

2015

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
PENSION TRUST FUND OF THE STATE OF NEW MEXICO





**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2015**

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

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New Mexico Educational Retirement Board

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New Mexico Educational Retirement Board

INTRODUCTORY SECTION

Professional Award

The Public Pension Coordinating Council (PPCC) awarded a **Pension Standards Award for Standards and Administration** for the fiscal year ended June 30, 2015. 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.



Public Pension Coordinating Council

Recognition Award for Administration

2015

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)

A handwritten signature in black ink that reads 'Alan H. Winkle'.

Alan H. Winkle

Program Administrator

New Mexico Educational Retirement Board

INTRODUCTORY SECTION

Executive Director's Letter

December 31, 2015

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

I am pleased to submit the fiscal year 2015 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. Moss Adams, LLP, Certified Public Accountants, have issued an unqualified opinion on the New Mexico Educational Retirement Board's financial statements for the years ended June 30, 2015 and 2014. The independent auditor's report is located at the beginning of the financial section of this report. Management's discussion and analysis (MD&A) follows the independent auditor's 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.

Highlights

The year resulted in modest growth for the New Mexico Educational Retirement Board Fund (Fund). The fair value of our public pension fund ended the year at \$11.4 billion, outperforming the policy index by 1.1% and ranking in the 25th percentile of its peers. Over the past five (5) years the Fund returned 10.1% per annum, outperforming the Plan's actuarially assumed rate of 7.75%. In fact, NMERB's net position increased \$151.6 million, or 1.34% when compared to June 30, 2014. NMERB preserved and sustained the integrity of its investment portfolio despite facing a year of turbulent markets.

The number of active members decreased slightly from 61,173 to 60,998, or .3%, while the retiree population increased from 42,246 to 44,043, or 4.3%. 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 in 2014 addressing both internal opportunities for improvement and environmental factors that affect the customers we serve. 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.

New Mexico Educational Retirement Board

INTRODUCTORY SECTION

Executive Director's Letter – Continued

During fiscal year ended June 30, 2015 NMERB successfully undertook several key Information Technology (IT) projects to position ourselves for growth in service delivery while improving the overall security of our data and our system. We completed the core retirement software upgrade, provided significant IT staff training, and began configuration of Oracle Database Appliance (ODA) hardware. These steps laid the groundwork for implementation of our Disaster Recovery Plan. Upon completion of the software upgrade, we immediately began the work of customizing the core application used throughout the organization to increase its functionality for staff, members, and participating employers.

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 2015 budget appropriation remained stable in comparison to the prior year, but supported renewed efforts to enhance our core retirement software application and begin building the basis of NMERB's Disaster Recovery and Business Continuity Plan (DR/BCP).

Financial Reporting and Systems

The integrity and fairness of the information presented in this CAFR, including data that 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, Moss Adams, LLC 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). Moss Adams, LLC 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.

New Mexico Educational Retirement Board

INTRODUCTORY SECTION

Executive Director's Letter - Continued

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 63.1% in fiscal year 2014 to 63.7% in fiscal year 2015. The increase was primarily due to the gain on the actuarial value of assets and the expected increase in the funded ration due to the level of contributions.

One of NMERB's primary revenue sources is employer and employee contributions from New Mexico public schools, colleges, and universities. 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 2015 were 9% higher than in the prior year due to higher contribution rates and higher covered salaries. The fiscal year 2015 combined total of the change in the fair value of investments, interest income, and dividends was \$441,407,961, as compared to \$1,458,091,251 in fiscal year 2014.

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.

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.

Respectfully submitted,



Jan Goodwin

Executive Director

New Mexico Educational Retirement Board

P O Box 26129

Santa Fe, NM 87502

Phone: (505) 827-8030

www.nmerb.org

New Mexico Educational Retirement Board

INTRODUCTORY SECTION

Chief Financial Officer's Letter

December 31, 2015

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

The fiscal year 2015 Comprehensive Annual Financial Report (CAFR) has been prepared in conformity with the authoritative guidance issued by the Governmental Accounting Standards Board (GASB) and the requirements of the Government Finance Officers Association's Certificate of Achievement for Excellence in Reporting Program. Management assumes full responsibility for the completeness and reliability of the information contained in this report, which is based on a comprehensive framework of internal control that it has established for this purpose. The New Mexico Educational Retirement Board (NMERB) maintains a system of internal controls designed to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed, and financial statements are reliable.

In addition to including the audited financial statements compiled for the fiscal years ended June 30, 2015 and 2014, this CAFR presents organization-wide narratives and financial summaries focused on strategic, operating, and environmental factors related to the Agency.

Agency Profile

NMERB was created by the Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer a qualified Educational Employees' Retirement Plan (Plan). The cost sharing, multi-employer Plan provides retirement, disability, and survivor benefits for public school employees, within New Mexico's universe of public grade schools, high schools, institutions of higher education, and state agencies with educational programs.

NMERB's primary customer services are prudent asset management, pension services and administration, and outreach and training for both membership and educational employers. The annual budget serves as the foundation for NMERB's approach to planning and control. The budget is managed within a single governmental fund to meet the needs of each of our functional areas. NMERB has offices in both Santa Fe and Albuquerque, New Mexico.

Long Term Planning and Initiatives

Our website enhancement and outreach initiatives are targeted to meet the Agency's mission to provide "secure retirement benefits for New Mexico's educational employees - past, present, and future."

NMERB is strengthening our interaction with and connection to our stakeholders by leveraging our website as a resource for on demand content and planning tools tailored to meet the needs of both active and retired members, employers, and other constituencies in New Mexico.

New Mexico Educational Retirement Board

INTRODUCTORY SECTION

Chief Financial Officer's Letter - Continued

NMERB introduced "New this Year" regional seminars on the Governmental Accounting Standards Board Statement 68 implementation for employer administrators throughout New Mexico to guide them through the new terminology, first year reporting expectations, and common discussion items for financial statement readers.

Respectfully submitted,



Dianne L. Rossbach

Chief Financial Officer

New Mexico Educational Retirement Board

P O Box 26129

Santa Fe, NM 87502

Phone: (505) 827-8030

www.nmerb.org

New Mexico Educational Retirement Board

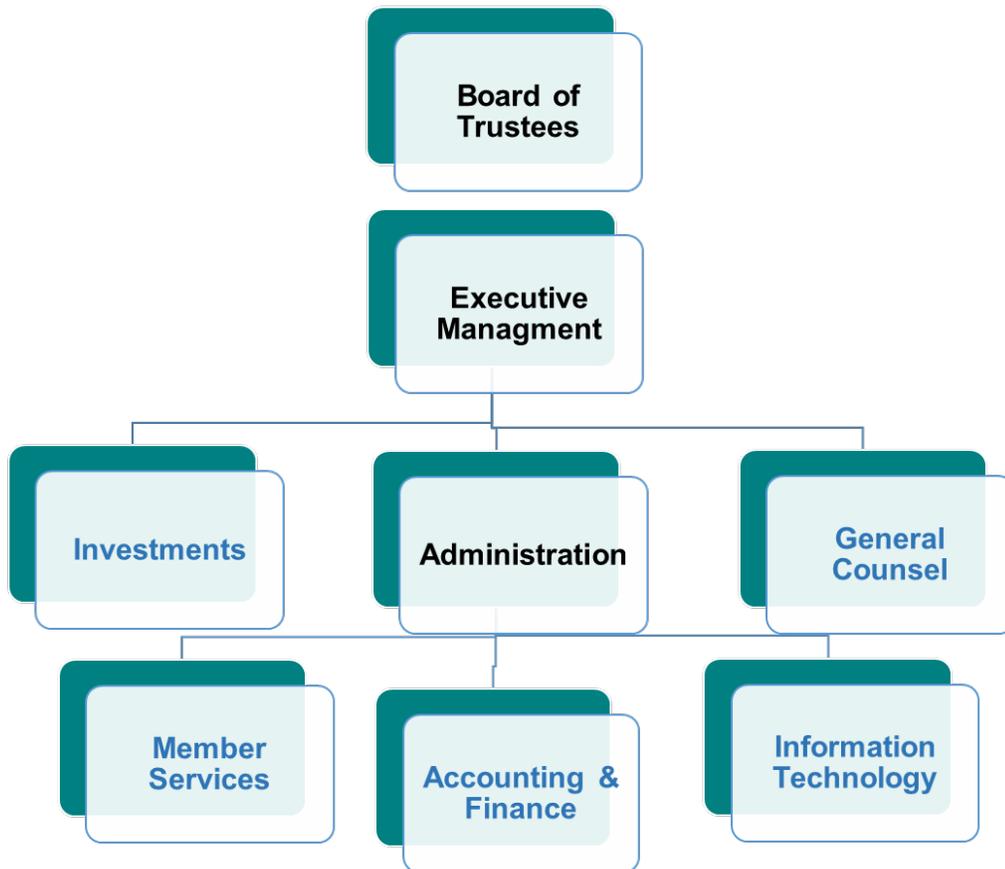
INTRODUCTORY SECTION

About NMERB

The New Mexico Educational Retirement Board (NMERB) is headquartered in Santa Fe, New Mexico to provide retirement benefit services to more than 146,000 members and 216 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. 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



New Mexico Educational Retirement Board

INTRODUCTORY SECTION

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.

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.

