641

Cash Balances - NMERB earns interest on all monies held in the Agency's custodial agent bank. When a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date, the cash remains with custodial agent bank. When this occurs, NMERB's money is invested overnight in a Short-Term Investment Fund (STIF). As of June 30, 2016 and 2015 NMERB had $200,138,412 and $442,993,507, respectively, on deposit with State Street Bank (SSB).

State law requires (Section 8-6-3 NMSA, 1978) the agency's operating cash to be managed by the New Mexico State Treasurer's Office (STO), which invests monies held overnight. STO ensures adequate protection of State monies for agency deposit accounts by requiring all qualified financial institutions to pledge collateral to secure public deposits. As of June 30, 2016 and 2015 NMERB had $13,008,495 and $7,891,352, respectively, on deposit with STO.

NOTE 8. DERIVATIVE INSTRUMENTS

Derivatives are generally defined as contracts or securities whose value depend on, or derive from, the value of an underlying asset, reference rate, or index.

The Board has adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of derivative instruments. This note describes the Board's investment derivative instruments measured at fair value in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

NMERB's investment policies do allow portfolio managers to trade in certain derivatives for hedging purposes.

The notional or contractual amounts of derivatives indicate the extent of the Board's involvement in the various types and uses of derivative financial instruments and do not measure the Board's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts related to NMERB's derivative financial instruments as of June 30, 2016 and 2015.

Notional amounts, fair value (000's)

		2016		2015
Foreign exchange forward contracts	$	109,408	$	107,160
Swaps - interest rate swap	$	-	$	32,023

The fair values of derivative instruments outstanding as of June 30, 2016 and 2015 are classified by type and by the changes in fair value of the derivative instrument in the following table.

Unrealized Gain/(Loss), as of June 30, 2016 (000's)

Derivative Type	Classification		Gain/(Loss)	Classification		Amount
Swaps - interest rate swaps	Investment Income	$	110	Investment	$	-
Swaps - currency	Investment Income	$	(1)	Investment	$	-

Unrealized Gain/(Loss), as of June 30, 2015 (000's)

Derivative Type	Classification		Gain/(Loss)	Classification		Amount
Futures	Investment Income	$	(1,579)	Investment	$	-
Options - purchased	Investment Income	$	(116)	Investment	$	-
Options - sold	Investment Income	$	309	Investment	$	-
Swaps - credit default swaps	Investment Income	$	(30)	Investment	$	-
Swaps - index swaps	Investment Income	$	-	Investment	$	-
Swaps - interest rate swaps	Investment Income	$	359	Investment	$	(66)

NOTE 8. DERIVATIVE INSTRUMENTS (CONTINUED)

Derivative Risks - NMERB is exposed to credit risk in the event of non-performance by counterparties to financial instruments. Portfolio managers authorized to invest in derivatives manage the contractual obligation within established policy parameters for both the types of derivatives and the counterparty ratings, ensuring these contracts are made with high quality institutions. NMERB can be exposed to market risk in the event that changes in market conditions cause investments to decline in value. This exposure is managed within guidelines related to the types of instruments bought or sold and parameters for offsetting positions. Foreign currency risk is the risk that changes in exchange rates will adversely affect the investments. Managers of these assets are given discretion to hedge this risk.

Foreign Currency Exchange Contracts - NMERB may enter into forward contracts to purchase and sell foreign currencies in the normal course of investing activities to manage currency exposure associated with NMERB's foreign equity and fixed income investments. The terms of these contracts generally do not exceed one year. The credit risk associated with these contracts is minimal as they are limited to a small number of highly rated counterparties. NMERB's foreign exchange contracts by currency type are summarized below.

Summary of Foreign Exchange Contracts by Currency at June 30, 2016

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Australian Dollar	$ 2,070	$ (66)	$ -	$ 23
Brazilian Real	5,265	(44)	3,131	15
Canadian Dollar	-	3	-	-
Chilean Peso	3,296	4	119	(71)
Chinese Renminbi Yuan	-	31	1,255	(16)
Colombian Peso	296	44	1,369	(63)
Czech Koruna	-	(6)	618	11
Euro Currency	4,136	(25)	10,936	93
Hungarian Forint	1,708	(7)	377	7
Indian Rupee	455	(40)	1,625	(3)
Indonesian Rupiah	1,079	2	1,533	(43)
Japanese Yen	3,940	122	3,143	(75)
Malaysian Ringgit	8,142	199	4,002	(275)
Mexican Peso (new)	1,537	42	2,940	(59)
New Israeli Sheqel	-	0	652	35
New Russian Ruble	3,082	305	1,129	169
New Taiwan Dollar	1,768	0	3,088	(31)
New Zealand Dollar	534	33	1,021	(37)
Philippine Peso	1,268	(6)	2,318	12
Polish Zloty	1,060	(86)	602	(0)
Pound Sterling	357	(142)	1,517	94
Romanian Leu	363	(10)	164	0
Singapore Dollar	2,625	25	3,539	(42)
Sol	5,077	15	157	(3)
South African Rand	3,072	(44)	2,568	(56)
South Korean Won	1,835	1	893	(9)
Swiss Franc	837	(0)	-	-
Thailand Baht	2,390	(7)	1,290	(13)
Turkish Lira	3,193	49	37	80
	$ 59,386	$ 391	$ 50,022	$ (255)

NOTE 8. DERIVATIVE INSTRUMENTS (CONTINUED)

Summary of Foreign Exchange Contracts by Currency at June 30, 2015

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Australian Dollar	$ 2,267,538	$ (8,887)	$ 2,235,755	$ (22,896)
Brazilian Real	5,766,241	(2,912)	6,157,832	56,108
Chilean Peso	1,292,022	(38,408)	1,416,667	86,258
Chinese Renminbi Yuan	5,890,146	73,686	8,529,670	13,805
Chinese Renminbi Yuan (Offshore)		(4,572)	-	-
Colombian Peso	737,220	(120,380)	1,076,250	49,230
Euro	3,333,914	(33,166)	4,935,427	19,637
Hungarian Forint	211,638	(4,333)	194,898	(4,740)
Indian Rupee	-	35,608	-	616
Indonesian Rupiah	-	19,086	485,562	(40,406)
Japanese Yen	1,300,722	15,342	1,852,238	(27,782)
Malaysian Ringgit	4,143,177	(31,588)	356,615	(666)
Mexican Peso	5,455,165	(119,667)	4,637,909	94,410
New Israeli Sheqel	1,304,772	20,652	1,293,823	(31,602)
New Russian Ruble	4,278,194	(191,107)	2,759,804	(88,947)
New Taiwan Dollar	640,695	4,294	648,420	3,430
Peruvian Nuevo Sol	-	1,865	-	-
Philippine Peso	82,505	(8,282)	41,098	8,339
Polish Zloty	1,432,185	8,015	480,479	16,617
Romanian Leu	255,793	4,570	-	3,821
Singapore Dollar	527,361	(269)	1,356,109	20,983
South African Rand	5,155,931	105,963	9,517,915	(53,413)
South Korean Won	-	-	-	-
Swiss Franc	-	-	-	12,539
Thai Baht	2,023,809	(2,201)	-	2,087
Turkish Lira	6,634,531	43,785	6,449,531	(51,122)
Total	$ 52,733,559	$ (232,906)	$ 54,426,002	$ 66,306

Futures Contracts – NMERB enters into futures contracts in the normal course of its investing activities to manage market risk associated with the Plan's equity and fixed income investments and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the Statement of Fiduciary Net Position. The credit risk associated with these contracts is minimal as they are traded on organized exchanges and settled daily.

NOTE 8. DERIVATIVE INSTRUMENTS (CONTINUED)

During 2016 and 2015, NMERB was a party to futures contracts held for trading purposes for U.S. Treasury bonds and 90-day Euro dollar fixed income futures. Upon entering into a futures contract, the Board is required to deposit either in cash or securities an amount ("initial margin") equal to a certain percentage of the nominal value of the contract.

Subsequent payments are then made or received by NMERB, depending on the daily fluctuation in the value of the underlying contracts. No U.S. Treasury securities owned and included within NMERB's investments, were held by the Plan's broker as performance security on futures contracts as of June 30, 2016.

Options – An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from ("call option"), or sell to ("put option"), the writer of a designated instrument at a specified price within a specified period of time. When NMERB purchases or writes an option, an amount equal to the premium paid or received by the Plan is recorded as an asset or liability and is subsequently adjusted to the current market value of the option purchased or written. Gain or loss is recognized when the option contract expires or is closed. There were no open written or purchased options as of June 30, 2016 or 2015.

Swap Contracts - Swap contracts are executed on a number of different bases. NMERB employed both interest rate swap contracts and credit default swap contracts on June 30, 2016 and 2015. An interest rate swap contract is an agreement between two parties to exchange periodic interest payments. One party agrees to make payments to the other based on a fixed rate of interest in exchange for payments based on a variable rate. NMERB employs interest rate swap contracts to adjust fixed income portfolio durations. A credit default swap contract is similar to an insurance policy, with the credit risk of an individual issuer or a basket of issuers (the "reference asset") the insured factor. Under such a contract, two parties enter into an agreement whereby the first party pays the second party a fixed periodic payment for the specified life of the contract (analogous to an insurance premium). The other party makes no payment unless a credit event related to the reference asset occurs. If such an event takes place, the second party is obligated to make a payment to the first party. The size of the payment is linked to the decline in the reference asset's market value following determination of the occurrence of a credit event.

Hedge Funds - The use of derivatives is allowed under the Hedge Fund Investment Policy. These investments are under the management of the external Hedge Fund managers who are employed in the "Hedge Fund", "Emerging Market Debt," and "Opportunistic Credit" classifications.

NOTE 8. DERIVATIVE INSTRUMENTS (CONTINUED)

Asset -Backed Securities - In accordance with investment policy and fiduciary principles, the Plan invests in various forms of asset-backed securities that fit the previous definition of derivative securities. These securities are held by NMERB for investment purposes. The assets presented by investment category, at fair value, are as follows:

Schedule of Asset-backedSecurities by Fiscal Year

Security Type	2016	2015
Asset-backed securities	$ 25,939,862	$ 31,418,787
Collateralized debt/loan obligations	16,727,289	9,618,393
Non-Agency mortgage-backed securities	37,807,316	51,000,651
Total	$ 80,474,467	$ 92,037,831

NOTE 9. CAPITAL ASSETS

Capital assets are used in operations and have useful lives extending beyond a single reporting period. Assets costing $5,000 or more per Section 12-1-10, NMSA 1978 are recorded at historical cost and depreciated over their useful lives. Furniture, fixtures, and equipment are depreciated over five to ten years; building and improvements are depreciated over twenty-five years. A schedules of capital asset activity for the year ended June 30, 2016 and 2015 are shown below.

Depreciation expense reported as part of administrative expenses is $228,869 and $157,733 for fiscal year 2016 and 2015, respectively. NMERB disposed of $174,204 and $274,909 in capital assets during fiscal year 2016 and 2015, respectively, consisting primarily of obsolete computer equipment.

Schedule of Capital Asset Activity 2016

Capital assets, at cost:	Balance - June 30, 2015	Additions	Deletions	Balance - June 30, 2016
Land & land improvements	$ 248,172	$ -	$ -	$ 248,172
Depreciable land improvements	19,361	-	-	19,361
Building & building improvements	3,365,714	19,452	-	3,385,166
Retirement information system	9,156,963	-	-	9,156,963
Furniture, fixtures, & equipment	882,886	424,753	(174,204)	1,133,435
Other assets	30,500	-	-	30,500
Total	13,703,596	444,205	(174,204)	13,973,597
Accumulated depreciation				
Land improvements	(7,742)	(77)	-	(7,819)
Building & improvements	(1,818,671)	(103,660)	-	(1,922,331)
Retirement information system	(9,150,531)	(6,432)	-	(9,156,963)
Furniture, fixtures, & equipment	(722,860)	(118,699)	174,204	(667,355)
Total	(11,699,804)	(228,868)	174,204	(11,754,468)
Capital assets, net of accumulated depreciation	$ 2,003,792	$ 215,337	$ -	$ 2,219,128

NOTE 9. CAPITAL ASSETS (CONTINUED)

Schedule of Capital Asset Activity 2015

Capital assets, at cost:	Balance - June 30, 2014	Additions	Deletions	Balance - June 30, 2015
Land & land improvements	$ 248,172	$ -	$ -	$ 248,172
Depreciable land improvements	19,361	-	-	19,361
Building & building improvements	3,365,714	-	-	3,365,714
Retirement information system	9,156,963	-	-	9,156,963
Furniture, fixtures, & equipment	1,018,095	139,700	(274,909)	882,886
Other assets	30,500	-	-	30,500
Total	13,838,805	139,700	(274,909)	13,703,596
Accumulated depreciation				
Land improvements	(7,043)	(699)	-	(7,742)
Building & improvements	(1,717,236)	(101,435)	-	(1,818,671)
Retirement information system	(9,363,038)	(55,599)	268,106	(9,150,531)
Furniture, fixtures, & equipment	(722,860)	-	-	(722,860)
Total	(11,810,177)	(157,733)	268,106	(11,699,804)
Capital assets, net of accumulated depreciation	$ 2,028,628	$ (18,033)	$ (6,803)	$ 2,003,792

NOTE 10. ACCRUED COMPENSATED ABSENCES

Qualified employees are entitled to accumulate vacation leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon the length of service and the employee's hire date. A maximum of 30 working days (equivalent to 240 hours) of such accumulated vacation leave can be carried forward into the beginning of the next calendar year. Any excess accumulated vacation leave is forfeited on a calendar year basis.

When employees terminate employment with the State, they are compensated for accumulated vacation leave as of the termination date, up to a maximum of 240 hours. All balances for each employee have been recorded at their current pay rate as of June 30, 2016 and 2015.

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave an employee can accumulate. Once per fiscal year, in either January or July, employees may elect to be paid for accrued sick leave in excess of 600 hours but less than 720 hours at 50% of their current hourly rate.

In the case of retiring employees, they may be paid for accrued sick leave in excess of 600 hours but less than 1,000 hours at 50% of their current hourly rate. All sick leave balances in excess of 600 hours but less than 720 hours for each employee have been recorded as a liability at 50% of their current hourly rate.

NOTE 11. RETIREMENT PLANS

NMERB employees who do not possess a teaching or administrative certificate have the option of participating in the Educational Employees Retirement Plan or the Public Employees Retirement Plan. Some NMERB employees have elected to participate in the Educational Employees Retirement Plan, while most participate in the Public Employees Retirement Plan.

Public Employees Retirement Association (PERA) – The Public Employee Retirement Plan is a qualified governmental plan under Section 401(a) of the Internal Revenue Code (IRC) administered by the Public Employees Retirement Association (PERA), which provides retirement, disability, and survivor benefits pursuant to the Public Employees Retirement Act. PERA is a cost-sharing, multiple employer defined benefit plan. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report is available at www.pera.state.nm.us.

PERA Funding Policy - Plan members are required to contribute 8.92% of their gross salary. NMERB is required to contribute 16.99% of the gross covered salary. The contribution requirements for Plan members and NMERB are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. Total contributions from NMERB and Plan members to PERA for fiscal years ended June 30, 2016 and 2015, were $596,656 and $568,105, respectively.

Educational Retirement Board – The Educational Retirement administers a cost sharing multiple employer Plan authorized by the Educational Retirement Act established in Chapter 10, Article 22, NMSA 1978. NMERB administers the Plan which is a cost-sharing, multiple employer defined benefit plan providing retirement, disability, and survivor benefits to plan members (certified teachers and other employees of state public schools, colleges and universities, public charter schools). NMERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report is available at www.nmerb.org.

NMERB Funding Policy

2016 and 2015 Member Contributions – Plan members whose annual salary is $20,000 or less are required to contribute 7.9% of their gross salary. Plan members whose annual salary exceeded $20,000 are required to contribute 10.7% of their gross salary.

2016 and 2015 Employer Contributions – Employers contribute 13.9% of the gross covered salary for employees whose annual salary was $20,000 or less, and 13.9% of the gross covered salary for employees whose salary exceeded $20,000.

Contribution requirements of the Plan are established under Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. Total contributions from NMERB and Plan members to the Plan for fiscal years ended June 30, 2016 and 2015, were $9,221 and $2,623, respectively.

NOTE 11. RETIREMENT PLANS (CONTINUED)

GASB 68 – Financial Reporting and Disclosure for Multiple-Employer Cost Sharing Pension Plans by Employers

According to the Department of Finance and Administration (DFA), compliant with the requirements of GASB No. 68, the State of New Mexico has implemented the standard for the fiscal year ending June 30, 2015. ERB, as part of the primary government (fiduciary fund) of the State of New Mexico, is a contributing employer to the cost-sharing multiple employer PERA fund. Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico. Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR, and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico 87501.

NOTE 12. POST-EMPLOYMENT BENEFITS - RETIREE HEALTH CARE PLAN

***RHCA Plan Description*:** NMERB contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act in Chapter 10, Article 7C NMSA 1978. RHCA is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person’s behalf, unless that person retires before the employer’s RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employee's effective date, and the date of retirement; (2) retirees as defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years.

RHCA issues a publicly available financial report that includes financial statements and required supplementary information for the post-employment healthcare plan. The report and further at https://www.nmrhca.state.nm.us.

NOTE 12. POST-EMPLOYMENT BENEFITS - RETIREE HEALTH CARE PLAN (CONTINUED)

RHCA Funding Policy. The Retiree Health Care Act under Section 10-7C-13, NMSA 1978, authorizes the RHCA Board of Trustees to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or a governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium rate to cover their claims and the administrative expenses of the RHCA plan. The monthly premium rate schedule can be viewed on their website at www.nmrhca.state.nm.us.

The employer, employee and retiree contributions are required to be remitted to RHCA on a monthly basis. The statutory requirements for employer and employee contributions can be changed by the New Mexico Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board. For employees that were members of an enhanced retirement plan during the fiscal year ended June 30, 2016, the statutes required each participating employer to contribute 2.5% of each participating employee's annual salary; participating employees were required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2016, the statute required each participating employer to contribute 2% of each participating employee's annual salary; participating employees were required to contribute 1% of their salary.

Total employer NMERB's employer contributions to RHCA for the years ending June 30, 2016 and 2015 were $70,247 and $63,497, respectively.

NOTE 13. RISK MANAGEMENT

NMERB is exposed to various risks of loss for which it carries insurance (auto, employee bond, general liability, civil rights and foreign jurisdiction, money and securities, property, and workers' compensation) with the Risk Management Division (RMD) insurance program of the New Mexico General Services Department (GSD). The Plan's coverages are designed to satisfy the requirements of State tort claims. All claims are processed through RMD.

NOTE 14. STATUTORY DISCLOSURES

Section 2.2.2.10P(2) of the Audit Rule 2011, 2.2.2 NMAC entitled, "Requirements for Contracting and Conducting Audits of Agencies" requires that state agencies disclose all special, deficiency, and specific appropriations. NMERB had no open appropriations as of fiscal year end 2016.

NOTE 15. PENDING LITIGATION AND CLAIMS

During each business cycle, NMERB may be named as a defendant in administrative appeals arising from the normal course of business. Legal counsel believes resolution of any currently pending matters will not have a material effect on the financial statements.

Required Supplementary Information

SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS
June 30

	2016	2015	2014	2013
Total Pension Liability				
Service cost	$ 356,873,760	$ 346,956,028	$ 350,247,724	$ 348,266,697
Interest	1,367,647,222	1,321,047,780	1,254,730,237	1,202,676,449
Benefit changes		-	-	10,093,494
Difference between actual & expected experience	42,491,846	(86,722,485)	(114,507,809)	-
Assumption changes	-	299,084,856	-	(5,035,689,829)
Benefit payments and refunds	(1,012,730,730)	(957,183,402)	(907,214,467)	(853,329,267)
Net Change in Total Pension Liability	754,282,098	923,182,777	583,255,685	(4,327,982,456)
Total Pension Liability - Beginning	17,974,989,414	17,051,806,637	16,468,550,952	20,796,533,408
Total Pension Liability - Ending (a)	$ 18,729,271,512	$ 17,974,989,414	$ 17,051,806,637	$ 16,468,550,952
Plan Fiduciary Net Position				
Employer contributions	$ 396,988,557	$ 395,129,621	$ 362,462,537	$ 299,657,530
Member contributions and other	295,946,396	294,560,840	271,513,574	250,529,546
Pension plan net investment income	364,571,123	429,738,078	1,444,233,347	1,016,865,792
Benefit payments and refunds	(1,012,730,730)	(957,183,402)	(907,214,467)	(853,329,267)
Pension plan administrative expense	(9,660,510)	(10,597,846)	(16,617,970)	(10,985,967)
Net change in plan fiduciary net position	35,114,836	151,647,291	1,154,377,021	702,737,634
Plan fiduciary net position - beginning	11,497,723,115	11,346,075,824	10,191,698,803	9,488,961,169
Plan fiduciary net position - ending (b)	$ 11,532,837,951	$ 11,497,723,115	$ 11,346,075,824	$ 10,191,698,803
Net pension liability (a-b)	$ 7,196,433,561	$ 6,477,266,299	$ 5,705,730,813	$ 6,276,852,149
Plan fiduciary net position as a percentage of total pension liability	61.58%	63.97%	66.54%	61.89%
Covered employee payroll	$ 2,740,526,669	$ 2,730,320,345	$ 2,718,100,677	$ 2,706,170,349
Net pension liability as a percentage of covered employee payroll	262.59%	237.23%	209.92%	231.95%

Notes to schedule:

The change in total pension liability due to assumption changes for the fiscal year ending June 30, 2016 includes the impact of the new assumptions adopted by the Board of Trustees on June 12, 2015.

The covered employee payroll is the actual payroll, imputed from the total employer contribution for active members, for the fiscal years ending June 30, 2016 and 2015.

Complete data for this schedule is not available prior to fiscal year 2013.

SCHEDULE OF INVESTMENT RETURNS

Fiscal Year Ending	Annual Money - Weighted Rate of Return
2016	2.68%
2015	4.06%
2014	14.71%
2013	11.12%
2012	1.87%
2011	19.30%
2010	****
2009	****
2008	****
2007	****

Note
Governmental Accounting Standards Board (GASB) Statement 67 requires pension plans to disclose the annual money-weighted rate of return (MWRR). The MWRR incorporates both the size and the timing of cash flows to determine an internal rate of return. The MWRR considers the changing amounts actually invested during a period, and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. This rate of return is computed net of investment expenses but not net of administrative investment expenses.

Complete data for this schedule is not available prior to fiscal year 2011.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution % of Covered Payroll
2016	$ 465,340,519	$ 396,988,557	$ 68,351,962	$ 2,740,526,669	14.49%
2015	$ 450,950,584	$ 395,129,621	$ 55,820,963	$ 2,730,320,345	14.47%
2014	$ 479,884,486	$ 362,462,537	$ 117,421,949	$ 2,718,100,677	13.34%
2013	$ 480,700,326	$ 299,657,530	$ 183,042,796	$ 2,706,170,349	11.07%
2012	$ 400,461,343	$ 253,845,277	$ 146,616,066	$ 2,720,149,646	14.54%
2011	$ 377,884,749	$ 308,367,952	$ 69,516,797	$ 2,791,839,227	13.39%
2010	$ 357,220,043	$ 313,276,296	$ 43,943,747	$ 2,835,080,484	12.45%
2009	$ 375,430,722	$ 323,685,497	$ 51,745,225	$ 2,737,842,584	13.54%
2008	$ 368,196,682	$ 290,846,065	$ 77,350,617	$ 2,627,312,222	13.84%
2007	$ 364,128,448	$ 255,853,194	$ 108,275,254	$ 2,480,566,067	14.51%

Note
The valuation date for fiscal year 2016 is June 30, 2015. Actuarially determined contribution rates are calculated as of June 30. Employers and members contribute based on statutorily fixed rates.

Methods and Assumptions for Actuarially Determined Contribution Rate for Fiscal Year 2016

Methods and Assumptions Used to Determine Contribution Rates	
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	Amortized over a closed thirty-year period from June 30, 2012 ending June 30, 2042.
Asset Valuation Method	Five-year smoothed market
Inflation	3.00%
Salary Increases	Composed of 3.00% inflation, plus .75% productivity increase rate, plus step-rate promotional increases for members with less than ten years of service.
Investment Rate of Return	7.75%
Retirement Age	Experience-based table of rates based on age and service. Adopted by NMERB on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.
Mortality	Healthy males: RP-2000 Combined Mortality Table with white collar adjustments, with no setback. Generational mortality improvements with scale BB from the table's base year of 2000. Healthy females: GRS Southwest Region Teacher Mortality Table, set back one year. Generational mortality improvements in accordance with scale BB from the table's base year of 2012.