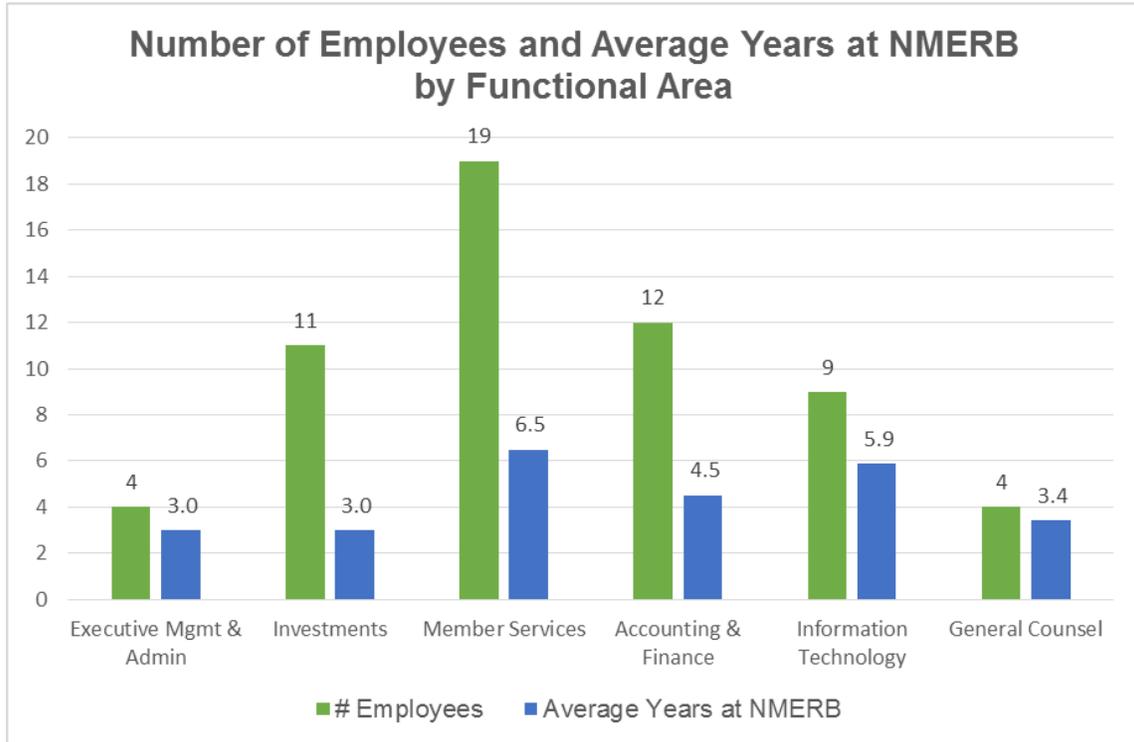
Information Technology

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.

New Mexico Educational Retirement Board

INTRODUCTORY SECTION

The NMERB Workforce



In fiscal year 2015 the Agency was budgeted for sixty-three (63) full-time permanent positions. As of the year end four (4) positions were vacant and under recruitment. NMERB focuses on maintaining qualified staff based on the diversity of internal functions and specialized skills required to deliver a high level of customer service to the membership. Management looks for opportunities to retain a skilled workforce by hiring from within when opportunities arise. Experience levels by work area shown in the table above demonstrate that this strategy is working.

New Mexico Educational Retirement Board

INTRODUCTORY SECTION

Our Staff as of June 30, 2015

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		Steve Neel
Deputy Investment Officer		Kay Chippeaux
Aaron Armstrong	Marla Medina	Christine Ortega
Mark Canavan	Alan Myers	Pete Werner
Rita Lopez		Spencer Wright
Legal Division		
General Counsel		Chris Bulman
Assistant Deputy Counsel		Robert Shulman
Amanda Olsen		Margo Salazar
Member Services		
Member Services		Kathy Webb
Retirement & Member Services		Karla Leyba
Pension Benefit Manager		Raul Duran
	Barbara Feeney	
Cordelia Anaya	Renee Garcia	Melissa McFall
Sara Cordova	Starlene Lucero	Shanda Valerio
Jocelyn Coriz	Jerome Lopez	Jennifer Vigil
Laura Crawforth	Jessica Maestas	Crystal Vigil
Joan Duran Kuck	Cynthia Martinez	Rosa Weese
Information Technology		
Chief Information Officer		Lawrence Esquibel
Arthur Acoya	Robert Hampton	Marinda Kippert
Frank Arrellano	Nicole Jaramillo	Matthew Martinez
Jonas Aylward		Bea Pacheco
Accounting and Finance		
Chief Financial Officer		Dianne L. Rossbach
Operations Manager		Debbi Lucero
School Reporting Manager		Megan Mannila
Accounting Manager		Dan Romero
Elizabeth Fischer	Kevin Long	Audra Mena
Rosalie Garcia	Michelle Lopez-Montoya	Angelina Romero
Mary Jane Hogin		David Roybal

New Mexico Educational Retirement Board

INTRODUCTORY SECTION

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
Mary Lou Cameron	Chairman	June 30, 2017
H. Russell Goff	Vice-Chairman	June 30, 2016
Hipolito J. Aguilar	Secretary, Designate for Hanna Skandera, Ex-officio Member	
Beulah Woodfin	Member	June 30, 2016
Larry Magid	Member	June 30, 2017
Hanna Skandera	Ex-officio Member	Secretary, Public Education Department
Tim Eichenberg	Ex-officio Member	New Mexico State Treasurer
Bradley Day	Member	June 30, 2015

New Mexico Educational Retirement Board

INTRODUCTORY SECTION

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.

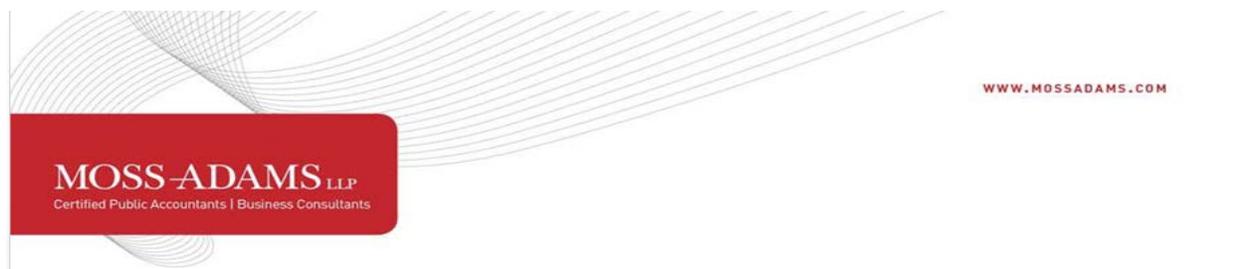
The budget is adopted on the modified accrual basis of accounting, except for prior year obligations approved for payment by the New Mexico Department of Finance and Administration (DFA) per Section 6-10-4 NMSA 1978.

New Mexico Educational Retirement Board

INTRODUCTORY SECTION

Key Consultants and Service Providers

Actuary	Gabriel Roeder Smith & Company 5605 N. MacArthur Blvd., Suite 870 Irving, TX 75038-2631
Auditor	Moss Adams LLP 6565 Americas Parkway NE Albuquerque, NM 87110
Internal Audit Services	REDW, LLC 7425 Jefferson St 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, PLLC 1111 Third Ave Seattle, WA 98101 Freedman Boyd Holander Goldberg Urias Ward 200 3 rd St NW, Suite 700 Albuquerque, NM 87102 Groom Law Group, Chartered 1701 Pennsylvania Avenue, NW Washington, DC 20006 K & L Gates, LLP 925 4 th Ave Suite 290 Seattle, WA 98104
Software Maintenance	ViTech Systems Group, LLC 401 Park Ave South New York, NY 10016



REPORT OF INDEPENDENT AUDITORS

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 accompanying Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position of the New Mexico Educational Retirement Board (the “ERB”) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the ERB’s basic financial statements 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.

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 auditor’s 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 ERB’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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Report of Independent Auditors - Continued

The Members of the State of New Mexico
Educational Retirement Board

and

Mr. Timothy M. Keller New
Mexico State Auditor

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the plan net position of the ERB as of June 30, 2015 and 2014, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability, schedule of employers' net pension liability, schedule of employer contributions, and schedule of investment returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Report of Independent Auditors - Continued

The Members of the State of New Mexico
Educational Retirement Board

and

Mr. Timothy M. Keller New
Mexico State Auditor

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on ERB's financial statements. The schedule of administrative, consultant, and budgeted investment expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is 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 basic financial statements 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, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

The introductory, investment, actuarial, and statistics sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic 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 November 12, 2015 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.

Mess Adams LLP

Albuquerque, New Mexico

November 12, 2015, except for consideration
of Other Information as to which the date is
March 9, 2016

New Mexico Educational Retirement Board

FINANCIAL SECTION

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT DISCUSSION AND ANALYSIS Year Ended June 30, 2015 and 2014

INTRODUCTION

Management has compiled this discussion and analysis of the financial activities of the New Mexico Educational Retirement Board (ERB) for the years ended June 30, 2015 and 2014. This narrative contains a discussion of reporting requirements, financial highlights and comparative information. Readers are encouraged to consider the information presented here in conjunction with the financial statements, the Notes, and other Required Supplementary Information.

FINANCIAL REPORTING REQUIREMENTS

ERB'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 include the following elements.

- **Statement of Fiduciary Net Position** – This section reports on the pension trust fund's assets, liabilities, and 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 funds at that point in time.
- **Statement of Changes in Fiduciary Net Position** – This section summarizes the pension trust fund's financial transactions that occurred during the fiscal year where Additions minus Deductions equals Net increase (decrease) in net position. This statement describes the changes that have occurred to the prior year's net position.
- **Notes to the Financial Statements** – This section is an integral part of the financial statements which includes additional information not readily evident within the statements themselves.
- The other sections, **Management Discussion and Analysis, Required Supplementary Information, and Other Supplementary Information** provide detailed and historical information considered useful in evaluating the financial condition of the Plan administered by ERB.

FINANCIAL HIGHLIGHTS -

- **GASB pronouncements:**

In June 2012 GASB issued Statement 68, "*Accounting and Financial Reporting for Pensions.*" This statement established new standards for accounting for pensions that apply to ERB's participating employers effective for implementation in periods after June 30, 2014. ERB published a separate report from these financials titled "*Schedule of Employer Allocations and Pension Amounts as of and for the year ended June 30, 2014*" to provide employers with the detail information they need to meet their individual reporting requirements. In conjunction with implementing the new employer requirements, ERB's management conducted a number of regional onsite and telephonic GASB 68 employer training seminars.

New Mexico Educational Retirement Board

FINANCIAL SECTION - Management Discussion and Analysis - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended June 30, 2015 and 2014

- **Net pension liability:** ERB's net pension liability for fiscal year 2015 is \$6,477,266,299. This represents a \$771,535,486, or 13.52%, increase from the fiscal year 2014 balance of \$5,705,730,813. The 2015 net pension liability stated as a percentage of covered payroll in 237.23%, up from 209.92% in fiscal year 2014. Changes in the net pension liability arise from changes in the total pension liability and from changes in the Plan's fiduciary net position. The net pension liability increase in fiscal year 2015 was primarily due to slowed growth in ERB's investment assets, consistent with results in worldwide markets.