Other Supplemental Information

SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL (Non GAAP Basis)
JUNE 30, 2016

Revenues and appropriations:	Appropriation Budget	Final Budget	Budgetary Basis Actual	Variance - Final Budget Favorable (Unfavorable)
Other state funds				
Interest and dividend income	$ 30,452,800	$ 30,452,800	$ 126,427,210	95,974,410
Total revenues	$ 30,452,800	$ 30,452,800	126,427,210	95,974,410
Expenditures:				
Operating expenditures				
Personal services/ employee benefits	$ 6,198,600	$ 6,198,600	5,914,755	283,845
Contractual services	22,827,600	22,827,600	20,041,708	2,785,892
Other costs	1,426,600	1,426,600	1,340,164	86,436
Total expenditures	$ 30,452,800	$ 30,452,800	27,296,627	$ 3,156,173
Change in net assets - budgetary basis			99,130,583	
Revenues				
Contributions			690,836,527	
Investment earnings and changes in fair value			326,027,400	
Other Income (Other accruals)			2,098,426	
Total revenues			1,018,962,353	
Expenses				
Age and service benefits			(973,703,652)	
Refunds to terminated members			(39,027,078)	
Depreciation expense			(228,869)	
Other expense accruals			(70,018,502)	
Total expenses			(1,082,978,101)	
Change in net assets - GAAP basis			35,114,836	
Increase (decrease) in fiduciary net position			35,114,835	
Net position held in trust for pension benefits-beginning of Year			11,497,723,115	
Net position held in trust for pension benefits-end of Year			$ 11,532,837,951	

Note:
The New Mexico Educational Retirement Board annual budget is prepared on the modified accrual basis.

SCHEDULE OF BUDGETED EXPENDITURES
JUNE 30, 2016

	2016
Personal services and benefits	
Salaries	$ 3,633,885
Benefits	2,280,870
Total personal services and benefits	5,914,755
Consultant services	
Medical Review board fees	10,833
Audit Fees	130,718
Legal Fees	664,369
Information technology fees	1,676,772
Other consultant service fees	20,714
Total consultant services expenses	2,503,406
Investment expenses	
Custodial expenses	887,176
Investment manager expenses	
Non-U.S. fixed income	257,003
Domestic fixed income	1,176,339
Domestic equity	1,354,877
Non-U.S. equity	11,556,739
Investment consulting expenses	1,743,502
Other investment expenses	527,020
Total budgeted investment expenses	17,502,656
Other administrative expenses	
Building and maintenance	148,728
Dues and subscriptions	48,115
Employee and board travel	106,953
Inventory and supplies	145,083
IT equipment	415,063
Training and education	76,541
Telecommunication services	128,835
Utilities	26,919
Other miscellaneous expenditures	279,573
Total other adminstrative expenses	1,375,810
Total budgeted expenditures	$ 27,296,627

Note
The agency's budget is prepared on the modified accrual basis of accounting.

SCHEDULE OF INVESTMENT AND ADMINISTRATIVE EXPENSES
June 30, 2016

Schedule of Investing Activity and Administrative Investment Expenses

	2016		
Personal services and employee benefits	**Investing Activity**	**Administrative Operations**	**Total**
Salaries	$ 1,392,664	$ 2,529,578	$ 3,922,242
Fringe benefits	98,053	2,036,782	2,134,835
Subtotal	1,490,717	4,566,360	6,057,077
Professional contractual services			
Investment management fees	84,725,788	-	84,725,788
Investment consulting fees	1,743,502	-	1,743,502
Custodial fees	887,176	-	887,176
Attorney fees	527,020	137,349	664,369
Actuarial fees	-	85,653	85,653
Auditing fees	-	130,718	130,718
Other contractual services	-	1,731,658	1,731,658
Subtotal	87,883,486	2,085,378	89,968,864
Communication expenses			
Telephone and network fees	28,790	100,045	128,835
Printing, postage, and mailing expenses	-	119,684	119,684
Subtotal	28,790	219,729	248,519
Facility expenses			
Lease	85,008	28,336	113,344
Depreciation	41,196	187,673	228,869
Maintenance	6,156	47,804	53,960
Utilities	-	26,919	26,919
Subtotal	132,360	290,732	423,092
Software expenses			
Licensing and maintenance	196,728	515	197,243
Subtotal	196,728	515	197,243
Travel expenses			
Professional development and administrative travel cost	20,432	107,739	128,171
Due diligence travel cost	30,336	-	30,336
Subtotal	50,768	107,739	158,507
General administrative expenses			
Research and information services	261,856	-	261,856
Board travel and training expense	8,056	16,931	24,987
Other overhead expense	28,032	127,704	155,736
Memberships and subscriptions	28,000	20,115	48,115
Subtotal	325,944	164,750	490,694
Total investing activities	$ 90,108,793	$ 7,435,203	$ 97,543,996

Schedule of Investing Activity Expense per Statement of Changes in Fiduciary Net Position

Total investing activity expenses	$ 87,883,486	$ -	$ 87,883,486
Total administrative expenses, net of $9,660,510.	2,225,307	7,435,203	9,660,510
Total expenses	$ 90,108,793	$ 7,435,203	$ 97,543,996

Notes

- Personal services and employee benefits represent actual wages, adjusted for year-end accruals.
- Professional investment services represent the cost of investment manager and consulting contracts.
- Communication expenses are allocated based on the number of staff in the workgroup.
- Investment facility expenses represent leased office space in Santa Fe and Albuquerque, New Mexico.
- Software expenses represent the costs of software licensing and maintenance for investment software.
- Travel expenses include the cost of employee in-state and out of state business travel.
- General administrative investment expenses represent costs for information feeds, subscriptions, memberships, and other overhead allocated based on the number of staff in the workgroup.

SCHEDULE OF CASH AND SHORT TERM INVESTMENTS
JUNE 30, 2016 and 2015

Educational Employees' Retirement Fund
Pension Trust Account
Fund 60500

	2016	2015
Petty Cash	$ 100	$ 100
Demand deposits in Wells Fargo Bank - NM Educational Retirement Board		
Qualified Excess Benefit Arrangement Trust Account	209,396	407,271
State Street Bank cash balances held by investment fund managers	12,902,893	2,168,033
Short term investment accounts:		
State Treasurer's General Fund Investment Pool	13,008,495	7,891,352
State Treasurer's Local Government Investment Pool	-	100,000,000
State Street Bank - Short term investments at fair value	200,138,412	442,993,507
	$ 226,259,296	$ 553,460,263

Insured Wells Fargo demand deposit account:		
Total amount on deposit at June 30, 2016	$ 209,496	$ 407,371
Less: Federal Deposit Insurance Corporation coverage	(209,496)	(250,000)
Total uninsured public funds	$ -	$ 157,371

Notes

Individual deposit accounts and investment accounts held in the name of the New Mexico Educational Retirement Board are shown above as required by Section 12-6-5(A) NMSA 1978. All cash activity is accounted for within the Statewide Human Resources Accounting and Management System (SHARE) fund number 60500.

Additional information on credit risk related to state agency investments held in State Treasurer's General Fund Investment Pool can be found in the State Treasurer's separately issued financial statements which disclose the collateral pledged to secure cash and investments.

State Street Bank balances for cash held by foreign currency and other portfolio managers is securitized by State Street Bank. See Note 7 for additional information on custodial and credit risk with respect to funds held by State Street Bank (SSB).

With respect to credit risk for the Local Government Investment Pool (LGIP) in fiscal year 2015, the cash balance maintained by the State Treasurer's Office (STO) was rated AAAm by Standard & Poor's. As a Public Fund, STO is not required to disclose custodial risk for this fund.

STO used the Weighted Average Maturity (WAM) method to report interest rate risk. As of June 30, 2015 the LGIP WAM (R) was 54.6 days and the WAM (F) was 77.7 days where WAM (R) indicates the number of days until the floating interest rate Resets, and WAM (F) indicates the number of days to Final maturity. Additional information can be found on STO's website at www.nmsto.gov.

ACCOUNTABILITY IN GOVERNMENT ACT PERFORMANCE MEASURES
JUNE 30, 2016

		FY16	
Type	**Description**	**Target**	**Actual**
Outcome	Average rate of return over a cumulative five-year period	7.75%	6.60%
Outcome	Member seminar and training satisfaction ratings	95%	95%
Output	Number of member workshops conducted*	30	40
Outcome	Average number of days to process refund requests **	12	15
Output	Number of benefit estimates and purchase service requests computed annually ***	6,000	N/A
Outcome	Funding period of unfunded actuarial accrued liability in years ****	<30	45

NMERB reports annual performance measure results (outputs and outcomes) through the state's budget process in pursuit of cost-effective and responsive government services in conformance with the Accountability in Government Act (Sections 6-3A-1 to 6-3A-9 NMSA 1978). Agency performance measures are included in the General Appropriations Act. NMERB selected the measures shown above based our primary services of prudent asset management, pension benefit administration, and outreach and training services for both our membership and educational employers.

Notes:

* NMERB created more opportunities for members and employers to attend training workshops in regional settings or at their own sites. These sessions are in high demand and helpful for educating our current membership and future retirees.

** Member withdrawals of NMERB plan contributions are governed by the Internal Revenue Code (IRC) for pensions which imposes a 30-day waiting period. This time period can be waived in part by written application, bringing the waiting period to the shorter of 20 working days or as soon as is administratively possible.

*** NMERB has increased the ease of access to website forms, demographic information, and a retirement benefit calculator. In response to an improved web experience, the average number of unique visitors to NMERB's site continues to increase. Based on the number of manual benefit estimates for members considering service purchases prior to retirement, members requesting a benefit review prior to retirement, and those now able to estimate their own benefits online we believe we have met the target set for this year. However, we are unable at this time to separately measure the benefit calculator usage for those tracking their progress toward early retirement goals.

**** NMERB's contribution rate structure is intended to be sufficient to pay NMERB's normal cost and to amortize the 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 extend beyond June 30, 2042 (30 years from June 30, 2012) in accordance with the funding policy set by the Board of Trustees. The amortization period, or funding period, is the number of years expected to be required to completely amortize the UAAL, assuming that NMERB's experience is consistent with all of the actuarial assumptions.

SCHEDULE OF VENDOR INFORMATION
JUNE 30, 2016

(Unaudited)

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	$ Amount of Awarded Contract	$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	CliftonLarsonAllen, LLP 500 Marquette NW, Ste. 800 Albuquerque, NM 87102	Winner	$130,769.00		Albuquerque, NM	Yes	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	Eide Bailley, LLP	Loser	$0.00		Boise, ID	No	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	Ricci and Company	Loser	$0.00		Albuquerque, NM	Yes	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	Carr, Riggs & Ingram, LLC	Loser	$0.00		Enterprise, AL	No	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	Hinkle + Landers, PC	Loser	$0.00		Albuquerque, NM	Yes	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2016-01-02	Competitive (RFP or RFB)	KPMG, LLP	Loser	$0.00		Albuquerque, NM	No	No	Comprehensive financial audit services - including separate GASB 68 reports.	
35200	Education Retirement Board	State Agencies	2015-10-02	Competitive (RFP or RFB)	Managed Medical Review Organization	Winner	$640,000.00		Novi, MI	No	No	Perform all tasks necessary to provide the agency's Board of Trustees with recommended actions on applications for disability-related retirement benefits, including: reviewing such applications, job descriptions and supporting medical, psychological and other examination reports, requiring individual applicants to submit periodically and when appropriate the necessary examination reports for determining disability benefits, including cost of living adjustments. Provide recommendations regarding the applicant's disability and that disability's effect on maintaining current employment , or gaining other employment commensurate to the applicant's employment or their background, education and experience.	

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF VENDOR INFORMATION
JUNE 30, 2016

(Unaudited)

Agency Number	*Agency Name*	*Agency Type*	*RFB#/RFP# (If applicable)*	*Type of Procurement*	*Vendor Name*	*Did Vendor Win Contract?*	*$ Amount of Awarded Contract*	*$ Amount of Amended Contract*	*Physical address of vendor (City, State)*	*Did the Vendor provide documentation of eligibility for in-state preference?*	*Did the Vendor provide documentation of eligibility for veterans' preference?*	*Brief Description of the Scope of Work*	*If the procurement is attributable to a Component Unit, Name of Component Unit*
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	PGIM, Inc.	Winner	$470,000 (approx.) per year for 4 years		Newark, NJ	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Aberdeen Asset Management PLC	Loser			Philadelphia, PA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Ashmore Group plc	Loser			London, UK	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	BlueBay Asset Management LLP	Loser			London, UK	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Capital Group	Loser			Los Angeles, CA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Doubleline	Loser			Los Angeles, CA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	DuPont Capital Management Corporation	Loser			Wilmington, DE	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Franklin Resources, Inc.	Loser			San Mateo, CA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Goldman Sachs Asset Management	Loser			Los Angeles, CA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Gramercy	Loser			Greenwich, CT			Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	HSBC Global Asset Management	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Investec Asset Management	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Lazard Asset Management LLC	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Lazard Asset Management LLC	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Logan Circle Partners, LP	Loser			Philadelphia, PA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Manulife Asset Management	Loser			Toronto, Ontario Canada	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	MFS Investment Management	Loser			Boston, MA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Pictet Asset Management Ltd.	Loser			Montreal, Quebec, Canada	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	PIMCO	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Schroder Investment Management	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Stone Harbor Investment Partners LP	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	TCW Group, Inc.	Loser			Los Angeles, CA	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	TIAA-CREF Asset Management, LLC	Loser			New York, NY	No	No	Manage investment portfolio.	
35200	Education Retirement Board	State Agencies	2015-06-01 (INV)	Competitive (RFP or RFB)	Western Asset Management Company	Loser			Pasadena, CA	No	No	Manage investment portfolio.	

Additional Information

Additional Information

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Members of the State of New Mexico
Educational Retirement Board and
Honorable Timothy Keller, State Auditor
New Mexico Educational Retirement Board
Santa Fe, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the New Mexico Educational Retirement Board (ERB) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise ERB's basic financial statements, and the Schedule of Revenues and Expenditures -Budget and Actual presented as supplementary information, as defined by the Government Accounting Standards Board, for the year ended June 30, 2016, and have issued our report thereon dated December 1, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ERB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ERB's internal control. Accordingly, we do not express an opinion on the effectiveness of ERB's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a significant deficiency in internal control which is described in the accompanying schedule of findings and responses as Finding 2016-001.

A member of Nexia International

The Members of the State of New Mexico
Educational Retirement Board and
Honorable Timothy Keller, State Auditor
New Mexico Educational Retirement Board
Santa Fe, New Mexico

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ERB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Finding 2016-002, Finding 2016-003, and Finding 2016-004.

ERB's Response to Findings

ERB's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Responses. ERB's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 1, 2016

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINGINGS
For the Year Ended June 30, 2016

2015-001 Census Data	
Other Matter	**Resolved**
2015-002 Disaster Recovery Plan	
Other Matter	**Repeated as 2016-003**

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016

A. OTHER MATTERS AS REQUIRED BY THE NEW MEXICO STATE AUDIT RULE

2016-004 Cash Receipts Not Recorded or Deposited in a Timely Manner (Compliance and Other Matters)

Condition: During our required state compliance test work over cash receipts per NMAC 2.2.2.10 (G), we noted that 1 out of the 22 receipts tested in the amount of $2,999, was deposited three days after it was received.

Criteria: NMSA 6-10-3 states that state agencies receiving any money in cash or by check deliver or remit to the state treasurer such receipts before the close of the next succeeding business day after the receipt of the money. In addition according to the Manual of Model Accounting Practices (MAPs) Section FIN 2.1, all cash received by agencies must be recorded timely and accurately in accordance with state statute.

Cause: Lack of an effective cash receipt process to ensure timely deposits when the primary person responsible for making deposits is unavailable.

Effect: Noncompliance with applicable laws and regulations.

Auditors' Recommendation: We recommend that management establish effective backup procedures to ensure that timely deposits are made when the primary person responsible is unavailable.

Management's Response: Management recognizes the importance of timely deposits for all monies received. The deposit in question (a Service Credit Purchase payment), was received on the Friday prior to the Monday holiday, Martin Luther King Day, but not deposited until Wednesday. Based on the Monday holiday, the deposit was made one business day late because the assigned staff person was ill on Tuesday.

Service Credit Purchase payments are often submitted from multiple sources, and require additional time to confirm the amounts to the Purchase Agreement in order to assure the total matches the agreement amount. If a payment exceeds the payable amount, it is returned to the member to be revised. NMERB does not deposit the payment if it appears the payment will exceed the agreement amount because that may create a taxable event for the member.

To address staffing issues and vacancies, NMERB's two-member Accounting workgroup has initiated complementary Alternative Work Schedules to increase coverage for daily tasks. All deposits are made via a DeskTop Scanner provided by our fiscal agent to eliminate the need to physically take receipts to the bank. Staff Accountants work overlapping ten (10) hour schedules, both staff members have diligently cross trained in all daily tasks, and management requires scheduling meetings prior to granting leave requests to ensure coverage of daily tasks.

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016

A. OTHER MATTERS AS REQUIRED BY THE NEW MEXICO STATE AUDIT RULE (CONTINUED)

2016-004 Cash Receipts Not Recorded or Deposited in a Timely Manner (Compliance and Other Matters) (Continued)

Management's Response (Continued): NMERB has faced serious personnel resource issues in the Accounting department, limiting its ability to meet these tasks and new challenges. When open positions are filled, the new staff members will be similarly trained in the appropriate deposit process.

Since deposits are required to be made before the close of the next succeeding business day after receipt, we've increased the disclosures on our Daily Cash Report to include a section showing monies received, but not deposited, which will be tied out on a daily basis to the amount in the locked cash drawer. This will alert other accounting staff (personnel outside the immediate staff who complete electronic deposits) to check the cash drawer when staff are absent.

The implementation of the corrective action plan will be the responsibility of the Executive Director and is expected to be complete by June 2017.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2016-001 Investment Accounting (Significant Deficiency)

Condition: During our audit procedures on investments, we identified incorrectly recorded investment activity in the general ledger.

Criteria: Management of a cost-sharing pension plan is responsible for the preparation and fair presentation of financial statements.

Cause: Inaccurate reconciliation of the custodial bank records to the general ledger.

Effect: Investments and net appreciation in fair value were understated. Management made the adjustment and it is reflected in the financial statements.

Auditors' Recommendation: We recommend management strengthen the reconciliation of investments and the investment journal entry preparation process so it is performed on a monthly basis and reviewed for accuracy by a member of the investment team.

Management's Response: Management acknowledges that adjustments to investment related accounts were required in order to reflect all financial activity for fiscal year 2016.

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

2016-001 Investment Accounting (Significant Deficiency) (Continued)

Management's Response (Continued)

The Investment department staff has a reliable process to validate investment accounts to custodial records each month, and communicates the completion of that validation process, the availability of monthly custodial reports on NMERB's network, as well as other significant investment transactions reported for investments held outside the custodial bank. Custodial closing dates do not occur early enough in the month to be recorded in the SHARE General Ledger in the transaction month. During this fiscal year the Accounting department developed an internal worksheet titled Investment Reconciliation Worksheet which is used to translate the custodial bank's monthly summary data into a format that can be input to the SHARE General Ledger account scheme. Journal entries are posted as the information becomes available based on the monthly worksheets. All fiscal year journal entries are prepared by a staff Accountant and reviewed by the Chief Financial Officer (CFO).

During this fiscal year the CFO began to actively train Accounting personnel to perform additional monthly review and reconciliation procedures, supplemented by accounting and spreadsheet courses in order to increase staff skill levels and productivity. The Accounting department workload has grown over the past two years due to new external financial reporting requirements from the Governmental Accounting Standards Board, and due to State level reporting requirements designed to improve reporting information across State agencies. NMERB has faced serious personnel resource planning issues limiting its ability to meet these new challenges, especially in the Accounting department due to multiple, longstanding personnel vacancies. We have actively attempted to fill these vacancies. In addition, until we can fill the multiple, longstanding vacancies, we will identify outside professional accountants to ensure reconciliations are performed on a timely basis.

The CFO and the Accounting staff have made significant progress in building new processes and augmenting internal controls, as well as in increasing staff experience and skill levels. We recognize the need to continue to build on this year's efforts in order to meet interim and annual financial statement timelines, and to be prepared for further reporting challenges in the coming year.

The implementation of the corrective action plan will be the responsibility of the Executive Director and is expected to be complete by June 2017.

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

2016-002 Accuracy and Completeness of Census Data (Compliance and Other Matters)

Condition: During our audit procedures on census data we identified 559 members that had an active status in the census data whom had been terminated prior the actuarial measurement date.

Criteria: Management of a cost-sharing pension plan is responsible for the preparation and fair presentation of financial statements that report the plan's total pension liability and resulting employers' net pension liability at the measurement date. The plan's actuary relies on the plan to provide complete and accurate census data for an accurate calculation of the total pension liability.

Cause: Reporting and data entry of terminated employees in the pension system is not completed timely and there are no reconciliation procedures to identify terminated employees reported as active.

Effect: The actuary evaluated the impact of this error and determined that the total pension liability was overstated by approximately $7.3 million or 0.04%. This difference was determined to be immaterial and did not result in an adjustment of the total pension liability.

Auditors' Recommendation: We recommend management strengthen internal controls over the census data to ensure that data submitted to the plan's actuary is complete and accurate as of the actuarial measurement date. Management should implement procedures to review the census data and ensure all required member information is included and accurate before submitting the data to the actuary.

Management's Response: NMERB recognizes the importance of accurate data to the calculation of the total pension liability each year, and the pivotal role employers and their internal controls play in reporting on a timely and accurate basis. Terminations are reported by employers through the monthly file upload process. NMERB analysts update all termination data received on a timely basis by reviewing and balancing each upload file every month. NMERB will continue to work with employers to reinforce their understanding of the impact of accurate membership status information.

NMERB relies on the standard monthly upload process to update the status of members on a timely basis. This involves both automatic and manual steps to record changes in the status of active and retired members. Each month employers upload files containing wages, contributions, terminations, and other demographic information. Employers also send signed data forms to document hire dates and other changes to members' records which are input manually by analysts. NMERB processes data from each of these sources on a timely basis.

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED

2016-002 Accuracy and Completeness of Census Data (Compliance and Other Matters) (Continued)

Management's Response (Continued)

The post year end records reviewed to identify changes to the database that may impact the net pension liability calculation, were taken from June, July, and August 2016. The records identified as producing this condition were reported primarily by universities and colleges. Based on communication with these employers, some of the terminations may not be reported in the final month of an employee's annual contract, or the final month of the fiscal year, because

1) the potentially terminating members are at work onsite,
2) terminating members have not yet made the retroactive decision, or have not communicated that decision, to employer staff,
3) fewer employer administrative staff are available to process their payroll data, or
4) the employer's administrative staff at these larger institutions are distributed across separate Human Resources and Payroll workgroups, potentially causing timing delays for the reporting process.

Although NMERB contacts employers to advise them about member status conditions, to request information needed, and to solicit outstanding data, employers face system and resource constraints. We are committed to educating employers in order to improve the accuracy of their reporting process through online publications, consistent analyst feedback and training, and onsite compliance visits. The results of this data analysis will be communicated to employers who bear the responsibility of reporting the net pension liability within their financials, but we do not view the results of the timing and process differences identified in the finding as a database error.

NMERB has already considered implementing additional periodic database reviews to maximize the benefits of improved reporting, and will seek to develop opportunities for additional automated solutions.

The implementation of the corrective action plan will be the responsibility of the Executive Director and is expected to be complete by June 2017.

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

2016-003 Disaster Recovery Plan (Original Finding 2015-002) (Compliance and Other Matters)

Condition: ERB has a Disaster Recovery Plan but it was last updated in 2014. Although the ERB has taken various measures to address brief interruptions to systems processing (such as regular back-ups and redundancy and data center off-site), the formal plan still needs to be updated to address the recovery and resumption of critical systems and data in the event of an interruption.

> *Management Progress on Repeat Findings: Management was not successful in adequately implementing a corrective action plan to resolve this finding.*

Criteria: In accordance with ISACA's Control Objectives for Information and related Technology (COBIT) 5 framework (DSS04), to ensure continuous service, a Disaster Recovery and Business Continuity Plans need to be developed and tested to reduce impact of a major disruption on key business functions and processes.

Cause: Management was unaware of the 2014 Disaster Recovery Plan until after the fiscal year end.

Effect: ERB is at risk of losing valuable data during a disruption or disaster and to experience a delay before systems can be restarted and archived back-up data restored.

Auditors' Recommendation: ERB should review and update the disaster recovery plan to make sure it is up to date. The plan should be reviewed at least annually. We further recommend that the plan be tested on a periodic basis.