The table below portrays ERB's fiduciary net pension liability, calculated using the current discount rate of 7.75% and what the net pension liability would be if the rate were 1% lower (6.75%), or 1% higher (8.75) than the current rate. The sensitivity analysis is shown for fiscal years 2015, 2014, and 2013.

Fiscal Year	Current Single		
	1% Decrease 6.75%	Rate Assumption 7.75%	1% Increase 8.75%
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
2013	\$ 8,286,923,513	\$ 6,276,852,149	\$ 4,599,162,126

- **Net position:** ERB's net fiduciary position increased \$151.6 million, or 1.34%, during fiscal year 2015, primarily due to appreciation in the fair market value of the markets. This improvement follows an increase of \$1,154.3 million, or 11.33% in the prior fiscal year. The primary element of ERB's net fiduciary position is the fair market value of the investment portfolio.

New Mexico Educational Retirement Board

FINANCIAL SECTION - Management Discussion and Analysis - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended June 30, 2015 and 2014

- **Return on investments:** For the year ending June 30, 2015, the investment fund returned 4.0%, outperforming the policy index by 1.1%. All asset classes were within ERB's target policy ranges as of June 30, 2015. Investment holdings ended the year totaling \$11,403,657, an increase of \$101.7 million over fiscal year 2014.

Condensed Investment Portfolio Analysis (000's)

	2015	2014
Cash & cash equivalents	\$ 545,162	275,693
Investments, fair value	10,858,495	11,026,292
Total	<u>\$ 11,403,657</u>	<u>11,301,985</u>

- **Fund performance:** Over the past five years, ERB's investment fund has returned 10.1% per annum, outperforming the policy index by 0.8%, and the Plan's actuarial assumed rate of 7.75%. The following table provides a summary of total fund performance (gross of fees) as of June 30, 2015.

Fund Performance Summary at June 30, 2015

1 Year	3 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
4.0%	9.8%	10.1%	6.9%	5.0%	7.4%	8.7%	9.2%

- **Investment fees:** Investment fees overall were lower in fiscal year ending June 30, 2015, when compared to fiscal year ending June 30, 2014. This is due in part to the lower investment income in fiscal year 2015. Total investment fees declined in fiscal year 2015 over 2014 by 21%, after having risen by 30% in fiscal year 2013.

Investment fees for 2015 totaled \$129,679,202, of that total \$18,078,167 was covered by the agency's operating budget and \$111,601,035 was deducted directly from investment account balances. The schedule below compares investment fees by fiscal year.

Comparative Investment Fees by Fiscal Year

	2015	2014	2013
Investment Fees Covered by Operating Budget	\$ 18,078,167	13,719,779	17,665,292
Fees Deducted from Account Balances	111,602,035	149,995,760	107,813,519
Total Investment Fees	<u>\$ 129,680,202</u>	<u>163,715,539</u>	<u>125,478,811</u>
Fees as a % of Prior Year	79%	130%	

ERB's Core Bonds Portfolio successfully transitioned to increase internal control over these securities and a lower fee structure, delivering an overall 50%-60% reduction in fees over those experienced during fiscal year 2014. The Fixed Income Portfolio was consolidated from three external managers to internal management in fiscal year 2015. Measured against fiscal year 2014 fees, this step resulted in a savings of \$1,018,600.

New Mexico Educational Retirement Board

FINANCIAL SECTION - Management Discussion and Analysis - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended June 30, 2015 and 2014

- **Receivables:** Total receivables for fiscal year 2015 increased \$92.4 million over the prior year. In fiscal year 2014, receivables had decreased by \$28.5 million over 2013. Total receivables are composed primarily of employer contributions and investment proceeds. The 2015 increase in contribution receivables is primarily due to an increase in the employer contribution rate from 13.15% to 13.90%, and the employee rate from 10.10% to 10.70%, as of July 1, 2014. The 2015 increase in investment proceeds receivables, and the 2014 decrease, relate to the volume of investments sold at or near 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 transaction will settle in three business days after initiation. The number of days varies in other U.S. and foreign securities markets.
- **Contributions:** Annual employer and employee contributions increased \$56.8 million, or 9.00%, during fiscal year 2015 after increasing \$82.7 million, or 15.08% in the prior year. Annual contribution rates vary year over year based on legislative rate changes, increases (or decreases) in the number of educators, and other economic factors. The combined total employer and employee contribution rates increased 2.95% in fiscal year 2014 over the rate for fiscal year 2013, and again in fiscal year 2015 by another 1.75%.
- **Benefit Payments:** ERB age and service payments to retirees, including disability benefit payments, increased \$52.5 million, or 6.04%, in fiscal year 2015 over 2014 results of \$56.6 million, or 6.98%. These increases mirror a consistent, though modest, increase in the retiree population and the compounding of cost of living adjustments (COLA) to annuity payments as retirees reach applicable age benchmarks.
- **Results of Operations:** ERB achieved operational success in several areas which were directly related to efficiency gains and budgetary cost reductions during fiscal year 2015. Significant achievements which contributed to these results: 1) three external fixed income portfolio managers were transitioned to internal management, decreasing portfolio management fees, and 2) successful upgrade of our core retirement software, increasing its functionality for staff, membership, and participating employers.
- **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. ERB serves its membership through prudent asset management, efficient administration, membership training, and reliable payment processing. In support of these desirable outcomes, ERB met all targeted goals for five year investment performance, training satisfaction, on-time payment processing, and benefit estimate volumes. Detailed AGA performance results are covered within Other Supplementary Information.

New Mexico Educational Retirement Board

FINANCIAL SECTION - Management Discussion and Analysis - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT DISCUSSION AND ANALYSIS Year Ended June 30, 2015 and 2014

CONDENSED FINANCIAL INFORMATION

Condensed Statement of Fiduciary Net Position (000,000's)							
				\$ Difference		% Difference	
	2015	2014	2013	FY15-FY14	FY14-FY13	FY15-FY14	FY14-FY13
Assets							
Cash & short term investments	\$ 953	487	747	466	(284)	95.6%	-63.1%
Receivables	229	136	165	92	(28)	67.9%	-17.3%
Interest in SGFIP	8	2	5	6	(4)	337.3%	-66.3%
Investments, fair value	10,858	11,026	9,439	(162)	1,587	-1.5%	16.8%
Capital assets - net	2	2	2	(0)	(0)	-1.2%	-6.8%
Total assets	<u>11,643</u>	<u>11,442</u>	<u>10,358</u>	<u>206</u>	<u>1,084</u>	<u>1.8%</u>	<u>10.5%</u>
Liabilities							
Current liabilities	145	96	166	49	(70)	50.7%	-42.2%
Total liabilities	<u>145</u>	<u>96</u>	<u>166</u>	<u>49</u>	<u>(70)</u>	<u>50.7%</u>	<u>-42.2%</u>
Net position restricted for pensions	<u>\$11,498</u>	<u>11,346</u>	<u>10,192</u>	<u>157</u>	<u>1,154</u>	<u>1.3%</u>	<u>11.3%</u>

New Mexico Educational Retirement Board

FINANCIAL SECTION - Management Discussion and Analysis - Continued

Condensed Statement of Changes in Fiduciary Position (000,000's)

	2015	2014	2013	\$ Difference		% Difference	
				FY15-FY14	FY14-FY13	FY15-FY14	FY14-FY13
Additions							
Contributions	\$ 688	631	548	57	83	9.0%	15.1%
Investment income less investing expenses	115	166	180	(51)	(14)	-30.6%	-7.7%
Net change in fair value of investments	308	1,279	837	(970)	441	-75.9%	52.7%
Other income	8	3	2	5	1	203.8%	41.3%
Total additions	<u>1,119</u>	<u>2,078</u>	<u>1,567</u>	<u>(959)</u>	<u>511</u>	<u>-46.1%</u>	<u>32.6%</u>
Deductions							
Benefit payments	921	868	812	52	48	6.0%	5.9%
Refunds-terminated members	36	39	42	(2)	6	-6.4%	14.3%
Administrative expenses	11	17	11	(6)	6	-36.2%	51.3%
Total deductions	<u>968</u>	<u>924</u>	<u>864</u>	<u>44</u>	<u>60</u>	<u>4.8%</u>	<u>6.9%</u>
Net increase (decrease)	152	1,154	703	(1,003)	452	-86.4%	64.3%
Net position restricted for pensions							
Beginning of the year	11,346	10,192	9,489	1,154	703	11.3%	7.4%
End of the year	<u>\$ 11,498</u>	<u>11,346</u>	<u>10,192</u>	<u>157</u>	<u>1,154</u>	<u>1.3%</u>	<u>11.3%</u>

New Mexico Educational Retirement Board

FINANCIAL SECTION - Management Discussion and Analysis - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT DISCUSSION AND ANALYSIS Year Ended June 30, 2015 and 2014

CURRENTLY KNOWN FACTS AND CONDITIONS

- **Actuarial Reporting:** The funding objective of the Plan is to meet long-term benefit obligations to current and future members through contributions and investment earnings. ERB's actuary prepares an annual actuarial valuation for accounting purposes. An actuarial experience study is performed on a biennial basis on six years of historical retirement data to provide assurance that the results are representative of the "business" cycle. The last actuarial experience study was performed as of June 30, 2014 and presented to the Board on June 12, 2015. An audit of the actuarial valuation is performed every three years to determine whether the process, results, and conclusions of the valuations are valid and appropriate. An audit of the June 20, 2013 actuarial experience study found the actuarial assumptions, methods, and procedures were reasonable, reflecting the benefit promises made to ERB members.

The actuarial experience study, presented to the Board of Trustees on June 12, 2015, compiled data for the six-year period ending June 30, 2014. The Board of Trustees approved the following assumptions which have been included in the fiscal year 2015 GASB 67 calculation:

- Lower wage inflation from 4.25% to 3.75%
 - Update the mortality tables with generational improvements
 - Update demographic assumptions to use currently published tables, which may result in minor calculation changes
 - No change in current 3.00% inflation assumption
 - Retain 4.75% net real return assumption
 - Retain 7.75% nominal return assumption
 - No change to current COLA assumption of 2.00% per year
 - Maintain current payroll growth assumption to 3.50%
 - Maintain experience-based rates for members who joined ERB by June 30, 2010
 - Remove population growth assumption for projections
 - Lower population growth assumption from .50% to zero (no impact on valuation results)
- **GASB 68 requirements for New Mexico agencies:** Fiscal year 2015 is the first year state agencies with educational programs, participating in the ERB Plan, will need to implement GASB 68 reporting and disclosure requirements. State agencies also have to consider the reporting and disclosure implications of participation in the State's Public Employees Retirement Association (PERA) Plan. Compliant with GASB 68, disclosure requirements apply to the primary government as a whole. Therefore, employer allocation information will be presented in the Component Appropriation Funds Annual Financial Report and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

New Mexico Educational Retirement Board

FINANCIAL SECTION - Management Discussion and Analysis - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT DISCUSSION AND ANALYSIS Year Ended June 30, 2015 and 2014

ERB is a statutory employer of the ERB Plan, and based on employees of record during the fiscal is a contributing member of both the ERB and PERA Plans. Pension expense and a proportionate share of both the ERB and the PERA Plans will be reflected in the State's financials. Additional disclosures can be found in the Notes to the Financial Statements.

- **Investment Risk Exposure:** At the close of fiscal year 2015, investment markets experienced increased volatility based on national and global economic trends. In formulating the Plan's investment strategy, ERB takes a long term perspective designed to meet the needs of our beneficiaries for many years to come. ERB seeks to diversify the risks contained in the investment portfolio among the many categories of assets available to institutional investors. ERB also manages liquidity to ensure the Plan's ability to meet continuing pension benefit obligations. ERB 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, ERB 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.

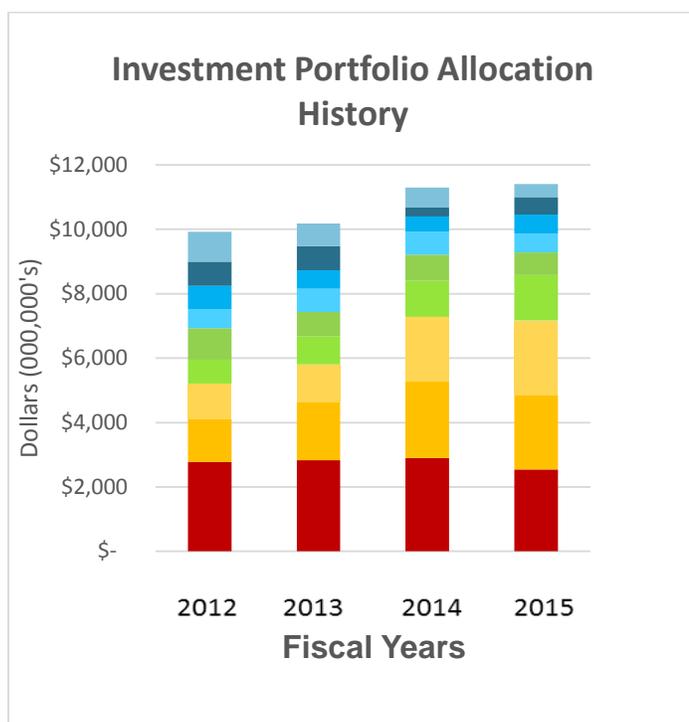
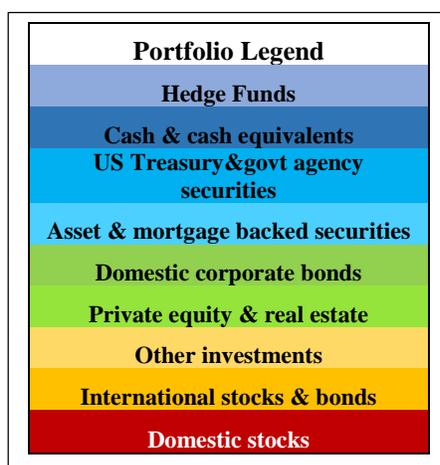
New Mexico Educational Retirement Board

FINANCIAL SECTION- Management Discussion and Analysis - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT DISCUSSION AND ANALYSIS Year Ended June 30, 2015 and 2014

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 2015. Target investment allocations are reviewed at least annually by the Board of Trustees. Additional detail on fiscal year 2015 targets is available in the Notes to the Financial Statements.



FINANCIAL CONTACT

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

New Mexico Educational Retirement Board

FINANCIAL SECTION – Statement of Fiduciary Net Position

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

STATEMENT OF FIDUCIARY NET POSITION

As of the Years Ended June 30, 2015 and 2014

	2015	2014
Assets		
Cash	\$ 407,371	211,310
Short term investments	<u>545,161,540</u>	<u>275,693,396</u>
Receivables		
Contributions	85,415,894	75,926,394
Investment sales proceeds-brokers	129,165,192	45,803,653
Interest and dividends	13,464,480	13,809,329
Other, net	<u>538,790</u>	<u>602,359</u>
Total receivables	<u>228,584,355</u>	<u>136,141,735</u>
Interest in State General Fund Investment Pool	<u>7,891,352</u>	<u>1,804,456</u>
Investments, at fair value		
Equities portfolio	4,418,573,519	4,880,406,054
Fixed income portfolio	2,312,860,829	2,376,028,405
Alternative investment portfolio	<u>4,127,060,293</u>	<u>3,769,857,465</u>
Total investments	<u>10,858,494,641</u>	<u>11,026,291,924</u>
Capital assets, at cost, net of accumulated depreciation	<u>2,003,792</u>	<u>2,028,628</u>
Total assets	<u>\$ 11,642,543,051</u>	<u>11,442,171,449</u>
Liabilities		
Accounts payable	\$ 4,600,052	4,371,357
Accounts payable school contributions	107,965	115,924
Accrued payroll and employee benefits	145,492	115,458
Accrued compensated absences	403,870	237,099
Refunds payable	1,260,934	2,613,132
Investment purchases payable	138,246,062	87,939,925
Funds held for others	<u>55,558</u>	<u>702,728</u>
Total liabilities	<u>144,819,933</u>	<u>96,095,625</u>
Net position restricted for pensions	<u>\$ 11,497,723,115</u>	<u>11,346,075,824</u>

See Accompanying Notes to Financial Statements

New Mexico Educational Retirement Board

FINANCIAL SECTION – Statement of Changes in Fiduciary Net Position

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD STATEMENT OF CHANGES IN FIDUCIARY NET POSITION As of the Years Ended June 30, 2015 and 2014

	2015	2014
Additions		
Contributions	<u>\$ 687,952,017</u>	<u>631,156,528</u>
Investment income from investing activities		
Net change in fair value of investments	308,403,714	1,278,664,135
Interest income	37,823,427	41,809,254
Dividend income	<u>95,180,820</u>	<u>137,617,862</u>
Total investing activity gain	<u>441,407,961</u>	<u>1,458,091,251</u>
Investing activity expenses:		
Investment advisor fees	(17,095,533)	(13,326,824)
Custody fees	<u>(982,634)</u>	<u>(392,955)</u>
Total investing activity expenses	<u>(18,078,167)</u>	<u>(13,719,779)</u>
Total net investment gain	<u>423,329,794</u>	<u>1,444,371,472</u>
Miscellaneous income		
Penalties	952	734
Interest on restoration of service	1,738,444	2,819,583
Other	<u>6,407,329</u>	<u>(138,859)</u>
Total miscellaneous income	<u>8,146,726</u>	<u>2,681,458</u>
Total additions	<u>1,119,428,538</u>	<u>2,078,209,458</u>
Deductions		
Age and service benefit payments	911,832,776	859,575,335
Refunds to terminated members	32,313,405	34,561,687
Interest on refunds	4,114,576	4,361,396
Administrative expenses	10,597,846	16,617,970
Disability benefit payments	<u>8,922,645</u>	<u>8,716,047</u>
Total deductions	<u>967,781,247</u>	<u>923,832,437</u>
Net increase (decrease)	151,647,291	1,154,377,021
Net position restricted for pensions		
Beginning of the year	<u>11,346,075,824</u>	<u>10,191,698,803</u>
End of the year	<u>\$ 11,497,723,115</u>	<u>11,346,075,824</u>

See Accompanying Notes to Financial Statements

New Mexico Educational Retirement Board

FINANCIAL SECTION - Notes

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 1. 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.

Cash Balances - ERB earns interest on all monies held at the 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, ERB's money is invested overnight in a Short-Term Investment Fund (STIF).

Investments - All investment securities are reported at fair value. Fair value is defined as the amount that a plan can reasonably expect to receive for an investment in a current sales 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 investments will occur in the near future and that changes could materially affect the amounts reported. The estimated fair value of investments is based on published market prices, prices obtained from pricing services, and prices quoted by independent brokers at current exchange rates. 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.

For investments where published or quoted market prices are not readily available, management has determined the estimated fair values based on the most recent valuations provided by the external investment managers, adjusted for cash receipts, cash disbursements, and securities distributions through June 30, 2015. Management believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Since alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

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.

ERB'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, 2015, ERB's additional future contribution commitments to limited partnerships totaled \$2.232 billion.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 ERB's administration building located in Santa Fe, New Mexico. ERB'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:

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

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 ERB, 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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 expenses.

The Accountability in Government Act, Chapter 15, Laws of 1999, requires implementation of performance-based budgeting over a four-year period. ERB 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. ERB is required to report annually to the SBD and the LFC on these performance measures. Performance results are included in Other Supplementary Information.

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

- (1) ERB 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 ERB'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.
- (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) ERB 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 ERB's operating budget is the enacted appropriation program.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds Held for Others - Payments from members pursuant to agreements to purchase service credit are recorded as funds held for others until the purchase agreements have been fully processed and all service is recorded in the member's individual account. Contribution and interest revenue are recognized when the agreement has been fully satisfied and recorded.

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 2015, as soon as the state's ledgers are available to process the new fiscal year's transactions.