Management's Response: NMERB is very concerned about disaster recovery and has taken several important steps during fiscal year 2016 to improve our capabilities in this area. NMERB has a draft disaster recovery plan, which was provided to Michael Nyman, a Senior IT Assurance Manager with CliftonLarsonAllen, on November 7, 2016.

For the fiscal year ending June 30, 2016 our Disaster Recovery plan has been directed primarily at a tape backup strategy. That strategy is comprised of daily, weekly monthly, and annual (calendar end of year tapes). Daily incremental backups begin each day at 6:00 PM ending between 2:00 and 5:00 AM. These are a record of all data changes made that day across our physical and virtual server environment. Weekly full backups consist of a full backup of all physical and virtual environments, including the operating systems for each server. We have a total of 8 separate weekly backup sets. Each set consists of 5 LTO 5 tapes. These tapes are cycled to State Records and Archives (SRCA) each week on Friday of that week. Annual tape sets are currently set for the last Friday of a calendar year. These vary across multiple tape media, but none have been destroyed.

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

2016-003 Disaster Recovery Plan (Original Finding 2015-002) (Compliance and Other Matters) (Continued)

Management's Response (Continued)

In addition, it is important to note that NMERB is actively engaged in the deployment of our server environment from our main Santa Fe office and our Albuquerque office into two secured data centers. This is an important element of the Information Technology strategic plan that NMERB has been working on for the past 2 years. The first datacenter is the NM Department of Information Technology's (DoIT's) Simms data center in Santa Fe and their backup data center in Albuquerque located in the Oso Grande data center. In each of these facilities we will be placing duplicate hardware consisting of the following:

1 Cisco ISR 4331 router
1 Meraki MX100 firewall
1 Cisco class B server
1 EMC SAN storage
1 Meraki Switch
1 EMC Data Domain disk storage
1 Oracle Database appliance

This new hardware will provide NMERB with sustainable business continuity and disaster recovery.

Moving our hardware infrastructure into these Tier 3 (DoIT) and Tier 2 (Oso Grande) data centers will provide ERB with a significantly more robust business continuity and disaster recover profile. Oso Grande plans to make the necessary generator additions to their facility to make it a Tier 3 data center in the coming calendar year. Tier 3 is the highest level of data center in New Mexico.

The proposed configuration for these data centers will provide for failover and failback scenarios to contend with the theoretical event of the main data center going offline at any future time. The configuration phase of this hardware migration will include the initial testing of just such an event. Future testing plans will be constructed once the original configuration testing has conducted. Finally, this hardware infrastructure move will allow access to the agency's data from our three business offices at all times.

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

2016-003 Disaster Recovery Plan (Original Finding 2015-002) (Compliance and Other Matters) (Continued)

NMERB management understands the importance of having a formal, written disaster recovery plan and is taking steps to officially document all of our current, ongoing processes into this formal plan.

The implementation of the corrective action plan will be the responsibility of the Executive Director and is expected to be complete by June 2017.

EXIT CONFERENCE
JUNE 30, 2016

NMERB staff prepared the Management Discussion and Analysis (MD&A), financial statements, statements, schedules, and notes for the fiscal years ended June 30, 2016 and 2015. The contents of this report were discussed during an exit conference with the Audit Committee of the Board of Trustees and management of NMERB on November 17, 2016. The following individuals attended this exit conference:

Educational Retirement Board
Members of the Audit Committee
Mary Lou Cameron, Audit Committee Chairperson
H. Russell Goff, Vice-Chairperson
Tim Eichenberg, State Treasurer

Agency Management
Jan Goodwin, Executive Director
Dianne L. Rossbach, Chief Financial Officer

CliftonLarsonAllen, LLP, CPAs
Jason Ostroski, Audit Team Lead

The contents of this report will also be presented to the NMERB Board of Trustees as part of the regular board meeting on December 9, 2016.

ACTUARIAL SECTION

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631

469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

Actuarial Certification Letter

January 23, 2017

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 Report as of June 30, 2016

The results of the June 30, 2016 annual actuarial valuation are presented in this report. 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, 2016.

This report was prepared at the request of the Board and is intended for the Board's use and those designated or approved by the Board. This report may be provided to parties other than the ERB only in its entirety and only with the permission of the Board.

To the best of our knowledge, this report is based on benefit provisions in effect as of June 30, 2016, audited financial information prepared as of that date, member data gathered as of that date, and the actuarial assumptions and methods previously adopted by the Board.

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

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, to analyze changes in ERB's condition, and to provide various summaries of the membership data

This report does not provide information required under Governmental Accounting Standards Board (GASB) Statement Nos. 67 & 68. All of the information required by GASB is provided in a stand-alone report entitled "GASB Reporting and Disclosure Information for ERB Fiscal Year Ending June 30, 2016."

The valuation report provides a "snapshot" of ERB's estimated financial condition as of the valuation date. The valuation does not predict ERB's future financial condition or its ability to pay benefits in the future and it also does not provide any guarantee of future financial soundness of ERB. Over time, ERB's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of members receiving benefits, the period of time over which benefits are paid, plan expenses, and the amount earned on any assets invested toward the payment of benefits. These amounts and other variables are uncertain and unknowable at the valuation date.

To prepare the valuation report, actuarial assumptions, including those adopted by the Board on June 12, 2015, are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities; the results based on that single scenario are included in the valuation. The future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material because the results are sensitive to the assumptions made, and, in some cases, to the interaction between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a long period of time, no one projection is uniquely "correct" and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future.

Financing Objectives

In accordance with HB 628 (2011 Regular Session) and SB 115 (2013 Regular Session), employer contributions for the current fiscal year are scheduled to be 13.90% of active member payroll, member contributions for employees with annual salary more than $20,000 are 10.70% of pay, and member contributions for employees with annual salary of $20,000, or less, are 7.90% of pay.

In addition to the above, certain higher education employers make a contribution equal to 3.00% of the total payroll for their employees who have 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 extend beyond June 30, 2042 (30 years from June 30, 2012) in accordance with the funding policy as set by the Board of Trustees. (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 all of the actuarial assumptions.)

Progress Towards Realization of the Financing Objectives

The funded condition of the plan, as measured by the funded ratio, increased slightly from 2015 to 2016. The increase was primarily due to the favorable COLA experience. This increase was offset by a loss due to the recent investment performance.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from last year. The funded ratio as of June 30, 2015 was 63.7%. It is now 64.2% as of June 30, 2016. Five years ago this ratio stood at 63.0%, and ten years ago the ratio was 68.3%. If the ratio were calculated using the market value of assets rather than the actuarial value of assets, it would be 62.2% as of June 30, 2016, down from 63.8% as of June 30, 2015. During the last fiscal year, the UAAL increased from $6.5 billion to $6.6 billion.

The plan's funding period as of the valuation date is 44.9 years. This is a theoretical calculation of the period that will be required to amortize the UAAL, assuming that the current year's amortization payment increases at the payroll growth rate (3.50% per annum) in the future. The 44.9-year period compares with the 43.2-year period calculated as of the prior actuarial valuation date.

This calculation of the funding period is a "snapshot" as of the valuation date and ignores a number of factors: (i) lower normal cost rate in the future since all new members will be eligible for Tier 3 benefits, (ii) the known deferred asset gains and losses that are reflected in the actuarial value of assets and that will be recognized over the next four years, and (iii) future cost-of-living adjustments that may be less than the assumed annual 2% increase.

Recent Events

The annual return from 2015 to 2016 on the market value of assets was approximately 3.1% and the annual return from that same period on the actuarial value of assets was 6.7%. The return on the actuarial value of assets of less than the assumed return rate of 7.75% reflects the five-year "smoothing" of gains and losses at work in the asset valuation method; for instance, in 2014 not all the gains were recognized at one time in the actuarial value of assets and likewise, for this valuation, not all of the 2016 losses have been recognized in the actuarial value of assets. The net result of the losses from 2012, 2015 and 2016 (when compared to the investment return assumption of 7.75%), and the gains from 2013 and 2014 that are recognized in this valuation is an overall loss on the actuarial value of assets measured from last year to this year (a return of 6.7% versus the assumed return of 7.75%).

Benefit Provisions

There were no modifications to the benefit provisions that were reflected in the actuarial valuation as of June 30, 2016.

Assumptions and Methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. The Board adopted new assumptions on June 12, 2015 in conjunction with the six-year actuarial experience study period ending June 30, 2014. At that time, the Board adopted a number of assumption changes, including a decrease in the annual wage inflation rate from 4.25% to 3.75%, as well as changes to the mortality rates, disability rates, and retirement rates for members who joined ERB after June 30, 2010. Finally, the Board lowered the population growth rate assumption to zero.

We believe the recommended assumptions and methods are internally consistent, are reasonably based on the actual experience of ERB, and comply with the Actuarial Standards of Practice.

The results of the actuarial valuation are dependent upon 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, 2016 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 as of June 30, 2016 was also supplied by the ERB staff.

The member data was provided with an additional level of detail for the June 30, 2016 valuation. This additional level of detail allowed us to more accurately determine the appropriate membership date for each member and to better understand the age and gender of the new members. This additional level of detail resulted in a slight increase in the normal cost rate when we would have otherwise expected a slight decrease.

We provided some of the information used in the Comprehensive Annual Financial Report. Specifically, we provided information used in preparing the schedules of Active Member Valuation Data, Retirants and Beneficiaries, Analysis of Financial Experience, and the Solvency Test that are found in the Actuarial Section; and we provided the Schedule of Changes in the Employers' Net Pension Liability and Related Ratios as well as the Schedule of Employer Contributions in the Financial Section.

Certification

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of New Mexico state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board.

The undersigned are independent actuaries and consultants. Both are Enrolled Actuaries and are Members of the American Academy of Actuaries, and meet all of the Qualification Standards of the American Academy of Actuaries. Both of the undersigned are experienced in performing valuations for large public retirement systems.

We would like to especially thank the ERB staff for its assistance in the preparation of our report.

Respectfully submitted,
Gabriel, Roeder, Smith & Company

R. Ryan Falls, FSA, FCA, MAAA, EA
Senior Consultant

Mark R. Randall, FCA, EA, MAAA
Chief Executive Officer

Annual Valuation Report

Executive Summary

Executive Summary

Valuation as of:	06/30/2016	06/30/2015
Contribution Rates for Fiscal Year Ending:	06/30/2017	06/30/2016
Membership		
• Number of		
- Active members	60,057	60,998
- Retirees and beneficiaries	45,797	44,043
- Inactive, vested	10,219	9,513
- Inactive, nonvested	34,009	31,535
- Total	150,082	146,089
• Payroll	$ 2.6 billion	$ 2.6 billion
Statutory contribution rates		
• Employer	13.90%	13.90%
• Member	10.70%	10.70%
Assets		
• Market value	$ 11.5 billion	$ 11.5 billion
• Actuarial value	$ 11.9 billion	$ 11.5 billion
• Return on market value	3.1%	3.7%
• Return on actuarial value	6.7%	9.7%
• Employer contributions	$ 397.0 million	$ 395.1 million
• External cash flow %	-2.9%	-2.4%
• Ratio of actuarial to market value	103.2%	99.8%
Actuarial Information		
• Normal cost %	13.00%	12.98%
• Unfunded actuarial accrued liability (UAAL)	$ 6.6 billion	$ 6.5 billion
• Funded ratio	64.2%	63.7%
• Funding period	44.9 years	43.2 years
• Funding Policy Contribution	17.30%	16.78%
Gains/(losses)		
• Asset experience	$ (123.3) million	$ 204.8 million
• Liability experience	54.6 million	(54.4) million
• COLA experience	138.3 million	47.0 million
• Benefit changes	0.0 million	0.0 million
• Assumption/method changes	0.0 million	(348.9) million
• Total	$ 69.6 million	$ (151.5) million

Introduction

The results of the June 30, 2016 actuarial valuation of the Educational Retirement Board of New Mexico (ERB) are presented in this report. Table 1 of our report summarizes the key actuarial results. Table 2 analyzes changes in the unfunded actuarial accrued liability. Tables 3 and 4 show more detailed actuarial information. Tables 5a and 5b develop the Funding Policy Contribution and compare to the actual contributions received. Tables 6a, 6b, 6c, 13, 14 and 15 show statistical information about the membership, and Tables 7 through 9b, and Table 11 show information about plan assets. Tables 10a and 10b show the calculation of the actuarial gains and losses. Table 12 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 of terms.

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 $20.9 billion, as shown in Table 3 of our report.
- The entry age normal actuarial cost 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 future normal costs). The actuarial accrued liability is $18.5 billion, as shown on line 5d in Table 1 of our report.
- Under the entry age normal actuarial 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 13.00% of payroll inclusive of member contributions. This is the total (member plus employer) contribution rate needed to pay for the average member.
- Part of the normal cost is paid by the employee contributions of 10.70%, leaving 2.30% to be funded by the employers (i.e., the current year's employer normal cost is 2.30% of payroll). This is shown on line 2 in Table 1. The balance of the employer contribution is used as payment on the UAAL. The employer contribution is expected to increase in future years and this will affect the amount of funding available to amortize the UAAL.
- 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 $6.6 billion as shown on line 7 in Table 1.
- Since the statutory employer contribution rate is 13.90% and the employer normal cost rate is 2.30%, the difference of 11.60% is used to amortize the UAAL. The 3.00% employer contribution made on behalf of ARP members is also used to amortize the UAAL.
- Finally, the funding period is calculated by determining how long it will take to reduce the UAAL to zero, assuming that the current year's amortization contribution increases at the 3.50% payroll growth period each year. This period is currently 44.9 years. (Note, however, that this calculation does not reflect the lower normal cost rate in the future since all new

members will be eligible for Tier 3 benefits and future cost-of-living adjustments that may be less than the assumed 2% increase. Further, it assumes a 7.75% return on the actuarial value of assets, not the market value. Alternate projections show that it will take approximately 46 years to amortize the unfunded actuarial accrued liability when incorporating the expected decrease in the normal cost rate, the expected cost-of-living adjustments, and assuming a 7.75% return on the market value of assets.)

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 annual 7.75% 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 in Table 2, the UAAL increased by $507.0 million for imputed interest and decreased by $348.9 million because of contributions made in excess of the normal cost. This means that the UAAL was expected to increase $158.1 million before recognizing plan experience. The UAAL as of June 30, 2015 was $6.5 billion, and the expected UAAL as of June 30, 2016, recognizing actual contributions made, is $6.7 billion.

A cost-of-living adjustment (COLA) was applied as of July 1, 2016 to retirement benefits for retirees eligible to receive a COLA as defined in Section 22-11-31 of the New Mexico Statutes Annotated. A 0.10% adjustment factor was applied to all disabled retirees who had been retired for at least three years, i.e., members who began receiving a disability retirement benefit in calendar year 2012 or earlier. Since the plan's funded ratio as of June 30, 2015 was 90% or less, all non-disability retirements with 25 or more years of service credit at retirement and whose monthly annuity is less than the median monthly benefit of all non-disability retirees from the prior year (i.e., $1,586.22 as of June 30, 2016) received an annual adjustment of 0.09%. All remaining non-disability retirements received an annual adjustment of 0.08%. Note that the adjustment is only applied to members who retired in calendar year 2015 or earlier; members who retired in 2016 are ineligible.

The plan experienced an actuarial loss on investments of $123.3 million. The investment loss resulted from the fact that the return on the actuarial value of assets, 6.7%, was less than the 7.75% assumed investment return. This loss was the result of recognizing 20% of the losses from FYE 2012, FY2015 and FYE 2016, with 20% of the gains from FYE 2013 and FYE 2014. The market rate of return in FYE 2016 was 3.1%.

There were no benefit changes and no assumption changes adopted since the last actuarial valuation. However, the actual COLA was less than the expected 2.0% which resulted in a net $138.3 million decrease in UAAL.

As a result of all the above experience, the UAAL increased from $6.5 billion to $6.6 billion.

Funding Policy

The Board of Trustees has established a funding policy where the UAAL will be fully funded by June 30, 2042 (30 years from June 30, 2012). This funding policy does not directly impact the level of funding on an annual basis since the members and the employers all contribute a fixed percentage of payroll. However, the funding policy contribution amount provides the Board of Trustees with a valuable benchmark which can be used to determine whether the total contribution being received by ERB is sufficient to meet the long-term goal of eliminating the UAAL by June 30, 2042.

Table 5a of our report calculates the Funding Policy Contribution and Table 5b tracks how closely the contributions received during the past fiscal year compared to the Funding Policy Contribution.

Benefit Provisions

Appendix 1 of our report summarizes the provisions of ERB. 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.

The percentage increase of the consumer price index was less than two percent during the preceding fiscal year. Additionally, the ERB funded status was less than 100%. As a result of these two factors, ERB granted a reduced COLA on July 1, 2016 which resulted in an actuarial gain of $138.3 million.

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. The Board of Trustees adopts the assumptions used in the valuation, taking into account the actuary's recommendations. The Board adopted new assumptions on June 12, 2015 in conjunction with the six-year experience study period ending June 30, 2014. At that time, the Board adopted a number of assumption changes as briefly summarized below:

- Changes to post-retirement mortality
- Changes to disabled mortality
- Changes to active mortality
- Changes to rates of disability incidence
- Changes to retirement rates for members who joined ERB after June 30, 2010
- Decrease wage inflation from 4.25% to 3.75%
- Lower the population growth assumption to zero (no impact on valuation results)

We believe the recommended assumptions are internally consistent and are reasonably based on the actual experience of ERB. Appendix 2 of our report summarizes the current actuarial assumptions being utilized in the preparation of the actuarial valuations.

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 retirement plans, ERB uses the entry age normal actuarial cost 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 as of June 30, 2016 used in this valuation.

Table 7 of our report shows a reconciliation of the assets from the beginning of the prior year to the valuation date.

Table 8 shows 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 7.75% 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 investment and administrative expenses.

Note that the actuarial value is currently 103.2% of the market value. The dollar amount of the difference between the actuarial value and market value is the value of the deferred losses, and totals $373.1 million. Over any short time period, a disparity between actuarial value and market value may appear, but over the long term, we would expect the actuarial value and the market value to continue to track each other fairly closely.

Table 9a shows that the investment return rate for FYE 2016 on market value was 3.1%, while it was 6.7% on the actuarial value of assets. Table 9b shows historical return rates since the current actuarial asset method was adopted.

Finally, Table 11 shows a history of cash flows to the trust, and the net cash flow measured as a percentage of the assets. The net cash flow is slightly negative, 2.9% of market value.

It should be noted that the actual rate of return on the market value of assets of 3.1% that is stated in this report is based on a simplifying assumption that all contributions and benefit payments occur in the middle of the year. Additionally, this return is calculated net of administrative and investment-related expenses. This methodology is consistent with other procedures incorporated into this actuarial valuation. However, this actual rate of return may differ from the actual rate of return reported by ERB’s investment consultants which are based on more sophisticated methods.

Member Data

Membership data was provided in electronic files by the ERB staff. Data for active members includes gender, 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), gender, birthdate, pension amount, form of payment, beneficiary gender 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.

The member data was provided with an additional level of detail for the June 30, 2016 valuation. This additional level of detail allowed us to more accurately determine the appropriate membership date for each member and to better understand the age and gender of the new members. This additional level of detail resulted in a slight increase in the normal cost rate when we would have otherwise expected a slight decrease.

Tables 6a and 6b summarizes the data for all members. Table 6c is a history of key statistical information about active members, and Table 13 is a history of statistical information about retirees. Table 14 is an age/service distribution of active members and their average pay. Table 15 is a reconciliation that tracks changes in the plan population from last year to this year.

The number of active members decreased since last year, from 60,998 to 60,057.

Total payroll increased 0.1% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2015-2016 member pay). However, this figure is increased by one year's expected pay increase to determine the member's rate of pay as of July 1, 2016. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 1.6% since last year. Average pay for members active in both this valuation and the last year's valuation increased 2.6%. 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.

Supporting Exhibits

Table 1
Actuarial Information

	June 30, 2016 (1)	June 30, 2015 (2)
1. Payroll		
a. Supplied by System (annualized)	$ 2,612,044,477	$ 2,610,297,095
b. Adjusted for one-year's pay increase	2,751,008,261	2,749,412,635
2. Normal cost rate (payable monthly)		
a. Total normal cost rate	13.00%	12.98%
b. Less: member contribution rate	(10.70%)	(10.70%)
c. Employer normal cost rate	2.30%	2.28%
3. Employer normal cost (Item 2c * Item 1b)	$ 63,273,190	$ 62,686,608
4. Actuarial accrued liability for active members		
a. Actuarial present value of future benefits	$ 9,146,129,208	$ 9,131,557,971
b. Less: actuarial present value of future normal costs	(2,374,520,745)	(2,350,996,888)
c. Actuarial accrued liability	$ 6,771,608,463	$ 6,780,561,083
5. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	$ 11,093,020,967	$ 10,621,041,144
b. Inactive members	671,798,831	612,822,775
c. Active members (Item 4c)	6,771,608,463	6,780,561,083
d. Total	$ 18,536,428,261	$ 18,014,425,002
6. Actuarial value of assets	$ 11,905,958,700	$ 11,472,378,929
7. Unfunded actuarial accrued liability (UAAL) (Item 5d - Item 6)	$ 6,630,469,561	$ 6,542,046,073
8. Amortization payment for next fiscal year		
a. Employer contribution rate	13.90%	13.90%
b. Less: Employer normal cost rate (Item 2c)	(2.30%)	(2.28%)
c. Amortization rate	11.60%	11.62%
d. Amortization contribution (Item 8c * Item 1b)	$ 319,116,958	$ 319,481,748
e. Expected ARP contribution	5,671,949	5,549,985
f. Total	$ 324,788,907	$ 325,031,733
9. Funding period based on current 13.90% employer contribution requirement, with payments increasing at assumed payroll growth rate	44.9 years	43.2 years

Table 2
Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

Basis	Year Ending June 30, 2016	Year Ending June 30, 2015
(1)	(2)	(3)
1. UAAL at prior valuation	$ 6,542.0	$ 6,256.3
2. Increases/(decreases) due to:		
a. Interest on UAAL	507.0	484.9
b. Amortization payments [1]	(348.9)	(350.7)
c. Liability experience	(54.6)	54.4
d. Asset experience	123.3	(204.8)
e. Actual COLA More/(Less) than Expected	(138.3)	(47.0)
f. Changes in actuarial assumptions and methods	0.0	348.9
g. Benefit changes	0.0	0.0
h. Total	$ 88.5	$ 285.7
3. Current UAAL (1+2h)	$ 6,630.5	$ 6,542.0

Note : Dollar amounts in millions

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

Table 3
Actuarial Present Value of Future Benefits

		June 30, 2016 (1)	June 30, 2015 (2)
1.	Active members		
	a. Service retirement benefits	$ 8,382,224,220	$ 8,374,118,650
	b. Refunds and deferred termination benefits	607,362,913	600,398,664
	c. Survivor benefits	80,335,116	81,224,430
	d. Disability retirement benefits	76,206,959	75,816,227
	e. Total	$ 9,146,129,208	$ 9,131,557,971
2.	Retired members		
	a. Service retirement	$ 10,572,098,629	$ 10,121,094,164
	b. Disability retirement	93,236,845	91,130,372
	c. Beneficiaries	427,685,493	408,816,608
	d. Total	$ 11,093,020,967	$ 10,621,041,144
3.	Inactive members		
	a. Vested terminations	$ 524,692,479	$ 481,721,884
	b. Nonvested terminations	147,106,352	131,100,891
	c. Total	$ 671,798,831	$ 612,822,775
4.	Total actuarial present value of future benefits	$ 20,910,949,006	$ 20,365,421,890

Table 4
Analysis of Normal Cost

		June 30, 2016 (1)	June 30, 2015 (2)
1.	Gross normal cost rate (payable monthly)		
	a. Service retirement benefits	8.99%	9.01%
	b. Refunds and deferred termination benefits	3.76%	3.72%
	c. Disability retirement benefits	0.14%	0.14%
	d. Survivor benefits	0.11%	0.11%
	e. Total	13.00%	12.98%
2.	Less: member contribution rate	(10.70%)	(10.70%)
3.	Employer normal cost rate	2.30%	2.28%

Table 5a
Calculation of Funding Policy Contribution
(For Following Fiscal Year)

		June 30, 2016 (1)	June 30, 2015 (2)
1.	Funding period (years)	26	27
2.	Amortization contribution percentage		
	a. Amortization payment	$ 418,347,772	$ 404,138,621
	b. Less: expected payment for ARP members	5,671,949	5,549,985
	c. Net (a-b)	$ 412,675,823	$ 398,588,636
	d. Expected payroll	2,751,008,261	2,749,412,635
	e. Amortization contribution percentage (c/d)	15.00%	14.50%
3.	Funding Policy Contribution for Employers		
	a. Employer normal cost rate	2.30%	2.28%
	b. Amortization percentage	15.00%	14.50%
	c. Total	17.30%	16.78%
	d. Statutory rate	13.90%	13.90%
	e. Funding Policy Contribution (greater of (c,d))	17.30%	16.78%