Accounting Pronouncements - GASB 67, *Financial Reporting for Pension Plans* and GASB 68, *Accounting & Financial Reporting for Pensions (Employer)*, address new accounting and financial reporting requirements for pension plan activities. ERB is a cost-sharing multiple employer pension plan as defined by GASB 67. Changes have been implemented in compliance with GASB 67 to the presentation of financial statements, notes to financial statements, and required supplementary information. ERB elected to adopt and reflect these changes as of and for the year ended June 30, 2013. Implementation included the adoption of actuarial assumptions used to calculate ERB's total and net pension liability, comprehensive note disclosures regarding the actuarial calculation, and increased investment activity disclosures.

GASB 68 applies the changes implemented by GASB 67 to the employer level, segregating and allocating a portion of the Plan's collective net pension liability to each participating employer based on each employer's annual reported total employer contributions. GASB 68 is effective for fiscal years beginning after June 15, 2014. ERB has published the Plan's initial GASB 68 report entitled "**Schedule of Employer Allocations and Pension Amounts as of and for the year ended June 30, 2014**" at www.nmerb.org.

In compliance with the requirements of GASB 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 of the State of New Mexico, is a contributing employer to two cost-sharing multiple employer defined benefit pension plans. These are administered by the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB). Disclosure requirements for governmental funds apply to the primary as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial (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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Pension Liability of Plan Membership - The components of the net pension liability at June 30, 2015 and 2014, were as follows:

	2015	2014
Total pension liability	\$ 17,974,989,414	17,051,806,637
Plan fiduciary net position	(11,497,723,115)	(11,346,075,824)
Plan net pension liability	<u>\$ 6,477,266,299</u>	<u>5,705,730,813</u>
Plan fiduciary net position as a percent of total pension liability	63.97%	66.54%
Employer covered employee payroll	\$ 2,730,320,345	2,718,100,677
Net pension liability as a percentage of covered employee payroll	237.23%	209.92%

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 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, 2015 and 2014 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 ERB 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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Actuarial Assumption	Description
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Period	Amortized, closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5-year smoothed market
Inflation	3.00%
Salary Increases	Composition: 3.00% inflation, plus 1.25% productivity increase rate, plus step-rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table of age and service rates
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment, projected to 2015 using Scale AA (with one-year setback for females)

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

Discount Rate - A single discount rate of 7.75% was used to measure the total pension liability as of June 30, 2015 and 2014. This single discount rate was based on the expected rate of return on pension 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 sufficient to finance all projected future benefit payments of current Plan membership. 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 to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through Alternative Retirement Plan (ARP) are included in the projection of cash flows. ARP contributions are assumed to remain a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five-year contribution history.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015, 2014, and 2013. 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	Current Single		
	1% Decrease 6.75%	Rate Assumption 7.75%	1% Increase 8.75%
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
2013	\$ 8,286,923,513	\$ 6,276,852,149	\$ 4,599,162,126

NOTE 2. EDUCATIONAL RETIREMENT BOARD

Plan Description - ERB was created by New Mexico's Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, 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 Educational Retirement Act assigns the authority to establish and amend benefit provisions to the Board of Trustees; the state legislature has the authority to set or amend contribution rates and other terms of the Plan. The Plan is a pension trust fund of the State of New Mexico.

For the fiscal year ended June 30, 2015 and 2014 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
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%
2014	7-1-13 to 6-30-14	Over \$20K	10.10%	13.15%	23.25%	2.95%
2014	7-1-13 to 6-30-14	\$20K or less	7.90%	13.15%	21.05%	0.75%

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

The breakdown of contributing employers by reporting category for fiscal year 2015 and 2014 follows. The “State agencies “category includes the State of New Mexico as the common paymaster for all state agencies with educational programs, New Mexico Activities Association, and the nine New Mexico Regional Education Cooperatives.

Type	2015	2014
Public schools	89	89
Universities and colleges	15	15
Charter schools	97	98
Special schools	4	4
State agencies	11	11
Total	<u>216</u>	<u>217</u>

Reporting Entity - ERB is an agency of the State of New Mexico. The Plan administered by ERB is considered part of the State financial reporting entity and is a pension trust fund of the State. The Educational Retirement Act defines the governing Board of Trustees for ERB 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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

The criteria used to determine whether other state agencies, boards, or commissions that benefit the members of the Board should be included within its financial reporting entity as component units. The criteria include, but are not limited to, whether the Board of Trustees exercises oversight responsibility; financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters, scope of public service, and special financing relationships. Based on these criteria, management of the Board has determined that there are no component units that should be included in its financial reporting entity.

Participation—Membership in the Plan is a condition of employment. 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.

ERB served a total of 216 and 217 New Mexico educational employers in fiscal years 2015 and 2014, respectively. Active, retired, and inactive membership totaled 146,089 and 140,008 as of June 30, 2015 and 2014, respectively. The following schedule shows the number of members by category and year.

Schedule of Plan Membership by Year		
Membership Status	2015	2014
Active working members	60,998	61,173
Retirees and beneficiaries currently receiving benefits	44,043	42,246
Inactive members, vested	9,513	9,113
Inactive members, nonvested	31,535	27,476
Total	<u>146,089</u>	<u>140,008</u>

Benefit Provisions - A member's retirement benefit is determined by a formula which includes three component parts: the member's final average salary (FAS), the number of years of service credit, and 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 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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

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

- 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.
- The member has service credit totaling 30 years or more.

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.
- **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 benefit is adjusted by adding back the amount by which the benefit was reduced at retirement due to the election of Option B retroactively to the time of retirement.
- **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 benefit is adjusted by adding the amount by which the benefit was reduced at retirement due to the election of Option C retroactively to the time of retirement.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 2. EDUCATIONAL RETIREMENT BOARD (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 1.6%. 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 1.8%.

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:

- **Eligibility** - A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by the Board.
- **Monthly Benefit** - The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times years of service projected to age 60.
- **Form of Payment** - 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 member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

- **Disability Retirement** - A member with five or more years of earned service credit on deferred status may retire when eligible under the Rule of 75 or when the member attains age 65.

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 ERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board of Trustees. 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 - The New Mexico legislature established the Alternative Retirement Plan (ARP) through the enactment of Sections 22-11- 47 through 52 NMSA 1978. In contrast to the defined benefit plan administered by ERB, the ARP is a defined contributions plan. Information about the ARP is distributed by the employer to eligible employees; eligible employees must make the election to participate within ninety days of employment. Those who do not elect to participate in the ARP remain members of the regular defined benefit 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. ARP benefits are payable in accordance with the terms of the applicable contracts with vendors. Retirement benefits shall, at the option of the employee, be paid 1) in the form of a lifetime income, if held in an annuity contract, 2) payments for a term of years, or 3) a single-sum cash payment. Retirement, death, and other benefits are based upon contributions made and earnings on those contributions. Retirement, death, and other benefits, including disability benefits, cannot be paid from the funds administered by ERB.

For the year ended June 30, 2015, colleges and universities contributed 10.90% of participating employees' gross salary to the ARP vendor on behalf of the participant, and 3% of the annual gross salary to ERB. Employees participating in the ARP do not accrue rights to benefits in the defined benefit plan based on the 3% contributions to the Plan.

Employer contributions reported in the Statement of Changes in 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, 2015 and 2014 were \$5,362,304 and \$5,026,998 respectively. The colleges and universities are responsible for submitting the balance of the employers' contribution, and the employees' contributions directly to the ARP annuity vendors.

The vendors approved to offer ARP plans to eligible participants are Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF), and Fidelity Investments.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 3. GENERAL FUND INVESTMENT POOL UNRECONCILED (CONTINUED)

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 from 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's Financial Control Division 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 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 to fiscal year end 2014 and the months from January 2015 through June 2015. While work remains, the results are encouraging and the following assertions can be made:

- 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.

ERB believes the cash invested in STO's Overnight Pool is represented fairly and with no material misstatements due to reconciliation procedures performed by ERB. ERB 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.

ERB 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 ERB has control (i.e., collection, depositing, reconciling, and documentation of outstanding items) of the cash, 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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 4. INTEREST IN THE GENERAL FUND INVESTMENT POOL

ERB 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 ERB's business unit and fund number. ERB's cash balances are required to be managed by STO per Section 8-6-3 NMSA 1978. Accordingly, ERB's investments include an interest in the SGFIP equal to the cash balance on hand that is managed by STO. On June 30, 2015 and 2014, ERB had \$7,891,352 and \$1,804,456, 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, 2015 and 2014.

Cash Deposits - In addition to the overnight investment of funds deposited to the SGFIP at STO, ERB invests in the Short-Term Investment Fund (STIF) held by State Street. The STIF is used to facilitate more efficient trade procedures among ERB'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 \$545,161,540 and \$275,693,396 as of June 30, 2015 and 2014, respectively, are reported as cash and cash equivalent investment balances in ERB's statement of net position.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, ERB will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. ERB does not have a deposit policy for custodial credit risk. As of June 30, 2015 and 2014, there were no cash balances exposed to custodial credit risk.

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 ranging from less than one dollar to \$306,264. The original amount overpaid totaled \$1,691,929. IRS regulations require that every reasonable effort be made to recover these funds and that interest be assessed on the overpayments. The agency accrued a receivable as of June 30, 2011 for the total amount overpaid and has taken all reasonable actions to collect and settle these outstanding amounts. As of June 30, 2015, the uncollected balance including interest assessed, net of uncollectible amounts due to settlement, bankruptcy, or death, is \$287,376.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS

ERB 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 – ERB’s investment allocation policy was reviewed and amended by the Board of Trustees on June 14, 2014. 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 current asset allocation policy adopted on June 14, 2014 as well as the prior allocation policy targets.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Asset Class	Comparative Schedule of Target Investment Allocations	
	Target Allocation	
	After	Prior to
	6/14/2014	6/14/2014
Equities		
<i>Domestic Equities</i>		
Large cap equities	18%	20%
Small-mid cap equities	2%	2%
<i>International Equities</i>		
Developed	5%	5%
Emerging markets	10%	10%
Total equities	<u>35%</u>	<u>37%</u>
Fixed Income		
Opportunistic credit	20%	20%
Core bonds	6%	7%
Emerging market debt	2%	2%
Total fixed income	<u>28%</u>	<u>29%</u>
Alternatives		
Real estate - REITS	7%	5%
Real assets	8%	7%
Private equity	11%	8%
Absolute return	0%	3%
Global asset allocation	5%	5%
Risk parity	5%	5%
Total Alternatives	<u>36%</u>	<u>33%</u>
Cash	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

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, 2015 and 2014, the annual money-weighted rates of return on pension plan investments were 4.06% and 14.71%, respectively.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Investments held by ERB's agent in the name of ERB (excluding cash and cash equivalents) as of June 30 are described below:

Investments, at fair value	2015	2014
Non-U.S. government bonds	\$ 109,849,871	134,285,504
Non-U.S. corporate bonds	328,554,498	253,934,520
Private real estate	380,197,078	270,577,050
Hedge fund of funds	409,511,379	631,121,208
U.S. treasury securities	585,177,300	470,995,039
Asset and mortgage backed securities	587,797,042	713,450,132
Mutual funds	678,439,795	384,411,683
Domestic corporate bonds	701,482,119	803,363,210
Other investments	868,323,365	610,140,178
Limited partnership units	762,309,555	1,022,968,379
Private equity	1,028,279,120	850,638,968
International stocks	1,875,881,084	1,985,766,369
Domestic stocks	2,542,692,435	2,894,639,685
Total investments	<u>\$ 10,858,494,641</u>	<u>11,026,291,924</u>

Foreign Currency Risk - Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. Foreign currency risk is present in ERB's investment in foreign equity securities. Managers of these assets are given discretion to hedge this risk. ERB's exposure to foreign currency risk as of June 30, 2015 and 2014, was \$668,437,275 and \$897,957,814, respectively. Detail schedules reflecting foreign currency risk exposure by type of currency as of June 30, 2015 and 2014 are shown next.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 6. 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	3,205,018
Brazilian Real	10,226,578	27,664	10,254,242
British Pound Sterling	79,615,791	1,093,873	80,709,665
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	66,446,807
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	28,274	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	1,590,152
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	24,097,584
Thai Baht	8,086,954	1,990	8,088,945
Turkish Lira	13,864,884	182,153	14,047,037
Total foreign currency subject to risk	664,599,982	3,837,292	668,437,275
Investments not subject to risk	10,193,894,659	541,324,248	10,735,218,907
Total investments	<u>\$ 10,858,494,641</u>	<u>545,161,540</u>	<u>11,403,656,182</u>

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Schedule of Foreign Currency Risk Exposure as of June 30, 2014

Currency	Equity Securities	Cash (overdraft)	Net Foreign Currency Risk
Australian Dollar	\$ 23,077,159	3,317,644	26,394,803
Brazilian Real	41,050,490	55,677	41,106,167
British Pound Sterling	87,004,051	4,191,242	91,195,293
Canadian Dollar	1,790,449	110,833	1,901,282
Chilean Peso	204,866	-	204,866
Chinese Yuan	(21,691)	-	(21,691)
Chinese Yuan Renminbi	4,572	-	4,572
Colombian Peso	3,678,401	-	3,678,401
Czech Koruna	676,774	(3,677)	673,097
Danish Krone	5,054,160	-	5,054,160
Euro	219,461,000	(15,493,648)	203,967,352
Hong Kong Dollar	85,222,886	239,776	85,462,662
Hungarian Forint	7,520,755	(1,178,604)	6,342,151
Indian Rupee	41,767,803	41,531	41,809,334
Indonesian Rupiah	15,322,840	(2,692)	15,320,148
Israeli Shekel	1,643,785	-	1,643,785
Japanese Yen	55,059,307	46,343	55,105,650
Malaysian Ringgit	15,631,346	-	15,631,346
New Mexican Peso	20,398,514	48	20,398,562
New Romanian Leu	2,668,978	-	2,668,978
New Russian Ruble	51,547,278	104,930	51,652,208
New Taiwan Dollar	23,594,599	15,139	23,609,738
New Zealand Dollar	-	1,825	1,825
Nigerian Naira	2,044,615	-	2,044,615
Norwegian Krone	1,595,678	33,989	1,629,667
Peruvian Nuevo Sol	1,880,926	-	1,880,926
Philippine Peso	935,542	-	935,542
Polish Zloty	9,790,428	2,463	9,792,891
Qatari Rial	1,663,502	-	1,663,502
Russian Ruble	9,943,706	1,685,655	11,629,361
Singapore Dollar	7,271,795	3,579	7,275,374
South African Rand	39,150,858	(37,118)	39,113,740
South Korean Won	84,116,875	139	84,117,014
Swedish Krona	9,229,267	-	9,229,267
Swiss Franc	23,410,496	(189,900)	23,220,596
Thai Baht	11,620,628	-	11,620,628
Total foreign currency subject to risk	905,012,640	(7,054,826)	897,957,814
Investments not subject to risk	10,121,279,284	282,748,222	10,404,027,506
Total investments	<u>\$ 11,026,291,924</u>	<u>275,693,396</u>	<u>11,301,985,320</u>

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, ERB will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. All securities are held by ERB's custody bank in the name of ERB.

All investments were held by State Street (Boston, Massachusetts) during fiscal year 2015 in the name of ERB, once transitioned from the prior custody bank on July 1, 2014. During the prior fiscal year investments were held by J.P. Morgan (Dallas, Texas) in the name of ERB.

Interest Rate Risk - Interest rate risk relates to changes in interest rates that will adversely affect the fair value of an investment. ERB does not have a policy for interest rate risk management. This risk is managed through duration, by operating within defined risk parameters. ERB uses a weighted average method to determine the duration of its investments.

Schedule of Interest Rate Risk

Investment Type	Duration (Years)			
	2015	2014	2015	2014
U.S. treasury securities	\$ 336,182,244	328,169,191	6.11	5.83
U.S. government & government related obligations	246,231,807	53,982,302	4.25	3.47
International government obligations	230,542,041	58,451,211	7.89	5.61
Corporate obligations	903,877,940	1,025,740,824	3.77	2.95
Asset & mortgage backed securities	202,893,562	174,130,475	2.63	1.30
Short term investments	-	60,069,681	0.00	0.02
Total	<u>\$1,919,727,594</u>	<u>1,700,543,684</u>	<u>4.21</u>	<u>3.75</u>

Concentration Risk - Concentration risk is identified by the amount of investment in any one issuer that represents 2% or more of the fiduciary net position. As of June 30 2015 and 2014, with the exception of U.S. Government and Agency securities, ERB was not exposed to any concentration risk greater than 2%.

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 defined parameters versus a benchmark index. Excluding those investments issued by, or explicitly guaranteed by, the U.S. government, which are not considered to have credit risk, ERB's credit quality distribution for investments with credit risk exposure at June 30, 2015 and 2014, is presented in the Summary of Investments by Rating schedule. ERB'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, 2015 and 2014. Detail schedules of investments by category and credit risk follow.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Summary of Investments Subject to Credit Risk, at fair value		
Investment Description	2015	2014
Total asset & mortgage-backed securities	\$ 283,762,353	202,803,501
Total collateralized debt obligations	27,037,901	23,230,839
Total corporate securities	685,421,361	743,829,734
Subtotal bank loans	190,088,441	268,325,647
Subtotal municipal & provincial bonds	13,082,965	13,478,081
Subtotal foreign government bonds	108,379,521	158,240,206
Subtotal treasury bills	24,564,500	1,256,110
Total other fixed income	156,419,763	20,504,340
Other investments not subject to credit risk	9,369,737,836	9,594,623,466
Grand total investments, at fair value	<u>\$ 10,858,494,641</u>	<u>11,026,291,924</u>

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

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year					
Investment Type	Rating	2015	Rating	2014	
Asset & mortgage-backed securities					
Asset-backed securities	A	\$ 1,099,316	A	2,550,282	
	A-	-	A-	854,815	
	A+	-	A+	195,539	
	AA+	-	AA+	1,378,301	
	AAA	3,241,584	AAA	2,381,679	
	B	691,149	B	-	
	B-	-	B-	612,869	
	BB+	-	BB+	877,807	
	BBB	494,094	BBB	631,958	
	BBB-	-	BBB-	239,610	
	BBB+	-	BBB+	769,620	
	CC	1,153,757	CC	20,746	
	CCC	-	CCC	1,540,467	
	CCC-	322,826	CCC-	407,060	
D	164,786	D	251		
NR	2,986,418	NR	3,748,066		
Subtotal asset-backed securities		10,153,930		16,209,069	
Commercial mortgage-backed securities	A	2,826,195	A	3,299,452	
	A-	367,461	A-	509,665	
	A+	875,115	A+	4,390,579	
	AA	3,046,656	AA	5,001,021	
	AA+	3,381,924	AA+	834,653	
	AAA	4,867,260	AAA	14,339,622	
	B	1,114,049	B	514,213	
	B-	500,560	B-	458,215	
	B+	654,660	B+	829,051	
	BB	52,541	BB	54,391	
	BB+	165,788	BB+	173,577	
	BBB-	1,050,608	BBB-	8,627,366	
	BBB+	4,960,198	BBB+	11,761,347	
	CCC	-	CCC	674,453	
CCC+	-	CCC+	226,626		
D	-	D	842,095		
NR	8,260,028	NR	8,173,049		
Subtotal commercial mortgage-backed		32,123,043		60,709,376	
Non commercial mortgage-backed securities	AA-	1,105,129	AA-	-	
	AA+	232,695,452	AA+	122,521,250	
	NR	4,735,165	NR	-	
Subtotal non commercial mortgage-backed		238,535,746		122,521,250	
Residential mortgage-backed	CCC	2,949,634	CCC	3,363,806	
Total asset & mortgage-backed securities		\$ 283,762,353		202,803,501	

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year				
Investment Type	Rating	2015	Rating	2014
Collateralized debt obligations				
Collateralized debt-loan obligations	AA-	\$ 83,773	AA-	2,835,345
	AA+	2,832,141		-
	B	-	B	1,664,100
	B-	649,766	B-	645,737
	B+	1,818,900	B+	-
	BB	531,576	BB	730,232
	BB+	1,054,040	BB+	2,213,050
	BBB+	-	BBB+	474,071
	CCC	373,307	CCC	-
	CCC+	635,976	CCC+	728,997
	NR	1,638,913	NR	1,851,184
Subtotal collateralized debt-loan		9,618,393		11,142,716
Collateralized mortgage obligation/REMIC	A-	869,879		-
	A+	757,939	A+	565,209
	AA	2,226,577	AA	-
	AA-	352,351	AA-	-
	AA+	-	AA+	836,513
	AAA	2,034,580	AAA	1,970,250
	B	-	B	675,894
	BBB	-	BBB	1,025,729
	BBB-	1,695,616	BBB-	1,337,587
	BBB+	466,384	BBB+	581,623
	CC	761,247	CC	846,772
CCC	-	CCC	966,135	
D	555,888	D	2,194,884	
	NR	7,699,047	NR	1,087,526
Subtotal collateralized mortgage obligation/R		17,419,508		12,088,123
Total collateralized debt obligations		\$ 27,037,901		23,230,839