Table 5b
Actual Contributions as Percentage of
Funding Policy Contribution for Year Ending June 30, 2016

1.	Actual employer contributions		
	a. On behalf of active ERB members	$	380,933,207
	b. On behalf of return-to-work retirees		10,575,206
	c. On behalf of ARP members		5,480,144
	d. Total	$	396,988,557
2.	Statutory employer contribution rate		13.90%
3.	Imputed fiscal year payroll for active ERB members (Item 1a / Item 2)	$	2,740,526,669
4.	Funding Policy Contribution for Employers		
	a. Employer's funding policy contribution for active ERB members as percent of payroll		16.78%
	b. Employer's funding policy contribution for active ERB members (Item 4a * Item 3)	$	459,860,375
	c. Funding policy contribution (Item 4b + Item 1c)	$	465,340,519
5.	Percentage of Funding Policy Contribution Received in Prior Year (Item 1d / Item 4c)		85.3%

Table 6a
Active Membership Data

			June 30, 2016 (1)	June 30, 2015 (2)
1.	Active members			
	Tier 1			
	a.	Number	36,048	38,967
	b.	Total payroll supplied by System (annualized)	$ 1,763,520,879	$ 1,868,367,296
	c.	Average salary	$ 48,921	$ 47,947
	d.	Average age	50.2	50.0
	e.	Average service	14.6	14.0
	Tier 2			
	a.	Number	8,197	9,551
	b.	Total payroll supplied by System (annualized)	$ 323,102,545	$ 349,704,966
	c.	Average salary	$ 39,417	$ 36,614
	d.	Average age	43.0	42.2
	e.	Average service	4.5	3.5
	Tier 3			
	a.	Number	15,812	12,480
	b.	Total payroll supplied by System (annualized)	$ 525,421,052	392,224,833
	c.	Average salary	$ 33,229	31,428
	d.	Average age	39.5	38.8
	e.	Average service	1.6	1.2
	Total			
	a.	Number	60,057	60,998
	b.	Total payroll supplied by System (annualized)	$ 2,612,044,476	$ 2,610,297,095
	c.	Average salary	$ 43,493	$ 42,793
	d.	Average age	46.4	46.5
	e.	Average service	9.8	9.7

Table 6b
Inactive Membership Data

			June 30, 2016 (1)	June 30, 2015 (2)
1.	Vested inactive members (excluding pending refunds)			
	a.	Number	10,219	9,513
	b.	Total annual deferred benefits	$ 77,908,566	$ 71,524,251
	c.	Average annual deferred benefit	$ 7,624	$ 7,519
2.	Nonvested inactive members and vested pending refunds			
	a.	Number	34,009	31,535
	b.	Employee assessments with interest due	$ 147,106,352	$ 131,100,891
	c.	Average refund due	$ 4,326	$ 4,157
3.	Service retirees			
	a.	Number	41,771	40,140
	b.	Total annual benefits	$ 948,749,922	$ 906,554,310
	c.	Average annual benefit	$ 22,713	$ 22,585
4.	Disabled retirees			
	a.	Number	837	832
	b.	Total annual benefits	$ 8,742,486	$ 8,535,673
	c.	Average annual benefit	$ 10,445	$ 10,259
5.	Beneficiaries			
	a.	Number	3,189	3,071
	b.	Total annual benefits	$ 48,953,890	$ 46,470,989
	c.	Average annual benefit	$ 15,351	$ 15,132

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

Table 6c

Historical Summary of Active Member Data

Year Ending	Active Members		Covered Payroll		Average Salary			
June 30,	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
(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
2008	63,698	1.6%	2,492	6.4%	39,118	4.7%	46.1	9.4
2009	63,819	0.2%	2,586	3.8%	40,517	3.6%	46.3	9.6
2010	63,295	-0.8%	2,576	-0.4%	40,695	0.4%	46.5	9.7
2011	61,673	-2.6%	2,524	-2.0%	40,923	0.6%	46.8	10.0
2012	60,855	-1.3%	2,495	-1.1%	41,004	0.2%	47.0	10.0
2013	61,177	0.5%	2,517	0.9%	41,141	0.3%	47.0	9.9
2014	61,173	0.0%	2,539	0.9%	41,503	0.9%	46.6	9.8
2015	60,998	-0.3%	2,610	2.8%	42,793	3.1%	46.5	9.7
2016	60,057	-1.5%	2,612	0.1%	43,493	1.6%	46.4	9.8

Table 7
Reconciliation of Plan Net Assets

		Year Ending	
		June 30, 2016	June 30, 2015
		(1)	(2)
1.	Value of assets at beginning of year (Value reported in prior valuation)	$ 11,497,723,115	$ 11,346,075,824
2.	Revenue for the year		
	a. Contributions		
	i. Member contributions (Including redeposits and service purchases)	$ 295,946,396	$ 294,560,840
	ii. Employer contributions	391,508,413	389,767,317
	iii. Employer contributions for ARP members	5,480,144	5,362,304
	iv. Total	$ 692,934,953	$ 689,690,461
	b. Net investment income		
	i. Investment income	$ 382,838,239	$ 447,816,245
	ii. Investment expenses	(17,502,655)	(18,078,167)
	iii. Net investment income	$ 364,571,123	$ 429,738,078
	c. Total revenue	$ 1,057,506,076	$ 1,119,428,539
3.	Expenditures for the year		
	a. Refunds	$ 39,027,078	$ 36,427,981
	b. Benefit payments	973,703,652	920,755,421
	c. Administrative and miscellaneous expenses	9,660,510	10,597,846
	d. Total expenditures	$ 1,022,391,240	$ 967,781,248
4.	Increase in net assets (Item 2 - Item 3)	$ 35,114,836	$ 151,647,291
5.	Value of assets at end of year (Item 1 + Item 4)	$ 11,532,837,951	$ 11,497,723,115

Table 8
Development of Actuarial Value of Assets

		Year Ending June 30, 2016
1.	Market value of assets at beginning of year	$ 11,497,723,115
2.	Net new investments	
	a. Contributions	$ 692,934,953
	b. Benefits and refunds paid	(1,012,730,730)
	c. Subtotal	(319,795,777)
3.	Market value of assets at end of year	$ 11,532,837,951
4.	Net earnings (3-1-2c)	$ 354,910,613
5.	Assumed investment return rate	7.75%
6.	Expected return	$ 878,681,455
7.	Excess return (4-6)	$ (523,770,842)
8.	Excess return on assets for last four years :	

	Period End	Excess Return	Percent Deferred	Deferred Amount
	(1)	(2)	(3)	(4)
a.	June 30, 2013	282,232,094	20%	$ 56,446,419
b.	June 30, 2014	648,346,706	40%	259,338,682
c.	June 30, 2015	(449,815,293)	60%	(269,889,176)
d.	June 30, 2016	(523,770,842)	80%	(419,016,674)
				$ (373,120,749)

9.	Actuarial value of assets (Item 3 - Item 8)	$ 11,905,958,700
10.	Actuarial value as percentage of market value	103.2%

Table 9a
Estimation of Yields

		Year Ending	
		June 30, 2016	June 30, 2015
		(1)	(2)
A.	Market value yield		
	1. Beginning of year market assets	$ 11,497,723,115	$ 11,346,075,824
	2. Investment income (including realized and unrealized gains and losses)	$ 354,910,613	$ 419,140,232
	3. End of year market assets	$ 11,532,837,951	$ 11,497,723,115
	4. Estimated dollar weighted market value yield	3.1%	3.7%
B.	Actuarial value yield		
	1. Beginning of year actuarial assets	$ 11,472,378,929	$ 10,714,996,256
	2. Actuarial return	$ 753,375,548	$ 1,024,875,614
	3. End of year actuarial assets	$ 11,905,958,700	$ 11,472,378,929
	4. Estimated actuarial value yield	6.7%	9.7%

Table 9b
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%
2008	-6.0%	9.3%
2009	-17.7%	2.2%
2010	17.7%	2.0%
2011	19.0%	4.2%
2012	1.6%	2.2%
2013	10.8%	5.6%
2014	14.2%	12.0%
2015	3.7%	9.7%
2016	3.1%	6.7%
Average Returns		
Last 5 years	6.6%	7.2%
Last 10 years	5.7%	6.5%
Last 15 years	5.7%	5.1%
Last 20 years	6.8%	7.2%

Table 10a
Investment Experience Gain or Loss

Item	Year Ending	
	June 30, 2016	June 30, 2015
(1)	(2)	(3)
1. Actuarial assets, beginning of year	$ 11,472,378,929	$ 10,714,996,256
2. Total contributions during year	$ 692,934,953	$ 689,690,461
3. Benefits and refunds paid	$ (1,012,730,730)	$ (957,183,402)
4. Assumed net investment income		
a. Beginning of year assets	$ 889,109,367	$ 830,412,210
b. Contributions	26,851,229	26,725,505
c. Benefits and refunds paid	(39,243,316)	(37,090,857)
d. Total	$ 876,717,280	$ 820,046,858
5. Expected actuarial assets, end of year (Sum of items 1 through 4)	$ 12,029,300,432	$ 11,267,550,173
6. Actual actuarial assets, end of year	$ 11,905,958,700	$ 11,472,378,929
7. Asset gain (loss) for year (Item 6 - Item 5)	$ (123,341,732)	$ 204,828,756

Table 10b
Total Experience Gain or Loss

Item	Year Ending June 30, 2016	Year Ending June 30, 2015
(1)	(2)	(3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	$ 6,542,046,073	$ 6,256,325,476
2. Normal cost for the previous year	$ 356,873,760	$ 352,095,172
3. Less: contributions for the year	$ (692,934,953)	$ (689,690,461)
4. Interest at 7.75 %		
a. On UAAL	$ 507,008,571	$ 484,865,224
b. On normal cost	13,828,858	13,643,688
c. On contributions	(26,851,229)	(26,725,505)
d. Total	$ 493,986,200	$ 471,783,407
5. Expected UAAL (Sum of Items 1 - 4)	$ 6,699,971,080	$ 6,390,513,594
6. Actual UAAL	$ 6,630,469,561	$ 6,542,046,073
7. Total gain (loss) for the year (Item 5 - Item 6)	$ 69,501,519	$ (151,532,479)
B. Source of gains and losses		
8. Asset gain (loss) for the year	$ (123,341,732)	$ 204,828,756
9. Liability experience gain (loss) for the year	$ 54,592,774	$ (54,413,808)
10. Actual COLA (More) Less than Expected	$ 138,250,477	$ 46,971,889
11. Assumption change	$ 0	$ (348,919,316)
12. Benefit change	$ 0	$ 0
13. Total	$ 69,501,519	$ (151,532,479)

Table 11
History of Cash Flow

Year Ending June 30,	Contributions[1]	Expenditures: Benefit Payments	Expenditures: Refunds	Expenditures: Administrative Expenses	Expenditures: Total	External Cash Flow for the Year[2]	Market Value of Assets	External Cash Flow as Percent of Market Value
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2001	315.2	(340.6)	(36.6)	(3.5)	(380.7)	(65.5)	6,667.0	-1.0%
2002	328.6	(367.5)	(28.5)	(5.8)	(401.8)	(73.2)	6,011.2	-1.2%
2003	337.9	(396.1)	(28.3)	(4.3)	(428.7)	(90.8)	6,083.4	-1.5%
2004	355.6	(422.4)	(26.4)	(2.6)	(451.4)	(95.8)	6,911.5	-1.4%
2005	371.0	(455.0)	(27.2)	(5.3)	(487.5)	(116.5)	7,451.1	-1.6%
2006	408.5	(494.1)	(28.3)	(5.2)	(527.6)	(119.1)	8,219.3	-1.4%
2007	449.5	(540.1)	(27.5)	(5.6)	(573.2)	(123.7)	9,455.8	-1.3%
2008	496.2	(578.8)	(29.5)	(6.1)	(614.4)	(118.2)	8,770.0	-1.3%
2009	538.8	(617.7)	(29.7)	(8.7)	(656.1)	(117.3)	7,113.7	-1.6%
2010	566.8	(656.2)	(28.8)	(11.5)	(696.5)	(129.7)	8,232.5	-1.6%
2011	559.0	(701.8)	(35.1)	(11.4)	(748.3)	(189.3)	9,588.6	-2.0%
2012	545.6	(754.6)	(40.6)	(12.0)	(807.2)	(261.6)	9,489.0	-2.8%
2013	550.2	(811.7)	(41.7)	(11.0)	(864.4)	(314.2)	10,191.7	-3.1%
2014	634.0	(868.3)	(38.9)	(16.6)	(923.8)	(289.8)	11,346.1	-2.6%
2015	689.7	(920.8)	(36.4)	(10.6)	(967.8)	(278.1)	11,497.7	-2.4%
2016	692.9	(973.7)	(39.0)	(9.7)	(1,022.4)	(329.5)	11,532.8	-2.9%

Amounts in $ millions

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

[2] Column (7) = Column (2) + Column (6).

Table 12
Solvency Test

		June 30, 2016 (1)	June 30, 2015 (2)
1.	Actuarial accrued liability (AAL)		
	a. Active member contributions	$ 2,618,651,735	$ 2,541,087,642
	b. Retirees and beneficiaries	11,093,020,967	10,621,041,144
	c. Active and inactive members (employer financed)	4,824,755,559	4,852,296,216
	d. Total	$ 18,536,428,261	$ 18,014,425,002
2.	Actuarial value of assets	$ 11,905,958,700	$ 11,472,378,929
3.	Cumulative portion of AAL covered		
	a. Active member contributions	100%	100%
	b. Retirees and beneficiaries	84%	84%
	c. Active and inactive members (employer financed)	0%	0%

Table 13
Historical Retired Participants' Data

Year Ending June 30,	Number	Average Monthly
(1)	(2)	(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
2008	31,192	1,566
2009	32,496	1,607
2010	33,747	1,628
2011	35,457	1,669
2012	37,336	1,714
2013	40,310	1,767
2014	42,246	1,790
2015	44,043	1,819
2016	45,797	1,831

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

Table 14
Distribution of Active Members by Age and by Years of Service
As of June 30, 2016

	Years of Credited Service												
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	Total
Attained Age	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	594	565	205	62	22	7	0	0	0	0	0	0	1,455
	$18,651	$22,770	$20,625	$19,706	$21,528	$21,439	$0	$0	$0	$0	$0	$0	$20,631
25-29	589	1,138	988	668	449	466	9	0	0	0	0	0	4,307
	$25,369	$30,822	$31,018	$33,111	$35,947	$36,477	$25,971	$0	$0	$0	$0	$0	$31,612
30-34	464	875	759	673	548	1,821	438	4	0	0	0	0	5,582
	$28,834	$32,929	$34,199	$35,854	$38,727	$43,035	$43,547	$21,428	$0	$0	$0	$0	$37,805
35-39	411	855	690	594	492	1,836	1,614	309	3	0	0	0	6,804
	$30,567	$36,031	$38,064	$41,274	$39,827	$43,973	$50,259	$46,719	$46,039	$0	$0	$0	$42,648
40-44	315	633	556	486	461	1,696	1,697	1,413	244	2	0	0	7,503
	$28,716	$34,698	$34,641	$37,937	$42,960	$44,752	$48,950	$55,248	$52,440	$51,960	$0	$0	$45,108
45-49	301	583	542	453	408	1,690	1,750	1,546	1,075	137	3	0	8,488
	$32,314	$36,012	$36,180	$37,152	$39,367	$43,309	$47,895	$51,862	$57,337	$57,787	$62,130	$0	$45,965
50-54	279	547	453	415	337	1,584	1,719	1,569	1,216	547	72	1	8,739
	$28,650	$35,766	$33,593	$38,416	$37,972	$43,349	$43,563	$48,319	$54,407	$59,914	$58,277	$39,145	$45,090
55-59	226	456	401	338	287	1,323	1,587	1,659	1,245	605	241	49	8,417
	$35,736	$37,217	$38,162	$38,100	$41,535	$45,044	$44,703	$46,930	$52,095	$63,865	$64,738	$61,850	$47,009
60-64	120	312	266	216	247	1,058	1,214	971	728	462	197	114	5,905
	$33,626	$37,615	$35,409	$41,296	$41,055	$45,993	$45,433	$47,364	$52,095	$66,268	$73,063	$68,690	$48,234
65 & Over	97	201	175	142	141	537	480	365	262	234	102	121	2,857
	$29,724	$28,350	$32,994	$38,881	$35,758	$46,880	$45,662	$49,509	$58,243	$67,373	$84,552	$97,634	$49,543
Total	3,396	6,165	5,035	4,047	3,392	12,018	10,508	7,836	4,773	1,987	615	285	60,057
	$27,598	$33,169	$34,097	$37,192	$39,268	$43,887	$46,651	$49,834	$54,216	$63,318	$69,921	$79,699	$43,493

Table 15
Reconciliation of Members by Status for Year Ending June 30, 2016

		Inactive, Nonretired Members		Annuitants			
	Active Members	Vested	Nonvested	Service Retirees	Disabled Retirees	Beneficiaries	Grand Total
Number at beginning of year	60,998	9,513	31,535	40,140	832	3,071	146,089
Refund paid (non-death)	(1,395)	(394)	(1,783)				(3,572)
Refund due	(3,736)		3,736				0
Vested terminations	(1,997)	1,997					0
Retirements (nondisabled)	(1,988)	(428)	(44)	2,460			0
Disabled retirements	(23)	(14)			37		0
New Alternate Payee resulting from QDRO				111			111
Death before retirement - refund	0	(18)	(8)				(26)
Death before retirement - annuity	(4)					4	0
Death of annuitant - survivor benefit due				(259)	(6)	265	0
Death of annuitant - no further benefits due				(662)	(28)	(151)	(841)
New hires	6,693	89	1,540				8,322
Reemployments	1,509	(543)	(956)	(10)			0
Adjustments and corrections		17	(11)	(9)	2		(1)
Number at end of year	60,057	10,219	34,009	41,771	837	3,189	150,082

Summary of Plan Provisions

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 of New Mexico (ERB) is responsible for administration of the plan and investment of plan assets.

4. Type of Plan: ERB is a qualified, defined benefit, governmental retirement plan. For government accounting purposes, it is a cost-sharing multiple-employer public employee retirement system.

5. Eligibility: All those employed and working more than 0.25 of a full-time equivalent (FTE) by public and state schools in New Mexico, including public colleges, universities, public technical and vocational institutions participate in ERB. Employees at regional education cooperatives and the New Mexico Activities Association participate in ERB. In addition, employees at certain state agencies that provide an educational program also participate if the employee filling a position is required to be a certified educator. Their participation is a condition of employment. However, see the section on the Alternative Retirement Plan below for an exception.

6. Member Contributions: Members must contribute a percentage of their salary to ERB. "Salary" for this purpose includes substantially all earnings. The member contribution rate is set by statute, and has been changed from time to time. The following schedule shows recent and future member contribution rates. Employee contributions are "picked up" by the local employer for federal income tax treatment.

Fiscal Year Ended	Member Contribution Rate
FYE 2005 and earlier	7.600%
FYE 2006	7.675%
FYE 2007	7.750%
FYE 2008	7.825%
FYE 2009	7.900%
FYE 2010*	9.400%
FYE 2011*	9.400%
FYE 2012*	11.150%
FYE 2013*	9.400%
FYE 2014*	10.100%
FYE 2015 and later*	10.700%

* For members whose annual salary is greater than $20,000. Members with annual salary of $20,000 or less will continue to contribute 7.90%.

7. Employer Contributions: The school district or other local administrative unit which employs a member contributes a percentage of the member's salary to ERB. "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 Ended	Employer Contribution Rate
FYE 2005 and earlier	8.65%
FYE 2006	9.40%
FYE 2007	10.15%
FYE 2008	10.90%
FYE 2009	11.65%
FYE 2010*	10.90%
FYE 2011*	10.90%
FYE 2012*	9.15%
FYE 2013*	10.90%
FYE 2014	13.15%
FYE 2015 and later	13.90%

* For members whose annual salary is greater than $20,000. For members with annual salary of $20,000 or less, the employer will contribute 12.40% in FYE2010 through FYE2013.

8. Service: Employees receive credit for each calendar quarter in which they are contributing members. Credit is also granted for service prior to ERB's effective date, and certain military service. Allowed service credit may also be purchased for specific types of prior employment, including military service or teaching in another state.

9. Tier: Members who join ERB by June 30, 2010 are in Tier 1, members who join between July 1, 2010 and June 30, 2013 are in Tier 2, and members who join later are in Tier 3. Members who terminated, took a refund, later rejoined ERB, and repaid their refund to ERB prior to June 30, 2013 were allowed to rejoin their prior tier. Otherwise, members that take a refund and later rejoin ERB will be eligible for Tier 3 benefits.

10. 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.

11 Normal Retirement

a. Eligibility:
   - Tier 1 members 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.

- Tier 2 and Tier 3 members may retire upon Normal Retirement on the earliest of (i) the date he/she attains age 67 with credit for 5 years of service, or (ii) the date the member completes 30 years of service, or (iii) the date that the sum of the member's age and service is at least 80, provided the member is at least age 65.

b. Monthly Benefit: 2.35% of FAC (monthly) times years of service. Tier 3 members who retire with 30 years of service and prior to attaining age 55 shall have their benefits reduced to an amount equal to the actuarial equivalent of the benefit the member would receive if the member had retired at age 55.

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.

12. Early Retirement

a. Eligibility: Tier 1 members may take early retirement once the sum of his/her age and service equals or exceeds 75, while Tier 2 and Tier 3 members may take early retirement once the sum of his/her age and service equals or exceeds 80.

b. Monthly Benefit: 2.35% of FAC (monthly) times years of service, multiplied by the early retirement factor below.

c. Early Retirement Factors:

Tier 1		Tier 2 and Tier 3	
Age at Retirement	Factor	Age at Retirement	Factor
60 or later	1.000	65 or later	1.000
59	.976	64	.976
58	.952	63	.952
57	.928	62	.928
56	.904	61	.904
55	.880	60	.880
54	.808	59	.808
53	.736	58	.736
52	.664	57	.664
51	.592	56	.592
50	.520	55	.520
49	.448	54	.448
48	.376	53	.376
47	.304	52	.304
46	.232	51	.232
45	.160	50	.160

The reduction for Tier 1 members is from age 60 and the reduction for Tier 2 and Tier 3 members is from age 65. The reduction is 2.4% per year for the first five years the retirement precedes age 60 (Tier 1) or age 65 (Tier 2 and Tier 3), and 7.2% for any additional years before the indicated age.

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

13. 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 of Trustees.

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.

14. Vested Termination Benefit

a. Eligibility: A member with at least five (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. Alternatively, 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.

d. Death Benefit: Upon the death of an inactive vested member who has not retired, the beneficiary may elect to receive an annuity as described under the Death in Service benefit below, with payments deferred until the member would have been eligible for retirement if the member was not eligible at the time of death. Alternatively, the beneficiary may receive a refund of the member's contributions, plus interest based upon a rate set by the Board of Trustees.

15. Withdrawal (Refund) Benefit

a. Eligibility: All members leaving covered employment with less than five (5) years of service for a reason other than the member's death. Alternatively, 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.

16. 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 (5) 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.

17. 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.

    b. Option C - A Joint and 50% Survivor annuity with a "pop-up" feature. The regular life annuity amount 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.

18. Cost-of-Living Increase: All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit commencing on July 1 following the later of: (i) the year a member retires, or (ii) the year in which a member attains age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

    If the plan's funded ratio for the next preceding fiscal year is 100%, or greater, Section 22-11-31(C)(1) of the New Mexico Statutes Annotated defines the adjustment factor as ½ of the percentage increase of the consumer price index between the next preceding calendar year and the preceding calendar year. The adjustment factor cannot exceed four percent, nor be less than two percent. However, if the percentage increase of the consumer price index is less than two percent, the adjustment factor will be equal to the percentage increase of the consumer price index.

    If the plan's funded ratio for the next preceding fiscal year is greater than 90%, but less than 100%, Section 22-11-31(C)(2) indicates that the adjustment factor for all non-disability retirements will be 95% of the adjustment factor defined in Section 22-11-31(C)(1) if the member had 25 or more years of service credit at retirement and whose annuity is less than or equal to the median adjusted annuity for the fiscal year next preceding the adjustment date. For all other retirees eligible for an adjustment, the adjustment factor will be 90% of the adjustment factor defined in Section 22-11-31(C)(1).