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year					
Investment Type	Rating	2015	Rating	2014	
Corporate securities					
Corporate bonds	A	\$ 32,536,377	A	35,525,907	
	A-	60,868,317	A-	73,579,414	
	A+	15,750,496	A+	13,581,147	
	AA	4,493,496	AA	2,850,945	
	AA-	13,561,582	AA-	7,577,036	
	AA+	5,502,444	AA+	4,917,261	
	AAA	3,859,182	AAA	373,031	
	B	30,340,803	B	14,610,140	
	B-	45,442,098	B-	58,470,962	
	B+	11,501,904	B+	8,408,611	
	BB	3,986,095	BB	1,565,433	
	BB-	787,193	BB-	2,624,787	
	BB+	17,909,299	BB+	12,155,066	
	BBB	71,922,281	BBB	69,839,101	
	BBB-	58,040,638	BBB-	58,488,780	
	BBB+	83,256,376	BBB+	69,048,894	
	C	2,569,968	C	2,969,250	
	CC	13,050	CC	571,200	
	CCC	9,779,349	CCC	15,971,976	
	CCC-	7,842,654	CCC-	25,730,506	
CCC+	64,233,090	CCC+	42,867,696		
D	10,959,855	D	8,180,217		
NR	38,098,600	NR	102,262,848		
Subtotal corporate bonds		593,255,149		632,170,208	
Corporate convertible bonds	CCC	1,899,333		-	
	NR	11,125,350	NR	13,631,012	
Subtotal convertible bonds		13,024,684		13,631,012	
Common stock	N/A	75,492,827	N/A	92,993,837	
Preferred stock	D	683,692	D	730,209	
	NR	2,965,010	NR	4,304,468	
Subtotal preferred stock		3,648,702		5,034,677	
Total corporate securities		\$ 685,421,361		743,829,734	

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Bank Loans, Bonds, and Treasury Bills				
Bank loans	B	\$ 2,278,929	B	7,174,861
	B-	29,826,271	B-	14,868,320
	B+	5,213,763	B+	14,210,746
	BB	230,234		-
	BB-	2,402,156	BB-	(110,712)
	BB+	2,424,224		
	CCC	6,751,736	CCC	10,696,722
	CCC-	2,938,487	CCC-	6,807,880
	CCC+	21,743,380	CCC+	25,748,680
	D	10,713,862	D	14,819,805
	NR	105,565,399	NR	174,109,344
Subtotal bank loans		190,088,441		268,325,647
Municipal & provincial bonds	A	-	A	2,258,611
	A-	7,411,718	A-	6,230,958
	A+	-	A+	2,252,107
	AA	-	AA	1,545,951
	AA-	184,322	AA-	991,191
	AA+	1,483,605	AA+	199,264
	CCC-	2,623,656	CCC-	-
	NR	1,379,664	NR	-
Subtotal municipal & provincial bonds		13,082,965		13,478,081
Foreign government bonds	A	18,630,179	A	25,111,778
	A-	7,291,537	A-	10,510,943
	AA-	1,396,745	AA-	3,429,431
	AA+	1,824,238	AA+	21,579,345
	AAA	3,005,640	AAA	622,139
	B-	-	B-	294,000
	B+	486,983	B+	-
	BB	-	BB	7,511,959
	BB+	5,302,387	BB+	1,312,986
	BBB	2,287,012	BBB	12,152,394
	BBB-	7,262,045	BBB-	3,638,846
	BBB+	24,821,102	BBB+	19,951,968
	CCC	161,175	CCC	-
	CCC-	691,538	CCC-	-
NR	35,218,942	NR	52,124,417	
Subtotal foreign government bonds		108,379,521		158,240,206
Treasury bills	BBB+	-	BBB+	398,297
	NR	24,564,500		857,813
Subtotal treasury bills		24,564,500	NR	1,256,110
Total bank loans, bonds, and treasury bills		\$ 336,115,428		441,300,044

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 6. INVESTMENTS (CONTINUED)

Investments (Excluding Cash), at fair value, by Credit Risk Rating and Year				
Investment Type	Rating	2015	Rating	2014
Other Investments				
Other fixed income	AAA	\$ (10,254,111)	AAA	-
	B	1,312,405	B	-
	B/B-	139,159,637	B/B-	-
	B-	5,110,316	B-	9,241,025
	B+	3,612,788	B+	-
	BB	3,019,170	BB	-
	BB+	204,496	BB+	2,072,892
	BBB-	821,496	BBB-	-
	C	139,394	C	-
	CC	91,378	CC	-
	CCC-	70,351	CCC-	-
	CCC+	637,328	CCC+	-
	D	142,924	D	-
NR	12,352,191	NR	9,190,422	
Total other fixed income		\$ 156,419,763		20,504,339
Other investments not subject to credit risk		\$ 9,369,737,836		9,594,623,466
Grand total investments, at fair value		\$10,858,494,641		11,026,291,924

Cash Balances - ERB earns interest on all monies held at the 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, ERB's money is invested overnight in a Short-Term Investment Fund (STIF).

NOTE 7. 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.

ERB's investment policies do allow for certain 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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

The following table summarizes the aggregate notional or contractual amounts related to ERB's derivative financial instruments as of June 30, 2015 and 2014.

Notional Amounts, fair value (000's)		
Description	2015	2014
Futures contracts - long	\$ -	1,043
Futures contracts - short	-	37,743
Foreign exchange forward contracts, net	107,160	200,722
Swaps - credit default swap	-	1,870
Swaps - index swap	-	227
Swaps - interest rate swap	32,023	-

The fair values of derivative instruments outstanding as of June 30, 2015 and 2014 are classified by type and by the changes in fair value of the derivative instrument in the following table.

Unrealized Gain/(Loss) at fair value 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 swap	Investment Income	(30)	Investment	-
Swaps - index swaps	Investment Income	-	Investment	-
Swaps - interest rate swaps	Investment Income	359	Investment	(66)

Unrealized Gain/(Loss) at fair value as of June 30, 2014 (000's)				
Derivative Type	Classification	Gain/(Loss)	Classification	Amount
Futures	Investment Income	\$ (216)	Investment	(304)
Options - purchased	Investment Income	9	Investment	9
Options - sold	Investment Income	(15)	Investment	(15)
Swaps - credit default swap	Investment Income	(51)	Investment	24
Swaps - index swaps	Investment Income	(6)	Investment	23
Swaps - interest rate swaps	Investment Income	-	Investment	-

Derivative Risks - There are certain risks inherent in investments in derivatives. ERB 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. This ensures derivative contracts are made with high quality institutions. ERB is exposed to market risk in the event that changes in market conditions cause investments to decline in value. Exposure to market risk 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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

Foreign Currency Exchange Contracts - ERB may enter into forward contracts to purchase and sell foreign currencies in the normal course of its investing activities to manage the currency exposure associated with ERB'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 entered into with a limited number of highly rated counterparties. The following tables summarize ERB's foreign exchange contracts by currency as of June 30, 2015 and 2014.

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
Hong Kong Dollar	-	-	-	-
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	<u>\$ 52,733,561</u>	<u>(232,904)</u>	<u>54,426,001</u>	<u>66,307</u>

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

Summary of Foreign Exchange Contracts by Currency at June 30, 2014

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Australian Dollar	\$ -	88,000	-	(99,374)
Brazilian Real	20,964,000	230,000	-	(247,220)
British Pound Sterling	-	-	44,148,957	(24,123)
Canadian Dollar	-	3,000	-	(27,255)
Chilean Peso	775,000,000	11,000	-	(41,318)
Chinese Renminbi Yuan	27,400,000	(62,000)	813,000,000	20,971
Colombian Peso	7,605,303,000	86,000	6,500,000	(46,801)
Euro	1,378,000	22,000	4,373,202,348	164,170
Hungarian Forint	500,175,000	118,000	-	31,714
Indian Rupee	213,300,000	(36,000)	507,971,281	(616)
Indonesian Rupiah	7,700,000,000	(19,000)	101,000,000	45,692
Japanese Yen	-	361,000	19,076,928,115	(116,057)
Malaysian Ringgit	5,431,000	22,000	-	(358)
Mexican Peso	75,215,000	383,000	530,338	(418,848)
Taiwan Dollar	-	5,000	2,023,802	(4,652)
Peruvian Nuevo Sol	594,000	(2,000)	8,536,143	(2,155)
Philippine Peso	19,152,000	76,000	-	(119,739)
Polish Zloty	9,555,000	25,000	16,700,000	(27,381)
Romanian Leu	1,168,000	9,000	15,892,914	(3,821)
Russian Ruble	52,067,000	92,000	3,156,846	(592,657)
Singapore Dollar	-	47,000	201,968,139	(111,306)
South African Rand	14,958,000	(3,000)	4,700,000	2,123
South Korean Won	-	74,000	23,032,372	(70,376)
Swiss Franc	-	-	1,607,511	(12,539)
Thai Baht	30,591,000	5,000	38,600,000	3,072
Turkish Lira	8,453,000	45,000	-	(29,944)
U.S. Dollar	52,013,000	-	48,065,216	-
Total	<u>\$ 17,112,717,000</u>	<u>1,580,000</u>	<u>25,287,563,982</u>	<u>(1,728,798)</u>

Futures Contracts – ERB 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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

During 2015 and 2014, ERB 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 ERB, depending on the daily fluctuation in the value of the underlying contracts. No U.S. Treasury securities owned and included within ERB’s investments, were held by the Plan’s broker as performance security on futures contracts as of June 30, 2015.