    If the plan's funded ratio for the next preceding fiscal year is 90%, or less, Section 22-11-31(C)(3) indicates that the adjustment factor for all non-disability retirements will be 90% of the adjustment factor defined in Section 22-11-31(C)(1) if the member had 25 or more years of service credit at retirement and whose annuity is less than or equal to the median adjusted annuity for the fiscal year next preceding the adjustment date. For all other retirees eligible for an adjustment, the adjustment factor will be 80% of the adjustment factor defined in Section 22-11-31(C)(1).

    Finally, annuities shall not be decreased in the event that there is a decrease in the consumer price index between the next preceding calendar year and the preceding calendar year.

19. Alternative Retirement Plan (ARP): Beginning July 1, 1991, certain members employed by higher education may elect participation in the ARP, a defined contribution plan, rather than in ERB. If this election is not made at the time of initial hire, the employee remains a member of the ERB defined benefit plan permanently. No benefits are paid to ARP members from the ERB defined benefit plan. Also as discussed in the section on Employer Contributions above, the employer of an ARP member makes a contribution of 3.00% of the member's salary to ERB.

Summary of Actuarial Methods and Assumptions

(Adopted by the Board of Trustees on June 12, 2015)

Summary of Actuarial Methods and Assumptions
Adopted by the Board of Trustees on June 12, 2015

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 employees and for the employers. The funding period is determined, as described below, using the Individual Entry Age Normal actuarial cost method.

The Individual 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. Then 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 contribution is determined using the Entry Age Normal method. Under this method, a calculation is made to determine the rate of contribution which, if applied to the compensation of each individual member during the entire period of anticipated covered service, would be required to meet the cost of all benefits payable on his behalf. The salary-weighted average of these rates is the normal cost rate. This calculation reflects the plan provisions that apply to each individual member. The employer normal cost rate is equal to (i) the normal cost rate, minus (ii) the member contribution rate.

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 liability remains level as a percentage of total payroll, which is assumed to grow 3.50% 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 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: 7.75%, compounded annually, net of expenses. This is made up of a 3.00% inflation rate and a 4.75% real rate of return.
2. Salary increase rate: Inflation rate of 3.00% plus productivity increase rate of 0.75% plus step-rate/promotional as shown:

Years of Service	Annual Step-Rate/Promotional Component Rates of Increase	Total Annual Rate of Increase
0	8.75%	12.50%
1	3.00%	6.75%
2	2.00%	5.75%
3	1.50%	5.25%
4	1.25%	5.00%
5	1.00%	4.75%
6	0.75%	4.50%
7	0.50%	4.25%
8	0.50%	4.25%
9	0.50%	4.25%
10 or more	0.00%	3.75%

3. Cost-of-living increases: 2% per year, compounded annually. Note that increases are deferred until July 1 following the year a member retires, or the year in which a member attains the age of 65 (67 for Tier 3), whichever is later or, for disabled retirees, until July 1 of the third year following retirement.

4. Payroll growth: 3.50% per year (with no allowance for membership growth).

5. Contribution accumulation: The accumulated member account balance with interest is estimated at the valuation date by assuming that member contributions increased 5.50% per year for all years prior to the valuation date. Contributions are credited with 4.00% interest, compounded annually, applicable to the account balances in the past as well as the future.

B. Demographic Assumptions

1. Mortality after termination or retirement -

   a. Healthy males – RP-2000 Combined Healthy mortality table for males with White Collar Adjustments, no set back. Generational mortality improvements in accordance with Scale BB from the table's base year of 2000

   b. Healthy females – GRS Southwest Region Teacher Mortality Table, set back one year. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012

   c. Disabled males – RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB

   d. Disabled females – RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB

   Mortality Improvement: The nondisabled annuity mortality assumption includes an explicit generational mortality improvement assumption. To account for future mortality improvement for disabled annuitants, the tables and table multipliers selected above were chosen so that the assumed mortality rates are slightly smaller than the rates observed in the last experience study, covering experience for FY 2009 – FY 2014. The ratio of the actual number of deaths occurring during this period to the expected number based on the selected assumptions was 103% for disabled male annuitants and 108% for disabled female annuitants.

2. Mortality rates of active members – RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for pre-retirement mortality.

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

Age	Occurrence of Disability per 100 Members	
	Males	Females
25	.007	.010
30	.007	.020
35	.042	.050
40	.091	.080
45	.133	.120
50	.168	.168
55	.182	.168

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

Retirement Per 100 Members

	Males - Years of Service					
Age	0-4	5-9	10-14	15-19	20-24	25+
45	0.00	0.00	0.00	0.00	0.00	15.00
50	0.00	0.00	0.00	0.00	0.00	18.00
55	0.00	0.00	0.00	0.00	5.00	20.00
60	0.00	0.00	0.00	15.00	20.00	25.00
62	0.00	0.00	30.00	30.00	30.00	30.00
65	0.00	40.00	35.00	30.00	30.00	30.00
67	0.00	25.00	25.00	25.00	30.00	30.00
70	100.00	100.00	100.00	100.00	100.00	100.00

	Females - Years of Service					
Age	0-4	5-9	10-14	15-19	20-24	25+
45	0.00	0.00	0.00	0.00	0.00	15.00
50	0.00	0.00	0.00	0.00	0.00	18.00
55	0.00	0.00	0.00	0.00	6.00	23.00
60	0.00	0.00	0.00	20.00	15.00	25.00
62	0.00	0.00	40.00	30.00	30.00	35.00
65	0.00	35.00	40.00	40.00	40.00	40.00
67	0.00	25.00	25.00	25.00	30.00	30.00
70	100.00	100.00	100.00	100.00	100.00	100.00

The retirement assumption was further modified for members who joined after June 30, 2010. The probability of retirement upon first eligibility for Normal Retirement reflects the accumulated probability of retirement from the first eligibility for members who joined ERB by June 30, 2010 (generally, 25 years of service or Rule of 75) to their actual first eligibility for Normal Retirement (generally, 30 years of service or Rule of 80).

Early Retirement Per 100 Members – Members joined after June 30, 2010

	Years of Service					
	Males			Females		
Age	15-19	20-24	25-29	15-19	20-24	25-29
55			5.00			6.00
60		20.00	20.00		15.00	15.00
62	30.00	30.00	30.00	30.00	30.00	30.00
65	30.00	30.00	30.00	40.00	40.00	40.00

5. Termination (for causes other than death, disability or retirement):

Completed Service	Terminations per 100 Members	
	Males	Females
0	43.4	31.4
1	28.1	23.8
2	19.6	17.2
3	14.3	13.5
4	11.9	10.6
5	10.0	9.8
6	9.1	8.6
7	7.3	7.2
8	6.1	6.3
9	5.7	5.5
10	5.2	5.0
11	4.2	4.7
12	4.0	4.2
13	3.4	3.6
14	3.4	3.5
15	3.1	3.3
16	2.2	2.3
17	2.3	2.7
18	2.3	2.1
19 and over	0.0	0.0

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

C. Other Assumptions

1. Age difference: Males are assumed to be three years older than females. 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. Investment and 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 on an electronic file 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 included 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

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: An employer-sponsored retirement benefit that provides workers, upon attainment of designated age and service thresholds, with a monthly benefit based on the employee's salary and length of service. The value of a benefit from a defined benefit plan is generally not affected by the return on the assets that are invested to fund the benefit.

Defined Contribution Plan: An employer-sponsored 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 67 and ***GASB 68***: Governmental Accounting Standards Board Statements No. 67 and No. 68. 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. 67 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 68 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.

INVESTMENT SECTION

Report on Investment Activities

STATE OF NEW MEXICO
Educational Retirement Board
701 CAMINO DE LOS MARQUEZ
P.O. Box 26129
SANTA FE, NEW MEXICO 87502-0129
PHONE: (505) 827-8030
FAX: (505) 827-8010

December 31, 2016

To the Trustees and Members of the
New Mexico Educational Retirement Board:

For Fiscal Year 2016, the NMERB investment portfolio posted a net of fee return of 2.6%, for annual investment gains of approximately $302 million. The result for the year falls short of the Fund's actuarially required annual return assumption of 7.75%.

While it was a disappointing year for investments, the Fund performed well on a relative basis. The Fund's investment performance ranked in the top 6 percent in NMERB's peer group of U.S. public pension funds with assets of $1 billion or more, as measured by the Investor Force database. In addition, the portfolio return outperformed the fund's policy index return of 1.6%. Given the challenging market conditions during the fiscal year, NMERB's outcome was very good on a relative basis. As we have noted in past years, our allocation plan is designed to result in a lower volatility of returns than the average pension fund. This means we expect to lag those funds somewhat when equity markets move up sharply. We also expect to exceed the returns on those same funds when the equity markets have very small gains or losses. In short, we are seeking to mute the extreme differences in returns from one quarter or one year to the next. This philosophy has contributed positively to our results in previous fiscal years and has contributed positively to our longer term comparative performance.

In terms of major market index returns, equity markets produced decidedly mixed results. The S&P 500 index returned a solid 7.4% for the fiscal year. Smaller capitalization stocks as measured by the Russell 2000 index performed poorly, losing 6.7%. Foreign stocks also produced poor results. The Europe, Australasia and Far East (EAFE) index for developed foreign equity markets lost 10.2%, while the MSCI Emerging Markets Equity index lost 12.1%. In the fixed income sector, returns were positive. The Barclays Capital Aggregate index representing the U.S. investment grade bond market posted a return of 6.0%. In the high yield bond space, the Bank of America/Merrill Lynch BB-B constrained High Yield index returned a positive 2.1%. ERB's fixed income portfolio is a combination of managers operating in markets related to those two indices. In a reflection of that mix, our portfolio generated a positive return of 4.0%.

Alternative investments provided the best positive returns for the year, with the exception of Global Tactical Asset Allocation (GTAA). The following table illustrates the results of the various categories of alternative investments:

Real Estate	14.3%
Private Equity	9.2%
Real Assets	8.9%
Risk Parity	4.1%
GTAA	-6.0%

While the overall results for the year were somewhat disappointing, one should not place a great deal of significance on the results in any single year. The required return assumption is intended to be a target that is met on average over a number of years. Thus, longer term results over multiple years are of much greater significance in gauging the contribution of the NMERB investment portfolio to the Fund's long-term sustainability. For these periods, the net of fee results are as follows:

3 years	6.9%
5 years	6.6%
10 years	5.7%
July 1983* – June 30, 2016	9.0%

*Inception of performance reporting

Further details regarding investments are contained within the remainder of this report. You may also refer to our website for additional details on investment performance: http://www.nmerb.org/Investments.html

While we can tell you about past results in great detail, we can say little with certainty about the future. This we can say with certainty, however: Your NMERB Board of Trustees and staff are working to attain the best results possible in an uncertain and challenging environment.

Sincerely,

Bob Jacksha

Bob Jacksha
Chief Investment Officer

The investment performance reported in this letter is based on time weighted rates of return calculated using the market value of assets as of June 30, 2016. Performance shown for periods longer than one year has been annualized.

Investment Objectives

Recognizing NMERB's fiduciary responsibilities to the pension plan and long-term nature of the pension fund, assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. NMERB's Investment Division seeks to diversify investment assets to both enhance returns and control risk. Over the long term, the fund's objective is to earn the actuarial rate of return, currently set at 7.75%.

The strategy used within the equity investment program is to build a diversified portfolio of stocks. This includes large and small capitalization domestic stocks, as well as international equities. Large capitalization domestic stocks are managed in an S&P 500 index strategy. This portfolio replicates all of the holdings in the index. A portfolio of REIT (real estate investment trusts) provides exposure to real estate through an equity vehicle. A portion of this exposure is obtained through an index portfolio based on the Wilshire REIT index.

Investment grade fixed income securities are actively managed by internal managers. The investment grade securities include U.S. Treasury and agency, corporate, and asset backed securities. Additional diversification is achieved through investments in an opportunistic credit allocation which incorporates high yield debt and other credit strategies in both domestic and foreign debt. The fund also has investments in other alternative investment sectors to further diversify risks. These include investments in private equity, private real estate, absolute return strategies, global tactical asset allocation, risk parity and real assets in the form of infrastructure, agriculture, timber, and mining and mineral assets.

Investment Process

NMERB is authorized to invest or reinvest the fund in accordance with the Uniform Prudent Investor Act, Section 45-7-601 NMSA 1978. Key guidelines are to:

- Set a higher standard of care and prudence for investments, above and beyond the previous standard guiding principles of law;
- Apply to the trust as a whole, rather than individual investments;
- Require investment strategy to be based on suitable risk and reward strategies; and
- Require diversification unless the trustees reasonably determine it is not in the best interest of the Fund.

NMERB's investment activity is further governed by the Educational Retirement Act of New Mexico (Chapter 22, Article 11 NMSA 1978). The "prudent investor" standard, as defined by the Section 22-11-13 NMSA 1978, requires all members of the Board of Trustees and NMERB staff to discharge their duties solely in the interest of Fund participants and beneficiaries, with the care, skill, prudence and diligence they would exercise in the conduct of their own affairs.

Investment Process (continued)

The Board of Trustees (Trustees) relies on the Investment Committee to monitor the activities of the Investment Division. The Investment Committee is composed of four (4) Trustees elected by the Board. The Chief Investment Officer, within the parameters of state statute and investment policies established by the Trustees, uses both external and internal managers to implement NMERB's investment goals and objectives.

Investment Asset Allocation Policy

Asset allocation is the greatest determinant of Fund performance. The Investment Committee uses the target asset allocation plan approved by NMERB's Trustees to carry out its responsibilities in conjunction with analyses of the Fund's long-term liabilities. The latest analysis can be found at http://www.nmerb.org/asset_allocation.html. The Investment Committee and NMERB staff regularly monitor the position of the Fund relative to the target allocations, periodically rebalancing among classes to maintain prescribed relationships. The Investment Committee reviews NMERB's investment policies annually with respect to target allocation guidelines. NMERB's Investment Policy Statement is available on NMERB's website at http://wwwnmerb.org/investment_policies.html.

The following schedule shows the current asset allocation policy adopted on August 26, 2016, as well as, the prior allocation policy targets.

Schedule of Target Investment Allocations

	After 8/26/2016	Prior to 8/26/2016
Equities		
Domestic Equities		
Large cap equities	16%	18%
Small-mid cap equities	3%	2%
Total domestic equities	19%	20%
International Equities		
Developed	5%	5%
Emerging markets	9%	10%
Total international equities	14%	15%
Fixed Income		
Opportunistic credit	18%	20%
Core bonds	6%	6%
Emerging market debt	2%	2%
Total fixed income	26%	28%
Alternatives		
Real estate - REITs	7%	7%
Real assets	8%	8%
Private equity	13%	11%
Global asset allocation	4%	5%
Risk parity	3%	5%
Other	5%	0%
Total alternatives	40%	36%
Cash	1%	1%
Total	100%	100%

Investment Performance

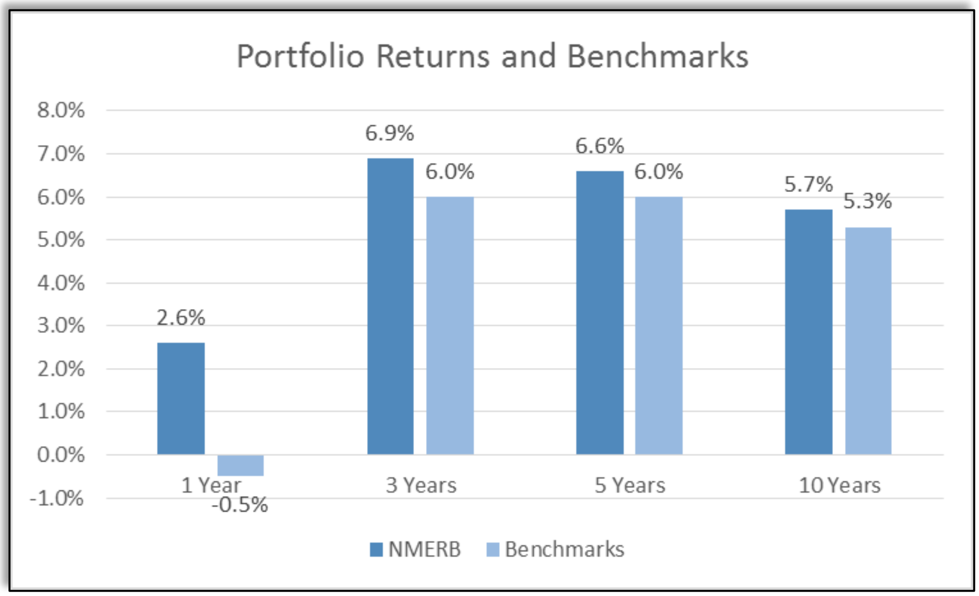
The investment performance shown in the schedules and chart below is based on time weighted rates of return calculated using the market value of assets as of June 30, 2016. Performance shown for periods longer than one year has been annualized.

Performance overall in the past five (5) years was 6.6% per annum, outperforming the policy index by .6% and the Plan's actuarial assumed rate of 7.75%. The fiscal year 2016 return was 2.6%, outperforming the policy index by 1.0%. All asset classes were within NMERB's target allocation ranges as of June 30, 2016. Despite a lower investment return, investment holdings increased by $446 million over fiscal year 2015. The following table provides a summary of total fund performance (net of fees) across earning horizons NMERB tracks.

Fund Performance (Net of Fees) Summary at June 30, 2016

1 Year	3 Year	5 Year	10 Year	15 Year	20 year	25 Year	30 Year
2.6%	6.9%	6.6%	5.7%	5.8%	6.8%	8.3%	8.4%

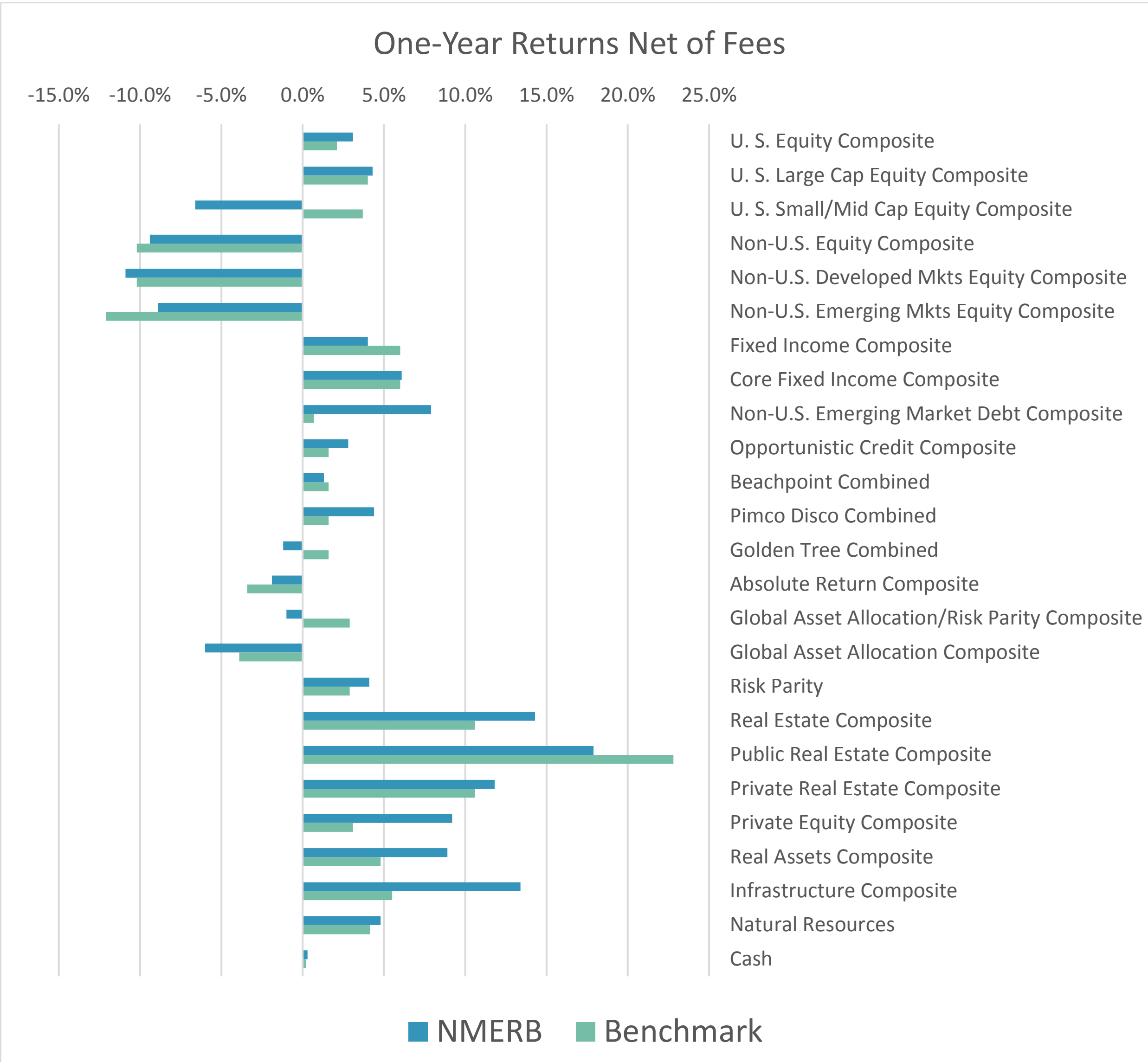
The following two charts show the investment return of NMERB versus benchmarks as of June 30, 2016.



Benchmarks: InvestorForce Public DB > $1 Billion Net Median

One-Year Returns

The chart below compares bench marks to actual returns by asset type. Detailed performance figures can be found on the NMERB website at http://nmerb.org/2Q2015Report.pdf. The investment results basis for calculations is a time-weighted rate of return based on the market rate of return.



Investment Portfolio Summary

The schedules below show investments held by NMERB's agent in NMERB's name as of June 30, 2016 and 2015.

Investment Portfolio Summary

		2016	2015
Cash and short-term investments	$	226,259,296	553,460,263
Investments, fair value		11,304,599,226	10,858,494,641
Total	$	11,530,858,522	11,411,954,904

Schedule of Investments by Asset Class

Schedule of Investments by Asset Class

Investments, at fair value		2016	% of Total	2015	% of Total
Other investments	$	3,362,868,898	29.75%	2,309,072,716	21.27%
Domestic stocks		3,145,341,943	27.82%	2,542,692,435	23.42%
International stocks		1,797,696,501	15.90%	1,875,881,084	17.28%
Private equity		1,200,163,791	10.62%	1,028,279,120	9.47%
U. S. government and agency securities		577,345,485	5.11%	585,177,300	5.39%
Private real estate		469,007,216	4.15%	380,197,078	3.50%
Domestic corporate bonds		291,669,042	2.58%	701,482,119	6.46%
Hedge funds funds		255,831,752	2.26%	409,511,379	3.77%
Non-U.S. government bonds		90,054,353	0.80%	109,849,871	1.01%
Non-U.S. corporate bonds		77,919,515	0.69%	328,554,498	3.03%
Domestic asset and mortgage-backed securities		36,700,730	0.32%	587,797,041	5.41%
Total	$	11,304,599,226	100.00%	10,858,494,641	100.00%

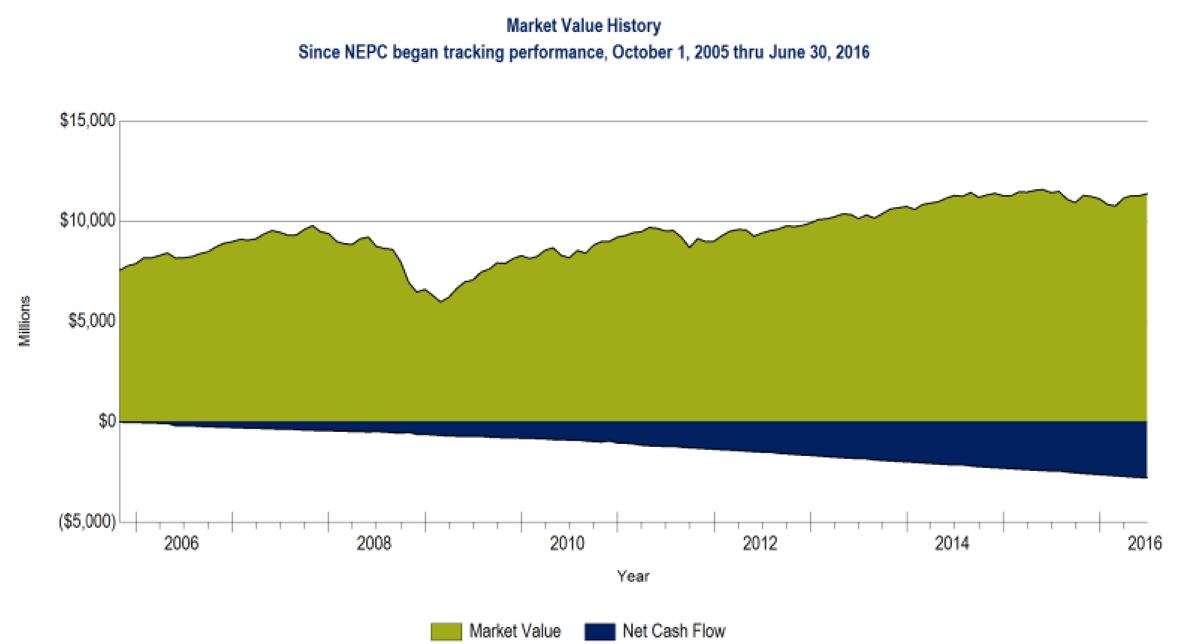
Total Fund Performance Detail

Performance Detail June 30, 2016
Gross and Net of Fees

	Market Value($)	% of Portfolio	1 Yr(%)		3 Yrs(%)		5 Yrs(%)		10 Yrs(%)		Return(%) Since Inception		
			Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
U.S. Equity Composite	**2,364,677,071**	**20.8%**	**3.1**	**3.1**	**11.4**	**11.3**	**11.8**	**11.7**	**7.2**	**7.1**	**11.1**	**11.0**	**Jan-85**
U.S. Large Cap Equity Composite	2,123,599,607	18.7%	4.3	4.3	11.7	11.7	12.1	12.1	7.3	7.2	4.3	5.4	Aug-99
U.S. Small/Mid Cap Equity Composite	241,077,463	2.1%	(6.2)	(6.6)	8.9	8.4	9.0	8.4	6.6	5.9	7.1	6.5	Aug-99
Non-U.S. Equity Composite	**1,641,204,817**	**14.4%**	**(8.9)**	**(9.4)**	**1.1**	**0.5**	**(2.2)**	**(2.6)**	**1.4**	**1.0**	**6.4**	**5.9**	**Jul-95**
Non-U.S. Developed Mkts Equity Composite	496,303,504	4.4%	(10.8)	(10.9)	2.3	2.1	1.4	1.2	1.3	0.9	5.8	5.6	Sep-95
Non-U.S. Emerging Mkts Equity Composite	1,144,901,313	10.1%	(8.3)	(8.9)	0.3	(0.4)	(4.1)	(4.6)	2.9	2.4	6.5	6.1	Sep-00
Fixed Income Composite	**3,584,036,732**	**31.5%**	**4.0**	**4.0**	**5.3**	**5.3**	**6.3**	**6.2**	**7.2**	**6.9**	**8.6**	**2.9**	**Jan-85**
Core Fixed Income Composite	977,881,675	8.6%	6.1	6.1	4.5	4.4	4.5	4.4	5.8	5.7	5.8	5.7	Dec-99
Non-U.S. Emerging Market Debt Composite	198,669,350	1.7%	8.0	7.9	(0.4)	(0.5)	--	--	--	--	0.4	0.2	Sep-17
Opportunistic Credit Composite	2,407,485,707	21.2%	2.8	2.8	6.4	6.3	7.7	7.6	--	--	9.4	8.7	May-17
Absolute Return Composite	**3,392,740**	**0.0%**	**(1.9)**	**(1.9)**	**1.7**	**1.7**	**1.4**	**1.4**	**--**	**--**	**1.2**	**1.2**	**Jan-17**
Global Asset Allocation/Risk Parity Composite	**1,150,886,728**	**10.1%**	**(1.0)**	**(1.0)**	**3.1**	**3.1**	**4.5**	**4.5**	**--**	**--**	**8.4**	**7.6**	**Oct-17**
Global Asset Allocation Composite	548,950,877	4.8%	(6.0)	(6.0)	(0.2)	(0.2)	--	--	--	--	(0.2)	(0.2)	Nov-17
Risk Parity	601,935,851	5.3%	4.1	4.1	6.4	6.4	--	--	--	--	3.4	3.4	Nov-17
Real Estate Composite	**822,291,287**	**7.2%**	**14.4**	**14.3**	**13.4**	**13.3**	**12.6**	**12.4**	**7.0**	**7.0**	**10.4**	**10.4**	**Dec-17**
Public Real Estate Composite	353,284,071	3.1%	18.1	17.9	12.1	11.9	12.0	11.8	6.9	6.9	10.3	10.3	Dec-17
Private Real Estate Composite	469,007,216	4.1%	11.8	11.8	15.3	15.3	13.4	13.4	--	--	7.2	7.2	Jan-17
Private Equity Composite	**1,200,163,726**	**10.6%**	**9.2**	**9.2**	**14.3**	**14.3**	**13.5**	**13.5**	**5.6**	**5.6**	**5.5**	**5.5**	**Jun-17**
Real Assets Composite	**505,362,813**	**4.4%**	**8.9**	**8.9**	**6.1**	**6.1**	**2.8**	**2.8**	**--**	**--**	**1.4**	**0.8**	**Jul-17**
Infrastructure Composite	246,142,700	2.2%	13.4	13.4	7.8	7.8	3.3	3.3	--	--	1.9	1.9	Jul-17
Natural Resources	259,220,113	2.3%	5.2	5.2	4.8	4.8	3.8	3.8	--	--	2.1	2.1	Mar-17
Cash	**94,528,455**	**0.8%**											

Market Value History

The following chart and table show total fund asset growth since NEPC,LLC, NMERB's investment consultant, began tracking performance in 2005. The chart and table were extracted from the *Investment Performance Analysis* prepared by NEPC, LLC, for the period ending June 30, 2016.



	Last Three Months	Year-To-Date	One Year	Three Years	Five Years	Since 10/1/05
Beginning Market Value	$11,145,741,106	$11,110,179,629	$11,416,629,337	$10,123,852,370	$9,513,175,807	$7,694,652,364
Net Cash Flow	-$74,216,554	-$162,801,840	-$351,495,583	-$966,321,930	-$1,567,850,568	-$2,787,166,762
Net Investment Change	$295,077,077	$419,223,841	$301,467,876	$2,209,071,190	$3,421,276,391	$6,459,116,028
Ending Market Value	$11,366,601,630	$11,366,601,630	$11,366,601,630	$11,366,601,630	$11,366,601,630	$11,366,601,630

Schedule of Largest Stock Holdings as of June 30, 2016

Schedule of Fund's Ten Largest Stock Holdings

Company Name	Number of Shares	Fair Value
Apple Inc.	638,266	$ 61,018,230
Microsoft Corp.	916,047	46,874,125
Exxon Mobil Corp.	483,180	45,293,293
Johnson & Johnson	320,543	38,881,866
General Electric Co.	1,071,572	33,733,087
Amazon.com, Inc.	45,065	32,249,415
Berkshire Hathway, Inc. CLB	218,407	31,623,150
AT&T, Inc.	717,338	30,996,175
Face Book Inc. A	269,400	30,787,032
Simon Property Group Inc.	130,000	28,197,000
Total	4,809,818	$ 379,653,372

Schedule of Ten Largest Fixed Income Holdings

Security Name	Rate	Due	CUSIP No.	Par	Fair Value
US Treasury N/B	2.000%	09/20	912828VZO	$ 30,000,000	$ 31,483,120
US Treasury N/B	1.250%	10/18	912828WD8	28,000,000	28,447,327
US Treasury N/B	1.750%	02/22	912828J43	25,000,000	25,984,230
US Treasury N/B	1.250%	01/20	912828H52	25,110,000	25,607,926
US Treasury N/B	2.000%	02/25	912828J27	23,000,000	24,236,882
US Treasury N/B	1.500%	01/22	912828H86	20,000,000	20,529,875
US Treasury N/B	1.375%	02/20	912828J50	20,000,000	20,469,316
US Treasury N/B	1.375%	02/19	912828SH4	15,000,000	15,341,337
US Treasury N/B	3.125%	08/44	912810RH3	10,344,000	12,297,689
US Treasury N/B	2.250%	11/24	912828G38	10,000,000	10,695,936
Total					$ 215,093,637

The ten (10) largest fixed income holdings are based on the Fund's separately managed portfolios. A complete list of holdings is available upon request.

Schedule of Management Fees and Profit Share

Schedule of Management Fees and Profit Share
for the Fiscal Year Ended June 30, 2016

Category/Firm	Fees	Profit Share
On-budget–		
Domestic equity:		
Lord Abbett	$ 767,706	
Pinnacle Associates, LTD	585,199	
Total domestic equity	1,352,905	
REIT:		
Brookfield Investment and Management	1,173,537	
Non-U.S. equity:		
BlackRock EAFE	123,679	
Eaton Vance (Parametric)	831,577	
Mondrian Emerging Market	4,841,429	
Neuberger Emerging Market	2,519,645	
Pyramis Global Advisors (CM)	885,068	
Robeco International Core Emerging Market	1,180,539	
Total Non-U.S. equity	10,381,938	
Domestic fixed income	-	
Non-U.S. fixed income	348,090	
Off-budget–		
Opportunistic credit	36,165,166	$ 2,169,007
Non-U.S. fixed income	1,126,941	2,280,022
Private equity	30,471,818	7,425,440
Private real estate	7,672,989	1,572,184
Infrastructure	3,971,150	144,545
Natural resources	6,989,316	-
Global tactical asset allocation	6,619,698	-
Risk parity	2,052,195	-
Hedge fund of funds	38,712	-
Total for the fiscal year	$ 108,364,454	$ 13,591,197

`

The amounts shown above are on a cash basis and exclude commissions associated with *externally and internally managed accounts.*

Schedule of Commissions Paid

Schedule of Commissions Paid for Equity Securities for the Fiscal Year Ended June 30, 2016

Firm Name	Amount	Firm Name	Amount
Able Noser	$ 409	Ivy Securities, Inc	$ 839
Banco Santander Central Hispano	4,695	JP Morgan	18,558
Barclays	42,987	Janney Montgomery Scott Inc	952
Bloomberg Tradebook LLC	6,707	Jeffries + Company	30,584
BMO Capital Markets	30	Jonestrading Institutional Services	1,238
BNP	1,301	Keefe Bruyette + Woods Inc	1,577
BTIG LLC	121	Keybanc Capital Markets	4,759
Canaccord Genuity	3,237	Knight	324
Cantor Fitzgerald & Co	3,372	Liquidnet Inc	25,350
Capital Institutional Services	102,020	Luminex Trading and Analytics	270
CCB International Securities Limited	396	Macquarie	5,660
China International Capital Co	276	Merrill Lynch	64,920
Citibank, NA	241	MKM Partners LLC	6,672
Citation Group	23,863	Montrose Securities Equities	751
Citigroup Global Markets	17,051	Morgan Stanley	28,279
Convergex LLC	743	National Financial Services	1,233
Cowen and Company	1,084	Needham and Company	4,527
Credit Lyonnais Securities	8,575	Oppenheimer and Co Inc	244
Credit Suisse	28,009	Pershing LLC	111
Daiwa Securities	462	Piper Jaffray	807
Deutsche Bank	17,282	Raymond James and Associates	56,184
DSP Merrill Lynch Ltd	782	RBC Capital Markets	6,093
Fidelity Capital Markets	24,085	Religare Capital Markets Ltd	575
Financial Brokerage Group	3,885	Robert W Baird Inc	6,283
Gabelli & Company	236	Sanford C Bernstein Co LLC	10,668
Goldman Sachs	14,133	SG Securities HK	885
Green Street	6,738	State Street Global Markets LLC	4,557
Guggenheim Capital Markets LLC	27	Stifel Nicolaus + Co Inc	8,909
Able Noser	3,377	Suntrust Capital Markets, Inc	445
Banco Santander Central Hispano	1,771	Telsey Advisory Group LLC	585
Barclays	4,375	UBS	97,237
Bloomberg Tradebook LLC	1,501	Wedbush Morgan Securities Inc	936
BMO Capital Markets	4,033	Weeden + Co	9,790
BNP	22,662	Wells Fargo Securities LLC	6,935
ITG Inc	131	William Blair & Company LLC	587
		Total Commissions	$ 758,922

STATISTICAL SECTION

Summary

The Statistical Section provides additional historical perspective, context, and relevant details to assist readers in using information found within the fiscal year 2016 financial statements, note disclosures, and supplementary information to assess the economic condition of NMERB. This information has not been audited by NMERB's independent auditor. All non-accounting data is taken from internal NMERB sources except for information derived from the actuarial valuations and investment performance analysis, both prepared by external consultants for NMERB.

The charts and schedules in the Statistical Section are organized into two categories: 1) Financial Trends and 2) Demographic and Economic Information.

Financial Trends

The following tables contain trend information. Unless otherwise noted, the information included in the Financial Trends tables is derived from the annual financial reports for the relevant year.

Summary of Changes in Fiduciary Net Position

Summary of Changes in Fiduciary Net Position ($000's) - Last Ten Years (accrual basis of accounting)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Additions										
Contributions:										
Employer	$ 391,508	389,767	357,430	294,973	248,894	304,310	309,023	318,959	286,377	251,777
Member	293,848	292,822	271,514	248,785	289,852	247,408	250,667	212,014	201,916	189,391
Employer ARP	5,480	5,362	5,032	4,685	4,952	4,057	4,253	4,727	4,469	4,076
Total Contributions	690,837	687,952	633,976	548,443	543,697	555,776	563,942	535,700	492,762	445,244
Investment Income:										
Interest, dividends, other	126,427	133,004	180,493	196,838	175,422	187,486	188,063	219,893	299,985	207,952
Investment expenses	(87,883)	(76,436)	(13,720)	(15,421)	(11,035)	(35,436)	(31,892)	(31,019)	(78,675)	(20,836)
Net change asset value	326,027	366,761	1,277,460	837,193	(565)	1,396,479	1,095,258	(1,724,902)	(785,485)	1,177,440
Net investment income	364,571	423,330	1,444,233	1,018,610	163,822	1,548,529	1,251,429	(1,536,028)	(564,175)	1,364,556
Other income	2,098	8,147	-	-	-	-	-	-	-	-
Total additions	1,057,506	1,119,429	2,078,209	1,567,053	707,520	2,104,305	1,815,371	(1,000,329)	(71,413)	1,809,800
Deductions										
Benefit payments, refunds	1,012,731	957,183	907,214	853,329	795,136	736,858	685,012	647,392	608,251	567,669
Administrative expense	9,661	10,598	16,618	10,986	11,986	11,407	11,488	8,672	6,089	5,625
Total deductions	1,022,391	967,781	923,832	864,315	807,121	748,265	696,500	656,064	614,339	573,294
Net increase in net position	35,115	151,647	1,154,377	702,738	(99,602)	1,356,040	1,118,871	(1,656,392)	(685,752)	1,236,506
Net position restricted for pensions										
Beginning of the year	11,497,723	11,346,076	10,191,699	9,488,961	9,588,563	8,232,523	7,113,652	8,770,044	9,455,796	8,219,290
End of the year	$ 11,532,838	11,497,723	11,346,076	10,191,699	9,488,961	9,588,563	8,232,523	7,113,652	8,770,044	9,455,796

Schedule of Revenue and Expenses – Budget and Actual

Schedule of Revenues and Expenses - Budget and Actual - Last Ten Years									
	Revenues				Actual Expenses				
Year	Original Budget	Final Budget	Actual Budgetary Basis	Variance -Final Budget vs Actual Favorable (Unfavorable)	Personal Services & Employee Benefits	Contractual Services	Other Costs	Total Expenses	Variance - Final Budget vs Actual Favorable (Unfavorable)
2016	$30,452,800	$30,452,800	$ 30,452,800	$ -	$ 5,914,755	$ 20,041,708	$ 1,340,164	$ 27,296,627	$ 3,156,173
2015	30,055,300	30,465,300	30,465,300	-	5,594,200	20,928,600	1,101,800	27,624,600	2,840,700
2014	31,971,300	31,971,300	31,971,300	-	5,104,000	24,221,400	742,600	30,068,000	1,903,300
2013	37,823,300	37,823,300	37,823,300	-	4,366,501	20,622,004	723,216	25,711,721	12,111,579
2012	40,233,900	40,560,900	40,560,900	-	4,203,662	16,638,703	700,121	21,542,486	19,018,414
2011	26,908,300	37,208,300	37,208,300	-	4,087,075	24,276,385	1,468,538	29,831,998	7,376,302
2010	28,551,300	49,051,300	49,051,300	-	3,626,679	36,380,668	1,123,063	41,130,410	7,920,890
2009	32,423,300	32,953,300	32,953,300	-	3,894,081	18,823,806	790,187	23,508,074	9,445,226
2008	30,051,200	30,051,200	30,051,200	-	3,612,412	21,879,759	734,807	26,226,978	3,824,222
2007	29,532,187	32,212,187	32,212,187	-	3,304,119	21,413,699	921,956	25,639,774	6,572,413

Schedule of Key Consultants and Service Providers Including Fees

Schedule of Key Consultants and Service Providers Including Fees
for the Fiscal Year Ending June 30, 2016

Vendor Name	Type of Service	Amount
Caledon Capital Management, Inc.	Investment Consultants	$ 350,052
Foster Pepper, PLCC	Legal Services	415,200
Freedman Boyd Hollander Goldberg Urias & Ward, PA	Legal Services	82,988
Gabriel Roeder Smith & Company	Actuary	85,653
Groom Law Group, Chartered	Legal Services	9,858
K & L Gates, LLP	Legal Services	101,353
Moss Adams, LLP	Audit Services	130,718
NEPC, LLC	Investment Consultants	355,950
Real Asset Portfolio Management, LLC	Investment Consultants	412,500
REDW, LLC	Internal Audit Services	143,195
State Street Bank & Trust Company	Custody Bank	725,176
Top Tier Capital Partners, LLC	Investment Consultants	625,000
ViTech Systems Group, LLC	Software Maintenance	1,206,752

Schedule of employer Contributions and Covered Payroll

Schedule of Employer Contributions and Covered Payroll by Year - Last Ten Years

Fiscal Year Ending	Actuarially Determined Contribution	Annual Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Imputed Covered Payroll	Actual Contribution % of Covered Payroll
2016	$465,340,519		$ 396,988,557	$ 68,351,962	$ 2,740,526,669	14.49%
2015	450,950,584		395,129,621	55,820,963	2,730,320,345	14.47%
2014	479,884,486		362,462,537	117,421,949	2,718,100,677	13.34%
2013	480,700,326		299,657,530	183,042,796	2,706,170,349	11.07%
2012		$400,461,343	253,845,277	146,616,066	2,720,149,646	14.54%
2011		377,884,749	308,367,952	69,516,797	2,791,839,227	13.39%
2010		357,220,043	313,276,296	43,943,747	2,835,080,484	12.45%
2009		375,430,722	323,685,497	51,745,225	2,737,842,584	13.54%
2008		368,196,682	290,846,065	77,350,617	2,627,312,222	13.84%
2007		364,128,448	255,853,194	108,275,254	2,480,566,067	14.51%

Schedule of Benefit and Refund Deduction from Net Postion

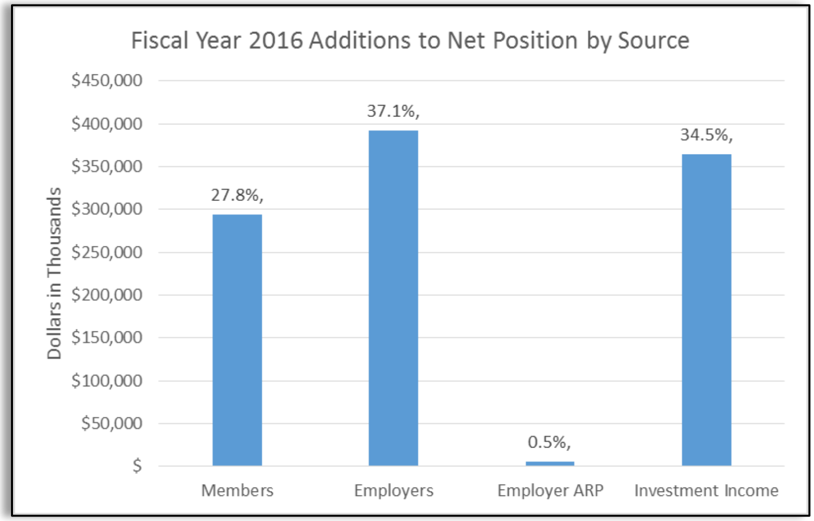
Schedule of Benefit and Refund Deductions from Net Position ($000's) - Last Ten Years

Deduction Type	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Retirement Benefits	$964,443	911,833	859,575	803,253	746,494	694,153	648,962	610,664	572,192	533,924
Separation Refunds	34,988	32,313	34,562	35,883	34,520	29,287	24,574	24,052	23,730	23,335
Interest on Refunds	4,039	4,115	4,361	5,781	6,061	5,800	4,206	5,635	5,745	4,190
Disability Benefits	9,260	8,923	8,716	8,412	8,061	7,618	7,271	7,041	6,539	6,220
Total	$1,012,731	957,183	907,214	853,329	795,136	736,858	685,012	647,392	608,206	567,669

Note: These figures have been compiled on an accrual basis from financial statement data. The following table represents net benefits paid to annuitants**.**

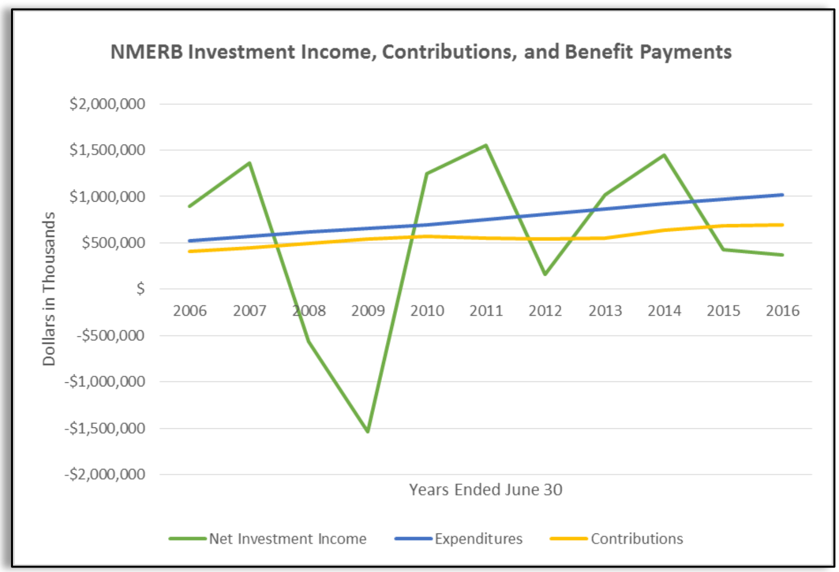
Additions to Net Position by Source

Retirement benefits are funded by members and employer contributions and by investment income. In fiscal year 2016, contributions funded 65.5% of retirement benefits and investment income funded 34.5%.



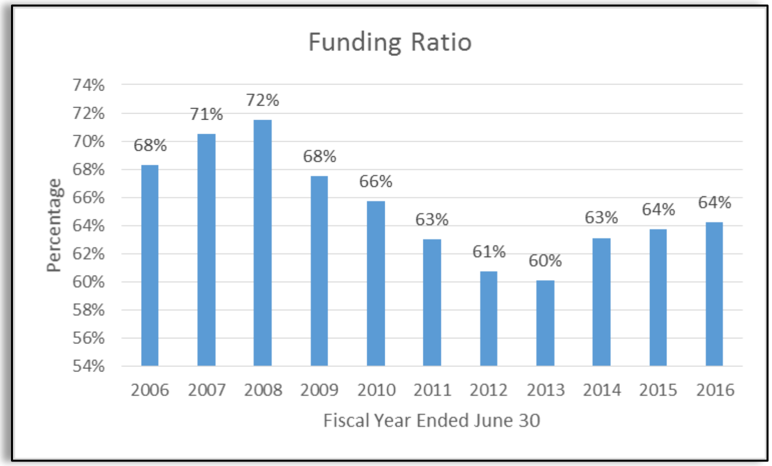
NMERB Investment Income, Contributions, and Benefit Payments

The following chart shows the relationship between investment income, contributions, and benefit payments (expenditures) over the past ten years.



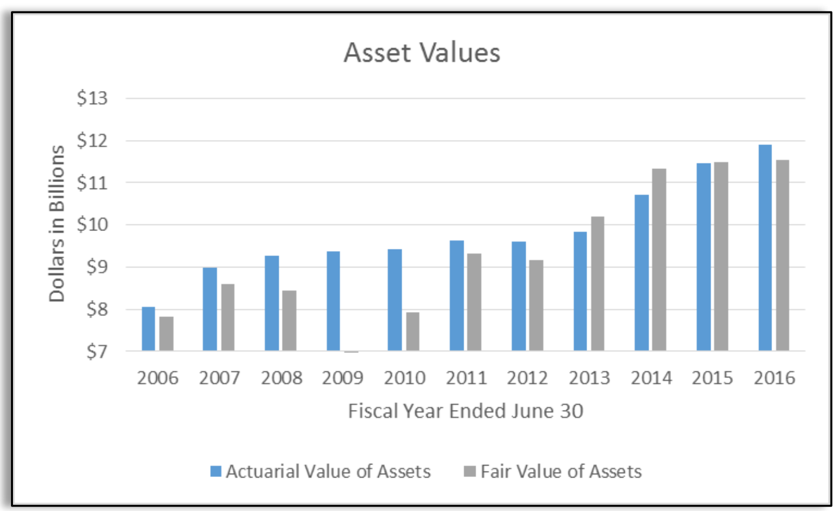
Funding Ratio

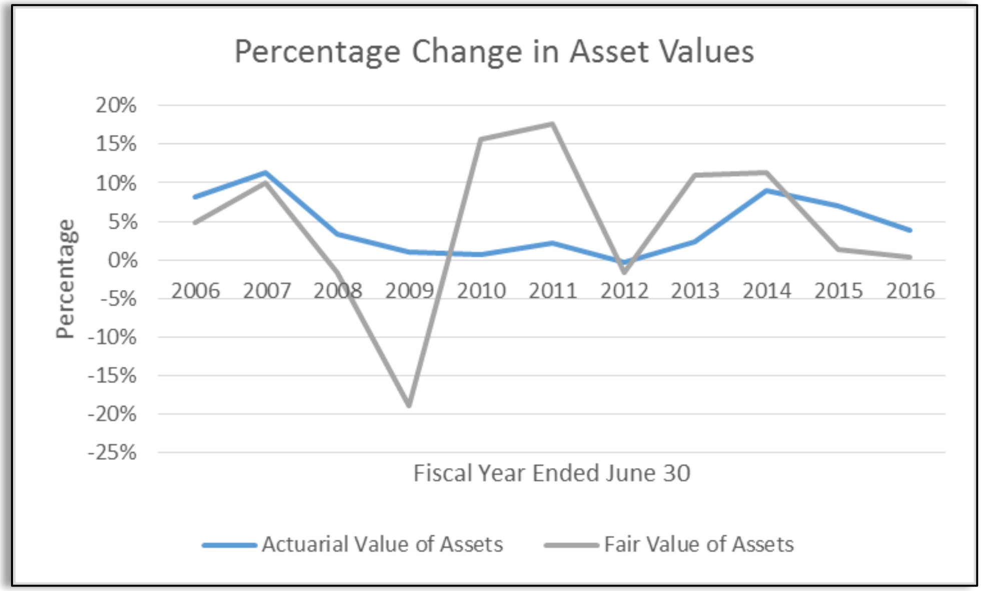
This chart illustrates the difference between the actuarial value of assets and the amount needed to pay benefits to current NMERB members. The ratio is determined using asset-smoothing methods that takes into account short-term fluctuations in asset values. Accordingly, the total actuarial value of assets will differ from the market value of investment for any given year (see "Asset Smoothing" below).

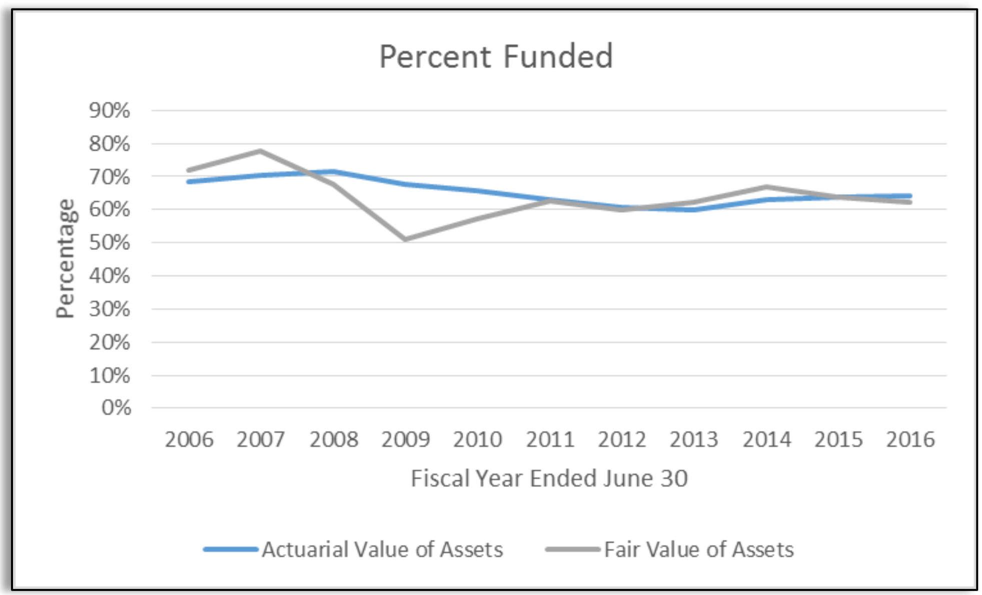


Asset Smoothing

The following three charts illustrate the impact of smoothing volatility in actuarial computations. Smoothing asset values reduces the year-to-year volatility of calculated results, such as the funded ratio. Accordingly, the use of smoothed asset values to determine contribution rates makes more sense than using fair market value. It also makes more sense when the objective is long-term investment returns, which require investing in classes of assets that, by their nature, tend to be somewhat volatile in fair market value.




Percentage Change in Asset Values
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
-25%
Percentage
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016
Fiscal Year Ended June 30
Actuarial Value of Assets
Fair Value of Assets


Percent Funded
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Percentage
2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016
Fiscal Year Ended June 30
Actuarial Value of Assets
Fair Value of Assets

Employer Schedule of Funding Progress

Employer Schedule of Funding Progress - Last Ten Years							
Acturial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll [(b-a)/c]	Funding Period
6/30/2016	$ 11,905,958,700	$ 18,536,428,261	$ 6,630,469,561	64.2%	$ 2,751,008,261	241.0%	44.9
6/30/2015	11,472,378,929	18,014,425,002	6,542,046,073	63.7%	2,749,412,635	237.9%	43.2
6/30/2014	10,714,996,256	16,971,321,732	6,256,325,476	63.1%	2,685,699,253	232.9%	42.1
6/30/2013	9,828,547,715	16,362,279,203	6,533,731,488	60.1%	2,661,456,872	245.5%	95.1
6/30/2012	9,606,304,017	15,836,972,530	6,230,668,513	60.7%	2,649,331,144	235.2%	Infinite
6/30/2011	9,642,229,673	15,293,072,424	5,650,842,751	63.0%	2,678,376,300	211.0%	Infinite
6/30/2010	9,431,321,589	14,353,509,423	4,922,187,834	65.7%	2,753,518,949	178.8%	62.5
6/30/2009	9,366,271,312	13,883,273,082	4,517,001,770	67.5%	2,771,549,050	163.0%	45.0
6/30/2008	9,272,828,135	12,966,995,130	3,694,166,995	71.5%	2,687,112,757	137.5%	61.4
6/30/2007	8,591,417,402	12,190,080,577	3,598,663,175	70.5%	2,548,823,953	141.2%	Infinite

Retirees and Beneficiaries Data

NMERB administers the Educational Employees' Retirement Plan, which was established by the New Mexico Educational Retirement Act to provide retirement, disability, and survivor benefits for educational employees (certified teachers and other employees of the State of New Mexico's public schools, institutions of higher learning, and state agencies providing educational programs). The schedule below shows the number of retirees, total annual benefits paid to retirees, and the average monthly individual benefit paid.

Retirees and Beneficiaries Data

Fiscal Year of Retirement	Number	Total Annual Benefits	Average Monthly Benefit
2016	45,797	$ 973,703,652	$ 1,831
2015	44,043	920,755,421	1,819
2014	42,246	859,575,335	1,790
2013	40,310	811,665,051	1,767
2012	37,336	754,554,951	1,714
2011	35,457	701,771,592	1,669
2010	33,747	656,232,670	1,628
2009	32,496	617,705,038	1,607
2008	31,192	578,775,611	1,566
2007	29,969	650,143,723	1,523
2006	28,539	494,096,614	1,472
2005	26,100	454,983,452	1,466
2004	24,947	422,418,366	1,420
2003	24,085	396,081,755	1,376
2002	23,052	367,494,870	1,315
2001	22,191	340,595,679	1,274
2000	21,186	311,813,766	1,228

Number of Members Retiring

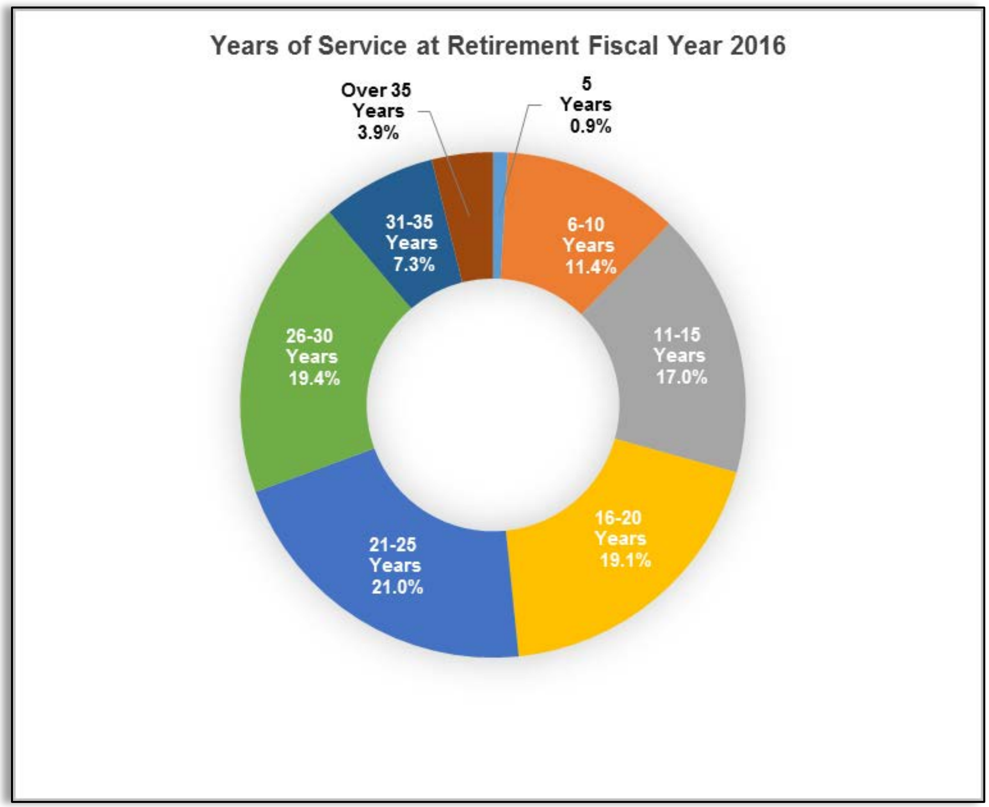
State of New Mexico Educational Retirement Board

Members Retiring Last Five Fiscal Years*

	2016	2015	2014	2013	2012
Number Retiring	2,432	2,590	2,395	2,259	2,393
Average Age at Retirement	61.9	62.4	61.7	61.7	61.5
Median Age at Retirement	62.2	62.3	62.1	62.1	61.9
Average Service Credit	20.6	20.0	20.4	20.5	20.8
Median Service Credit	20.8	20.0	20.5	21.0	21.0
Average Monthly Benefit	$ 2,015	$ 1,916	$ 1,971	$ 2,029	$ 2,044
Median Monthly Benefit	$ 1,661	$ 1,608	$ 1,651	$ 1,654	$ 1,733

*Does not include rules, reciprocities, disabilities, and QDROs.

Years of Service at Retirement



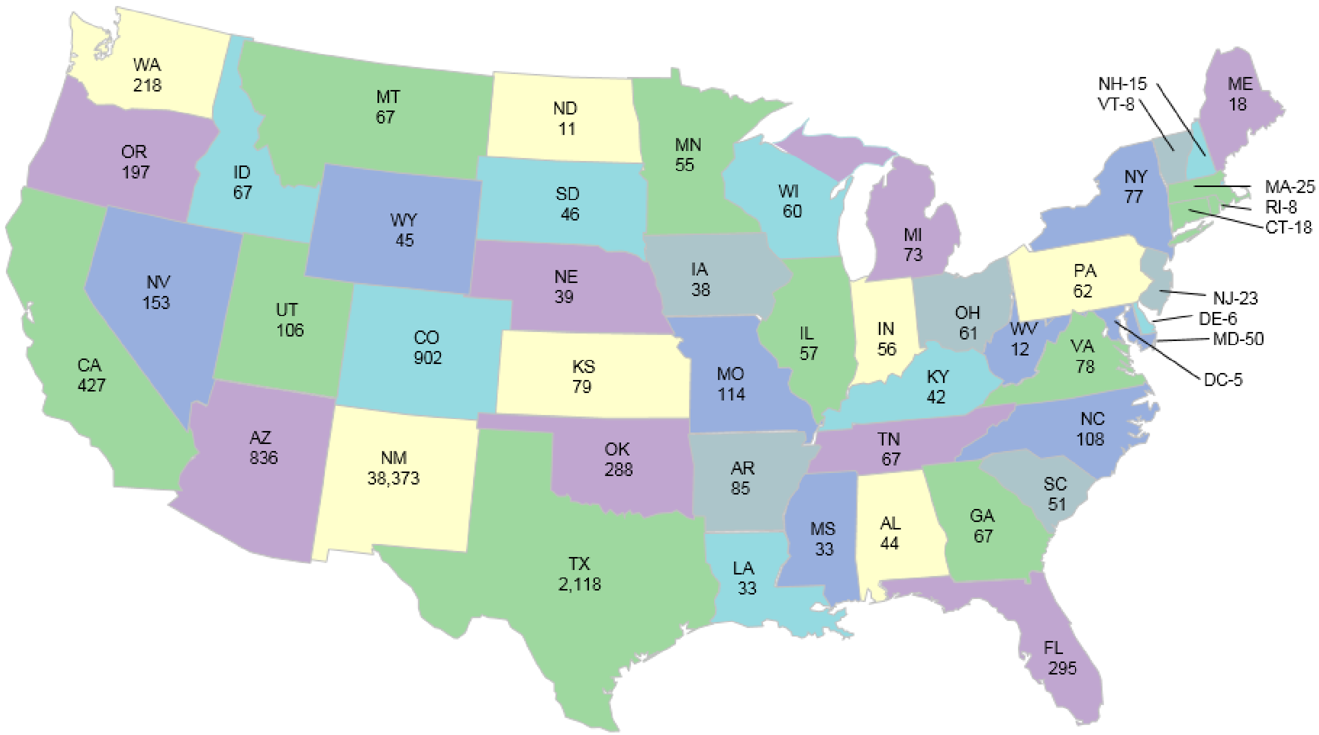
Benefit Recipients by Type of Retirement and Option Selected

Benefit Recipients by Type of Retirement and Option Selected
June 30, 2016

		Type of Retirement*		
Amount of Monthly Benefit ($)	Number of Benefit Recipients	Straight Life Benefit (Option A)	Joint 100% Survivor Benefit (Option B)	Joint 50% Survivor Benefit (Option C)
1-250	2,138	1,324	577	237
251-500	3,877	2,493	989	395
501-750	4,301	2,813	1,056	432
751-1,000	3,874	2,523	917	434
1,001-1,250	3,885	2,432	1,015	438
1,251-1,500	3,528	2,249	927	352
1,501-1,750	3,540	2,220	953	367
1,751-2,000	3,486	2,166	920	400
Over 2,000	17,168	10,690	4,411	2,067
Total	45,797	28,910	11,765	5,122

* See the Financial Section of this report for an explanation of each option.

Distribution of Benefits Recipients by Location

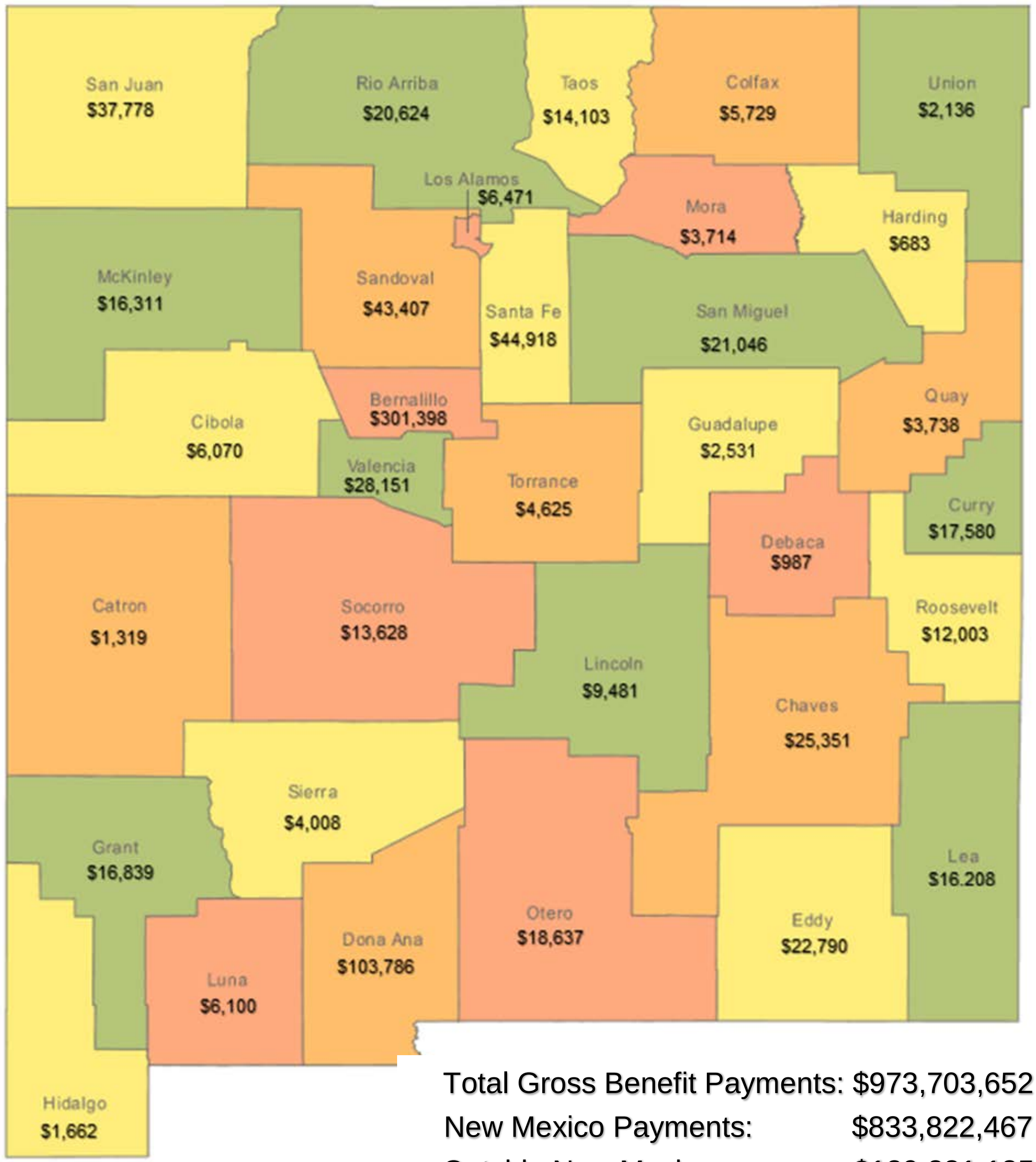


Benefit Recipients Outside the Continental United States

22 Alaska
42 Hawaii
1 Argentina
5 Australia
1 Antarctica
4 Botswana
9 Canada
1 China
2 Czechoslovakia
1 Denmark
1 Finland
2 Germany
2 Greece
1 Guam
2 Hungary
2 Israel
2 Italy
4 Mexico
1 Netherlands Antilles
2 Netherlands
6 New Zealand
2 Poland
3 Philippines
5 Puerto Rico
1 Suriname
1 Sweden
2 Thailand
1 Turkey
8 United Kingdom
1 Uruguay
1 Yugoslavia

2016 Retiree Gross Benefits by New Mexico County

(Amounts in thousands)



Total Gross Benefit Payments:	$973,703,652
New Mexico Payments:	$833,822,467
Outside New Mexico:	$139,881,185

The direct impact of NMERB's pension benefits ripples through New Mexico's economy.

Schedule of Pension Plan Contribution Rates

Schedule of Pension Plan Contribution Rates by Fiscal Year- Last Ten Years

Year	Contribution Rates by Wage Category: $20,000 or Less			Over $20,000		
	Employee	Employer	Combined	Employee	Employer	Combined
2016	7.900%	13.900%	21.800%	10.700%	13.900%	24.600%
2015	7.900%	13.900%	21.800%	10.700%	13.900%	24.600%
2014	7.900%	13.150%	21.050%	10.100%	13.150%	23.250%
2013	7.900%	12.400%	20.300%	9.400%	10.900%	20.300%
2012	7.900%	12.400%	20.300%	11.150%	9.150%	20.300%
2011	7.900%	12.400%	20.300%	9.400%	10.900%	20.300%
2010	7.900%	12.400%	20.300%	9.400%	10.900%	20.300%
No Separate Wage Categories Prior to July 1, 2009						
2009				7.900%	11.650%	19.550%
2008				7.825%	10.900%	18.725%
2007				7.750%	10.150%	17.900%

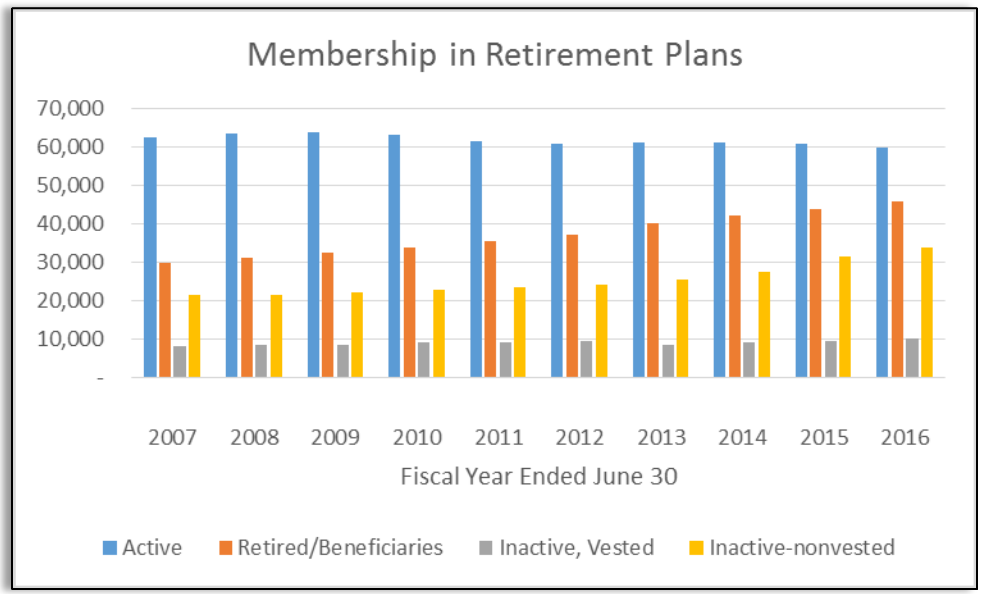
Demographic and Economic Information

The following tables help the reader understand the environment within which NMERB's financial activities take place.

NMERB is charged with providing secure retirement benefits for New Mexico's educational employees. This includes employees at schools providing kindergarten through twelfth grade instruction, colleges and universities, special state schools, and educational programs at state agencies.

Membership and Contributing Employers

Total membership in the pension trust retirement system administered by NMERB increased in fiscal year 2016 over the prior year by 3,993 employees (2.7%), with all categories of membership increasing, except for the active working member category. The largest increase was in the inactive, nonvested membership category.



Schedule of Members by Status and Type of Benefit

The following schedule portrays the number of members by status in the current year and the growth in each membership level over the last nine years.

Schedule of Members by Membership Status by Fiscal Year - Last Ten Years

Status	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Active-working	60,057	60,998	61,173	61,177	60,855	61,673	63,295	63,819	63,698	62,687
Service retirees	41,771	40,140	38,438	36,614	33,741	31,974	30,377	29,234	28,064	26,955
Beneficiaries	3,189	3,071	2,980	2,882	2,809	2,709	2,611	2,517	2,409	2,311
Disability	837	832	828	814	786	774	759	745	719	703
Inactive, vested	10,219	9,513	9,113	8,615	9,648	9,333	9,054	8,459	8,408	8,298
Inactive-nonvested	34,009	31,535	27,476	25,482	24,384	23,678	22,782	22,115	21,574	21,644
Total	150,082	146,089	140,008	135,584	132,223	130,141	128,878	126,889	124,872	122,598

Average Active Member and Years of Service

Average Active Member Age and Years of Service

	2016	2015
Average Age	46.4	46.5
Average Years of Service	9.8	9.7
Average Annual Salary	$ 43,493	$ 42,793

The schedules on the following pages show: years of credited service and average annual compensation for active members; principle employers ranked by number of employees in active status; and participating employers by New Mexico county.

Years of Credited Service and Average Annual Compensation for Active Members

	Years of Credited Service												
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	
Member Age	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.	Total by Member Age
Under 25	594	565	205	62	22	7	-	-	-	-	-	-	1,455
	$ 18,651	22,770	20,625	19,706	21,528	21,439	-	-	-	-	-	-	$ 20,631
25-29	589	1,138	988	668	449	466	9	-	-	-	-	-	4,307
	$ 25,369	30,822	31,018	33,111	35,947	36,477	25,971	-	-	-	-	-	$ 31,612
30-34	464	875	759	673	548	1,821	438	4	-	-	-	-	5,582
	$ 28,834	32,929	34,199	35,854	38,727	43,035	43,547	21,428	-	-	-	-	$ 37,805
35-39	411	855	690	594	492	1,836	1,614	309	3	-	-	-	6,804
	$ 30,567	36,031	38,064	41,274	39,827	43,973	50,259	46,719	46,039	-	-	-	$ 42,648
40-44	315	633	556	486	461	1,696	1,697	1,413	244	2	-	-	7,503
	$ 28,716	34,698	34,641	37,937	42,960	44,752	48,950	55,248	52,440	51,960	-	-	$ 45,108
45-49	301	583	542	453	408	1,690	1,750	1,546	1,075	137	3	-	8,488
	$ 32,314	36,012	36,180	37,152	39,367	43,309	47,895	51,862	57,337	57,787	62,130	-	$ 45,965
50-54	279	547	453	415	337	1,584	1,719	1,569	1,216	547	72	1	8,739
	$ 28,650	35,766	33,593	38,416	37,972	43,349	43,563	48,319	54,407	59,914	58,277	39,145	$ 45,090
55-59	226	456	401	338	287	1,323	1,587	1,659	1,245	605	241	49	8,417
	$ 35,736	37,217	38,162	38,100	41,535	45,044	44,703	46,930	52,095	63,865	64,738	61,850	$ 47,009
60-64	120	312	266	216	247	1,058	1,214	971	728	462	197	114	5,905
	$ 33,626	37,615	35,409	41,296	41,055	45,993	45,433	47,364	52,095	66,268	73,063	68,690	$ 48,234
65&Over	97	201	175	142	141	537	480	365	262	234	102	121	2,857
	$ 29,724	28,350	32,994	38,881	35,758	46,880	45,662	49,509	58,243	67,373	84,552	97,634	$ 49,543
	3,396	6,165	5,035	4,047	3,392	12,018	10,508	7,836	4,773	1,987	615	285	60,057
Total	$ 27,598	33,169	34,097	37,192	39,268	43,887	46,651	49,834	54,216	63,318	69,921	79,699	$ 43,493

Principal Employers Ranked by Number of Employee in Active Status

Principal Employers Ranked by Number of Employees in Active Status

	Fiscal Year Ended																			
Employer Name	**June 30, 2016**		**June 30, 2015**		**June 30, 2014**		**June 30, 2013**		**June 30, 2012**		**June 30, 2011**		**June 30, 2010**		**June 30, 2009**		**June 30, 2008**		**June 30, 2007**	
Albuquerque Public Schools	11,797	20%	11,802	19%	11,799	19%	11,756	19%	11,685	19%	12,801	20%	13,090	21%	12,824	20%	12,706	20%	12,535	20%
University of New Mexico	6,629	11%	7,081	12%	7,045	12%	6,624	11%	6,501	11%	7,240	11%	7,261	11%	7,270	11%	7,807	12%	7,513	12%
New Mexico State University	3,716	6%	4,294	7%	4,592	8%	4,343	7%	4,365	7%	4,312	7%	4,439	7%	4,486	7%	4,622	7%	4,779	8%
Las Cruces Public Schools	2,856	5%	3,052	5%	3,048	5%	3,026	5%	2,955	5%	3,538	6%	3,543	6%	3,514	6%	3,530	6%	3,978	6%
Gallup McKinley County Schools	1,594	3%	1,730	3%	1,766	3%	1,851	3%	1,910	3%	2,163	3%	2,175	3%	2,165	3%	2,148	3%	2,197	4%
Rio Rancho Public Schools	1,855	3%	2,077	3%	2,078	3%	2,022	3%	1,998	3%	2,122	3%	2,125	3%	1,911	3%	1,877	3%	1,774	3%
Gadsden Independent School	1,897	3%	1,891	3%	1,844	3%	1,835	3%	1,837	3%	1,943	3%	2,015	3%	2,104	3%	2,116	3%	2,010	3%
Central New Mexico Community College	1,655	3%	1,969	3%	1,975	3%	1,953	3%	1,861	3%	1,863	3%	1,871	3%	1,816	3%	1,758	3%	1,904	3%
Santa Fe Public Schools	1,649	3%	1,614	3%	1,508	2%	1,498	2%	1,499	2%	1,667	3%	1,697	3%	1,704	3%	1,719	3%	1,728	3%
Farmington Public Schools	1,291	2%	1,289	2%	1,268	2%	1,182	2%	1,182	2%	1,260	2%	1,322	2%	1,298	2%	1,264	2%	1,286	2%
All other active employees	25,118	42%	24,199	40%	24,250	40%	25,087	41%	25,062	41%	24,388	39%	23,757	38%	24,730	39%	24,151	38%	22,983	36%
Total	60,057	100%	60,998	100%	61,173	100%	61,177	100%	60,855	100%	63,297	100%	63,295	100%	63,822	100%	63,698	100%	62,687	100%

Participating New Mexico Employers by County

Employer Name	Category	Employer Code	County
Albuquerque Public Schools	Public School	2003	Bernalillo
University Of New Mexico	Universities and Colleges	2095	Bernalillo
Central New Mexico Community College	Universities and Colleges	2123	Bernalillo
New Mexico Activities Association	State Agency	2148	Bernalillo
Central Regional Ed Coop	State Agency	2150	Bernalillo
University Hospital	Universities and Colleges	2295	Bernalillo
Amy Biehl Charter High	Charter School	2303	Bernalillo
East Mountain High School	Charter School	2304	Bernalillo
Twenty-First Century Charter	Charter School	2308	Bernalillo
South Valley Academy	Charter School	2309	Bernalillo
Southwest Secondary Learning	Charter School	2310	Bernalillo
Nuestros Valores Charter	Charter School	2311	Bernalillo
Roots And Wings Community School	Charter School	2313	Bernalillo
Robert F Kennedy Charter	Charter School	2318	Bernalillo
Public Academy For Performing Arts	Charter School	2320	Bernalillo
Los Puentes Charter School	Charter School	2322	Bernalillo
El Camino Real Academy	Charter School	2323	Bernalillo
Horizon Academy West	Charter School	2327	Bernalillo
North Valley Academy	Charter School	2328	Bernalillo
La Academia De Esperanza	Charter School	2329	Bernalillo
Montessori of the Rio Grande Charter	Charter School	2334	Bernalillo
Cesar Chavez Community School	Charter School	2336	Bernalillo
Gilbert L. Sena Charter High School	Charter School	2339	Bernalillo
Abq Charter Academy	Charter School	2340	Bernalillo
Abq Institute For Math And Science	Charter School	2341	Bernalillo
Mountain Mahogany Community	Charter School	2342	Bernalillo
La Promesa Early Learning Center	Charter School	2343	Bernalillo
Academy Of Trades & Technology	Charter School	2344	Bernalillo
Southwest Intermediate Lrn Ctr	Charter School	2345	Bernalillo
Southwest Primary Learning Center	Charter School	2346	Bernalillo
Digital Arts And Technology Academy	Charter School	2350	Bernalillo
Montessori Elementary	Charter School	2351	Bernalillo
Christine Duncan Community School	Charter School	2353	Bernalillo
Native American Community Charter	Charter School	2354	Bernalillo
Alice King Community School	Charter School	2356	Bernalillo
La Resolana Leadership Academy	Charter School	2357	Bernalillo
Abq Talent Development Academy	Charter School	2361	Bernalillo
Gordon Bernell Charter School	Charter School	2362	Bernalillo

Participating New Mexico Employers by County *(continued)*

Employer Name	Category	Employer Code	County
Corrales International School	Charter School	2363	Bernalillo
Cottonwood Classical Prep School	Charter School	2364	Bernalillo
Media Arts Collaborative Charter	Charter School	2365	Bernalillo
The New America School	Charter School	2366	Bernalillo
Cien Aguas International School	Charter School	2367	Bernalillo
The International Sch At Mesa Del Sol	Charter School	2368	Bernalillo
Tierra Adentro Of New Mexico	Charter School	2370	Bernalillo
Ace Leadership High School	Charter School	2390	Bernalillo
Tech Leadership High School	Charter School	2394	Bernalillo
South Valley Preparatory School	Charter School	2396	Bernalillo
The Albuquerque Sign Language Academy	Charter School	2402	Bernalillo
Albuquerque School Of Excellence	Charter School	2412	Bernalillo
The Great Academy	Charter School	2413	Bernalillo
The New Mexico International School	Charter School	2414	Bernalillo
William W. & Josephine Dorn Charter	Charter School	2417	Bernalillo
Sage Montessori Charter	Charter School	2418	Bernalillo
Southwest Aeronautics Mathematics & Science Academy	Charter School	2420	Bernalillo
Coral Community Charter School	Charter School	2421	Bernalillo
Mission Achievement & Success Charter	Charter School	2425	Bernalillo
Health Leadership High School	Charter School	2430	Bernalillo
Explore Academy	Charter School	2432	Bernalillo
Siembra Leadership High School	Charter School	2433	Bernalillo
Quemado Independent Schools	Public School	28084	Catron
Reserve Independent Schools	Public School	28085	Catron
Dexter Consolidated Schools	Public School	4008	Chaves
Hagerman Municipal Schools	Public School	4009	Chaves
Lake Arthur Municipal Schools	Public School	4010	Chaves
Roswell Independent Schools	Public School	4011	Chaves
New Mexico Military Institute	Special State Schools	4097	Chaves
Sidney Gutierrez Middle Charter	Charter School	4317	Chaves
Cimarron Municipal Schools	Public School	9027	Colfax
Maxwell Municipal Schools	Public School	9028	Colfax
Raton Public Schools	Public School	9029	Colfax
Springer Municipal Schools	Public School	9030	Colfax
High Plains Reg Ed Coop	State Agency	9150	Colfax
Moreno Valley High School	Charter School	9324	Colfax
Clovis Community College	Universities and Colleges	5011	Curry
Clovis Municipal Schools	Public School	5012	Curry
Grady Municipal Schools	Public School	5013	Curry
Melrose Schools	Public School	5014	Curry
Texico Municipal Schools	Public School	5015	Curry

Participating New Mexico Employers by County *(continued)*

Employer Name	Category	Employer Code	County
Regional Education Coop #6	State Agency	5016	Curry
Fort Sumner Municipal Schools	Public School	27083	De Baca
Gadsden Independent Schools	Public School	7021	Dona Ana
Hatch Valley Municipal Schools	Public School	7022	Dona Ana
Las Cruces Public Schools	Public School	7023	Dona Ana
New Mexico State University	Universities and Colleges	7098	Dona Ana
Alma D'Arte Charter	Charter School	7335	Dona Ana
La Academia Dolores Huerta	Charter School	7337	Dona Ana
Las Montanas Charter School	Charter School	7338	Dona Ana
Anthony Charter School	Charter School	7339	Dona Ana
J Paul Taylor Academy	Charter School	7420	Dona Ana
New America School-Las Cruces	Charter School	7421	Dona Ana
Artesia Public Schools	Public School	3004	Eddy
Carlsbad Municipal Schools	Public School	3005	Eddy
Loving Municipal Schools	Public School	3006	Eddy
Jefferson Montessori Academy	Charter School	3321	Eddy
Pecos Connections Academy	Charter School	3433	Eddy
Cobre Consolidated Schools	Public School	8024	Grant
Silver Consolidated Schools	Public School	8026	Grant
Western New Mexico University	Universities and Colleges	8099	Grant
Aldo Leopold High School	Charter School	8347	Grant
Santa Rosa Consolidated Schools	Public School	24072	Guadalupe
Vaughn Municipal Schools	Public School	24073	Guadalupe
Mosquero Municipal Schools	Public School	31091	Harding
Roy Municipal Schools	Public School	31092	Harding
Lordsburg Municipal Schools	Public School	23070	Hidalgo
Animas Public Schools	Public School	23121	Hidalgo
Eunice Public Schools	Public School	6016	Lea
Hobbs Municipal Schools	Public School	6017	Lea
Jal Public Schools	Public School	6018	Lea
Lovington Municipal Schools	Public School	6019	Lea
Tatum Municipal Schools	Public School	6020	Lea
New Mexico Junior College	Universities and Colleges	6124	Lea
Regional Education Coop #7	Public School	6150	Lea
Capitan Municipal Schools	Public School	26077	Lincoln
Carrizozo Municipal Schools	Public School	26078	Lincoln
Corona Public Schools	Public School	26079	Lincoln
Hondo Valley Public Schools	Public School	26080	Lincoln
Ruidoso Municipal Schools	Public School	26081	Lincoln
Regional Education Coop IX	State Agency	26150	Lincoln

Participating New Mexico Employers by County *(continued)*

Employer Name	Category	Employer Code	County
Los Alamos Schools	Public School	32093	Los Alamos
Deming Public Schools	Public School	19059	Luna
Deming Cesar Chavez	Charter School	19301	Luna
Gallup Mckinley City Schools	Public School	13041	McKinley
Zuni Public School District	Public School	13142	McKinley
Middle College High School	Charter School	13369	McKinley
Uplift Community School	Charter School	13430	McKinley
Dzil Ditl' Ooi School For Empowerment	Charter School	13437	McKinley
Six Directions Indigenous School	Charter School	13438	McKinley
Mora Independent Schools	Public School	30089	Mora
Wagon Mound Public Schools	Public School	30090	Mora
Alamogordo Public Schools	Public School	15046	Otero
Cloudcroft Municipal Schools	Public School	15047	Otero
Tularosa Municipal Schools	Public School	15049	Otero
New Mexico School For The Blind and Visually Impaired	Special State Schools	15104	Otero
San Jon Schools	Public School	10032	Quay
Tucumcari Municipal Schools	Public School	10033	Quay
House Municipal Schools	Public School	10119	Quay
Logan Municipal Schools	Public School	10120	Quay
Mesalands Community College	Universities and Colleges	10141	Quay
Espanola Public Schools	Public School	17054	Rio Arriba
Northern NM Community College	Universities and Colleges	17105	Rio Arriba
Dulce Independent Schools	Public School	17115	Rio Arriba
Chama Valley Schools	Public School	17126	Rio Arriba
Mesa Vista Consolidated Schools	Public School	17127	Rio Arriba
Lindrith Area Heritage School	Charter School	17334	Rio Arriba
Mccurdy Charter School	Charter School	17424	Rio Arriba
La Tierra Montessori School	Charter School	17425	Rio Arriba
Elida Municipal Schools	Public School	11034	Roosevelt
Portales Municipal Schools	Public School	11035	Roosevelt
Eastern New Mexico University-Portales	Universities and Colleges	11101	Roosevelt
Eastern New Mexico University-Roswell	Universities and Colleges	11102	Roosevelt
Dora Consolidated Schools	Public School	11117	Roosevelt
Floyd Municipal Schools	Public School	11118	Roosevelt
Aztec Municipal Schools	Public School	16050	San Juan
Bloomfield Schools	Public School	16051	San Juan

Participating New Mexico Employers by County *(continued)*

Employer Name	Category	Employer Code	County
Farmington Municipal Schools	Public School	16052	San Juan
Central Consolidated Schools	Public School	16053	San Juan
San Juan College	Universities and Colleges	16155	San Juan
Mosaic Academy Charter	Charter School	16356	San Juan
Carinos De Los Ninos	Charter School	16357	San Juan
New Mexico Virtual Academy	Charter School	16358	San Juan
Dream Dine Charter School	Charter School	16359	San Juan
Las Vegas City Schools	Public School	12037	San Miguel
West Las Vegas Schools	Public School	12038	San Miguel
Pecos Independent Schools	Public School	12039	San Miguel
New Mexico Highlands University	Universities and Colleges	12102	San Miguel
Luna Community College	Universities and Colleges	12128	San Miguel
Pecos Valley Rec #8	State Agency	12150	San Miguel
Northeast Rec	State Agency	12151	San Miguel
Rio Gallinas School	Charter School	12326	San Miguel
Bernalillo Public Schools	Public School	29086	Sandoval
Cuba Independent Schools	Public School	29087	Sandoval
Jemez Valley Public Schools	Public School	29088	Sandoval
Jemez Mountain School District	Public School	29122	Sandoval
Rio Rancho Public Schools	Public School	29123	Sandoval
NW Regional Education Cooperative #2	State Agency	29150	Sandoval
Sandoval Academy Of Bilingual Education	Charter School	29303	Sandoval
San Diego Riverside Charter	Charter School	29305	Sandoval
Walatowa	Charter School	29330	Sandoval
The Ask Academy	Charter School	29408	Sandoval
Pojoaque Valley Schools	Public School	1001	Santa Fe
Santa Fe Public Schools	Public School	1002	Santa Fe
Santa Fe Community College	Universities and Colleges	1003	Santa Fe
New Mexico School For The Deaf	Special State Schools	1094	Santa Fe
Academy For Technology & The Classics	Charter School	1301	Santa Fe
Monte Del Sol Charter School	Charter School	1306	Santa Fe
Turquoise Trail Charter School	Charter School	1315	Santa Fe
NM Department of Finance and Administration	State Agency	1341	Santa Fe
Tierra Encantada Charter High	Charter School	1343	Santa Fe
The Masters Program	Charter School	1398	Santa Fe
New Mexico School For The Arts	Charter School	1416	Santa Fe

Participating New Mexico Employers by County *(continued)*

Employer Name	Category	Employer Code	County
New Mexico Connections	Charter School	1418	Santa Fe
Truth Or Consequences Municipal Schools	Public School	21063	Sierra
Southwest Rec #10	State Agency	21150	Sierra
Magdalena Municipal Schools	Public School	25075	Socorro
Socorro Consolidated Schools	Public School	25076	Socorro
NM Institute Of Mining & Tech	Universities and Colleges	25106	Socorro
Cottonwood Valley Charter	Charter School	25319	Socorro
Penasco Independent Schools	Public School	20060	Taos
Taos Municipal Schools	Public School	20062	Taos
Questa Independent Schools	Public School	20125	Taos
Taos Academy Charter School	Charter School	20265	Taos
Taos Municipal Charter School	Charter School	20307	Taos
Red River Valley Charter	Charter School	20312	Taos
Anansi Charter School	Charter School	20316	Taos
Vista Grande High School	Charter School	20317	Taos
Taos Integrated School Of The Arts	Charter School	20415	Taos
Taos International School	Charter School	20435	Taos
Estancia Municipal Schools	Public School	22065	Torrance
Moriarty-Edgewood School District	Public School	22066	Torrance
Mountainair Public Schools	Public School	22067	Torrance
Estancia Valley Classical Academy	Charter School	22201	Torrance
Clayton Municipal Schools	Public School	18056	Union
Des Moines Municipal Schools	Public School	18057	Union
Belen Consolidated Schools	Public School	14043	Valencia
Grants-Cibola County Schools	Public School	14044	Valencia
Los Lunas Schools	Public School	14045	Valencia
School Of Dreams Academy	Charter School	14366	Valencia

GLOSSARY OF ACRONYMS

Glossary of Acronyms

AC – Audit Committee

The NMERB AC is a subcommittee of the Board of Trustees charged with oversight of the financial and internal controls of the agency.

ARC – Annual Required Contribution

The employer's periodic 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.

ARP – Alternative Retirement Plan

NMERB's Alternative Retirement Plan is a Defined Contribution Plan offered at colleges and universities. Under the provisions of this Plan participating Employers remit 3% of the annual employee's gross salary to NMERB. The balance of the employer and employee contributions are remitted to the ARP vendor and credited to the participants' accounts.

BOT – Board of Trustees

The governing board of NMERB is composed of seven (7) members. The Educational Retirement Act defines the composition of the BOT in Section 22-11-3 NMSA, 1978; duties and powers of the BOT are addressed in Sections 22-11-4 through 22-11-14.

CAFR – Comprehensive Annual Financial Report

U.S. government financial statements comprising the financial report of a state, municipal, or other governmental entity that complies with the accounting requirements promulgated by the Governmental Accounting Standards Board. GASB provides standards for the content of a CAFR in its annually updated publication *Codification of Governmental Accounting and* Financial Reporting Standards*.*

COLA – Cost of Living Adjustment

All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit.

DBP – Defined Benefit Plan

A defined benefit plan is a pension plan in which a sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

DCP – Defined Contribution Plan

A defined contribution plan is a retirement plan in which the employer, employee or both make contributions on a regular basis. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts plus any investment earnings on the money in the account.

DFA – New Mexico Department of Finance and Administration

DFA is the fiscal agency in New Mexico charged with the mission to provide budgetary and fiscal oversight for State agencies.

DR/BCF – Disaster Recovery and Business Continuity Plan

A disaster recovery and business continuity plan is a documented process or set of procedures intended to recover and protect the information technology infrastructure in the event of a disaster.

ENC – 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.

NMERB – New Mexico Educational Retirement Board

NMERB is the agency of the State of New Mexico which administers the Educational Retirement Plan.

GASB – Government Accounting Standards Board

GASB is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments.

GFOA – Government Finance Officers Association

A professional membership organization open to those whose career, studies, or interests involve government financial management. The organization established the Certificate of Achievement for Excellence in Financial Reporting Program to ensure users of governmental financial statements have the information they need to assess the health of participating governments.

GL – General Ledger

A GL is the complete record of financial transactions over the life of the entity, holding the account information needed to prepare financial statements.

IC – Investment Committee

The NMERB IC is a subcommittee of the Board of Trustees charged with oversight of the investment function of the Plan.

IPA – Independent Public Accountant

The IPA is the certified public accounting firm used to audit the agency's books and records.

MD&A – Management Discussion and Analysis

Management's discussion and analysis is required supplementary information in an entity's annual report that introduces the financial statements and provides an analytical overview of financial activities.

NASRA – National Association of State Retirement Administrators

NASRA is a non-profit association whose members are the directors of the nation's state, territorial and largest statewide public retirement systems. NASRA members oversee retirement systems that hold more than two-thirds of the $3.8 trillion held in trust for fifteen million working and eight million retired employees of state and local government.

NAV – Net Asset Value

NAV is the value of an entity's assets minus the value of its liabilities.

NCPERS – National Conference on Public Retirement Systems

NCPERS is the largest trade association for public sector pension funds, representing more than 500 funds throughout the United States and Canada.

NCTR – National Council on Teacher Retirement

The NCTR is an independent organization dedicated to safeguarding the integrity of public retirement systems in the United States and its territories to which teachers belong and to promoting the rights and benefits of all present and future members of the systems.

NMAC – New Mexico Administrative Code

The NMAC represents the administrative laws of the State of New Mexico.

NMSA - New Mexico Statutes Annotated

The NMSA represents state statutes enacted by legislation.

NPL – Net Pension Liability

The NPL is the amount by which the total pension liability exceeds the pension plan's net assets.

PPCC – Pension Planning Coordinating Council

The PPCC is a coalition of three national associations that represent public retirement systems and administrators: National Association of State Retirement Administrators, National Council on Teacher Retirement, and National Conference on Public Employee Retirement Systems.

TPL – Total Pension Liability

The TPL is the total actuarial value of projected pension benefits attributable to past periods of employee service.

UAAL – Unfunded Actuarial Accrued Liability

The UAAL is the difference between accrued liabilities and the actuarial value of assets accumulated to finance an obligation, expressed in dollar amounts.

VD – Valuation Date, or Actuarial Valuation Date

The date as of which the value of the 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.

Contact Information

Santa Fe Office

701 Camino de Los Marquez
Santa Fe, New Mexico 87505
Tel: (505) 827-8030 Fax: (505) 827-1855 Toll free: (866) 691-2345

Albuquerque Office

6201 Uptown Boulevard, Suite 204
Albuquerque, New Mexico 87110
Tel: (505) 888-1560 Fax: (505)-830-2976 Toll free: (866) 691-2345

www.nmerb.org

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NMERB is providing secure retirement benefits for New Mexico's educational employees – past, present, and future.

This publication can be found on the NMERB's website.