Summary of Outstanding Futures Contracts - 2015

There were no outstanding contracts as of fiscal year ending June 30, 2015.

Summary of Outstanding Futures Contracts - 2014

	<u>No. of Contracts</u>	<u>Notional Amount</u>
Futures contracts - long	148	\$ 1,052,500
Futures contracts - short	509	\$ 37,742,500
		<u>Fair Value</u>
Margin Deposit		\$ 750,061

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 ERB 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. As of June 30, 2015, there were no open written or purchased options.

Swap Contracts - Swap contracts are executed on a number of different bases. ERB employed both interest rate swap contracts and credit default swap contracts on June 30, 2015 and June 30 2014. 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. ERB 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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

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

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 ERB for investment purposes. The assets presented by investment category, at fair value, are as follows:

Schedule of Asset -Backed Securities at fiscal year end June 30, 2015 and 2014

	2015	2014
Asset-Backed Securities	\$ 31,418,787	17,759,591
Collateralized Debt/Loan Obligations	9,618,393	11,142,716
Non-Agency Mortgage-Backed Securities	51,000,651	75,112,042
Total	<u>\$ 92,037,831</u>	<u>104,014,349</u>

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

NOTE 8. 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. Depreciation expense was \$157,733 and \$168,880 for the years ended 2015 and 2014, respectively. A schedule of capital asset activity for the years ended June 30, 2015 and 2014 is shown below.

Fiscal year 2015	Schedule of Capital Asset Activity			Ending Balance
	Beginning Balance	Additions	Deletions	
Capital Assets				
Land	\$ 248,172			248,172
Depreciable land improvements	19,361			19,361
Building and building improvements	3,365,714			3,365,714
Furniture and equipment	1,059,149	139,700	274,909	923,940
Other assets	30,500			30,500
Retirement Information System (IRIS)	9,115,909			9,115,909
Subtotal	<u>13,838,805</u>	<u>139,700</u>	<u>274,909</u>	<u>13,703,596</u>
Accumulated depreciation:				
Depreciable land improvements	7,043	699		7,743
Building and building improvements	1,717,236	101,435	-	1,818,672
Furniture and equipment	935,366	55,599	268,106	722,859
Retirement Information System (IRIS)	9,150,531		-	9,150,531
Subtotal	<u>11,810,177</u>	<u>157,733</u>	<u>268,106</u>	<u>11,699,805</u>
Capital assets - net	<u>\$ 2,028,628</u>	<u>(18,033)</u>	<u>6,803</u>	<u>2,003,792</u>

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 8. CAPITAL ASSETS (CONTINUED)

Fiscal year 2014	Schedule of Capital Asset Activity			Ending Balance
	Beginning Balance	Additions	Deletions	
Capital Assets				
Land	\$ 248,172	-	-	248,172
Depreciable land improvements	19,361	-	-	19,361
Building and building improvements	3,365,714	-	-	3,365,714
Furniture and equipment	1,082,574	-	23,425	1,059,149
Other assets	30,500	-	-	30,500
Retirement Information System	9,156,963	21,548	62,602	9,115,909
Subtotal	<u>13,903,284</u>	<u>21,548</u>	<u>86,027</u>	<u>13,838,805</u>
Accumulated depreciation:				
Depreciable land improvements	5,721	1,322	-	7,043
Building and building improvements	1,616,025	101,211	-	1,717,236
Furniture and equipment	948,798	8,398	21,830	935,366
Retirement Information System	9,156,963	57,949	64,381	9,150,531
Subtotal	<u>11,727,507</u>	<u>168,880</u>	<u>86,211</u>	<u>11,810,177</u>
Capital assets - net	<u>\$ 2,175,777</u>	<u>(147,332)</u>	<u>(183)</u>	<u>2,028,628</u>

NOTE 9. 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, 2015 and 2014.

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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 10. RETIREMENT PLANS

ERB 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 ERB 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. ERB is required to contribute 16.99% of the gross covered salary. The contribution requirements for plan members and ERB are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. Total contributions from ERB and Plan members to PERA for fiscal years ended June 30, 2015 and 2014, were \$812,740 and \$709,380, 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. ERB 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). ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. The report is available at www.nmerb.org.

ERB Funding Policy –

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.

2014 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 is over \$20,000 are required to contribute 10.1% of their gross salary.

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.

2014 Employer Contributions – Employers contribute 13.15% of the gross covered salary for employees whose annual salary was \$20,000 or less, and 13.15% of the gross covered salary for employees whose salary exceeded \$20,000.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 10. RETIREMENT PLANS (CONTINUED)

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 ERB and Plan members to the Plan for fiscal years ended June 30, 2015 and 2014, were \$9,221 and \$2,623, respectively.

NOTE 11. POST-EMPLOYMENT BENEFITS - RETIREE HEALTH CARE PLAN

Plan Description: ERB 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. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle Blvd NE, Suite 104, Albuquerque, NM 87107-4849 or at <https://www.nmrhca.state.nm.us>.

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.

New Mexico Educational Retirement Board

FINANCIAL SECTION – Notes - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2015 and 2014

NOTE 11. POST-EMPLOYMENT BENEFITS-RETIREE HEALTHCARE PLAN (CONTINUED)

The employer, employee and retiree contributions are required to be remitted to RHCA on a monthly basis. The requirements of the plan can be amended by acts of the legislature.

The Retiree Health Care Act (Section 10-7C-15, NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was 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, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

ERB's employer contributions to RHCA for the years ending June 30, 2015 and 2014 were \$63,497 and \$55,678, respectively. Employee contributions were \$31,748 and \$36,915 respectively.

NOTE 12. RISK MANAGEMENT

ERB 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 13. 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. ERB had no open appropriations as of fiscal year end 2015.

REQUIRED SUPPLEMENTARY INFORMATION

New Mexico Educational Retirement Board

FINANCIAL SECTION – RSI - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY Years Ended June 30, 2015 and 2014

	2015	2014
Total Pension Liability		
Service cost	\$ 346,956,028	350,247,724
Interest	1,321,047,780	1,254,730,237
Benefit changes	-	-
Difference between actual & expected experience	(86,722,485)	(114,507,809)
Assumption changes	299,084,856	-
Benefit payments and refunds	(957,183,402)	(907,214,467)
Net Change in Pension Liability	<u>923,182,777</u>	<u>583,255,685</u>
Total Pension Liability - Beginning	<u>17,051,806,637</u>	<u>16,468,550,952</u>
Total Pension Liability - Ending (a)	<u>\$ 17,974,989,414</u>	<u>17,051,806,637</u>
Plan Fiduciary Net Position		
Employer contributions	\$ 395,129,621	362,462,537
Member contributions	292,822,396	268,693,991
Pension plan net investment income	423,329,794	1,444,371,472
Benefit payments and refunds	(957,183,402)	(907,214,467)
Pension plan administrative expense	(10,597,846)	(16,617,970)
Other	8,146,727	2,681,458
Net change in plan fiduciary net position	<u>151,647,291</u>	<u>1,154,377,021</u>
Plan fiduciary net position - beginning	<u>11,346,075,824</u>	<u>10,191,698,803</u>
Plan fiduciary net position - ending (b)	<u>\$ 11,497,723,115</u>	<u>11,346,075,824</u>
Net pension liability (a-b)	<u>\$ 6,477,266,299</u>	<u>5,705,730,813</u>
Plan fiduciary net position as a percentage of total pension liability	63.97%	66.54%
Covered employee payroll	\$ 2,730,320,345	2,718,100,677
Net pension liability as a percentage of covered employee payroll	237.23%	209.92%

Notes to schedule:

The change in total pension liability due to assumption changes for the fiscal year ending June 30, 2015 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, 2015 and 2014.

New Mexico Educational Retirement Board

FINANCIAL SECTION – RSI - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF EMPLOYER'S NET PENSION LIABILITY Years Ended June 30, 2015 and 2014

	2015	2014
Total pension liability	\$ 17,974,989,414	17,051,806,637
Plan fiduciary net position	(11,497,723,115)	(11,346,075,824)
Employer net pension liability	<u>\$ 6,477,266,299</u>	<u>5,705,730,813</u>
Plan fiduciary net position as a percent of total pension liability	63.97%	66.54%
Employer covered employee payroll	\$ 2,730,320,345	2,718,100,677
Net pension liability as a percentage of covered employee payroll	237.23%	209.92%

New Mexico Educational Retirement Board

FINANCIAL SECTION – RSI - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF INVESTMENT RETURNS

Fiscal Year Ending	Annual Money - Weighted Rate of Return
2015	4.06%
2014	14.71%
2013	11.12%
2012	1.87%
2011	19.30%

Note

Governmental Accounting Standards Board (GASB) Statement 67 requires pension plans to disclose the annual money-weighted rate of return. This figure incorporates both the size and the timing of cash flows to determine an internal rate of return. The money-weighted rate of return 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. The rate should be computed net of investment expenses but not net of administrative expenses.

New Mexico Educational Retirement Board

FINANCIAL SECTION – RSI - Continued

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
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	\$ 181,042,796	\$ 2,706,170,349	11.07%

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 1.25% 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 ERB on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment, projected to 2015 using Scale AA (with one-year setback for females)

OTHER SUPPLEMENTARY INFORMATION

New Mexico Educational Retirement Board

FINANCIAL SECTION – OSI

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF ADMINISTRATIVE, CONSULTANT, AND BUDGETED INVESTMENT EXPENSES

	2015
Personal Services and Benefits	
Salaries	\$ 3,618,300
Benefits	1,975,900
Total Personal Services and Benefits	<u>5,594,200</u>
Consultant Services	
Medical Review Board Fees	20,700
Audit Fees	88,300
Legal Fees	1,094,400
Information Technology Fees	1,310,800
Other Consultant Service Fees	211,325
Total Consultant Services Expenses	<u>2,725,525</u>
Budgeted Investment Expenses	
Custodial Expenses	982,600
Investment Manager Expenses	
Non-U.S. Fixed Income	401,600
Domestic Fixed Income	1,018,600
Domestic Equity	1,387,400
Non-U.S. Equity	11,296,900
Investment Consulting Expenses	1,486,900
Other Investment Expenses	1,629,075
Total Budgeted Investment Expenses	<u>18,203,075</u>
Other Administrative Expenses	
Building and Maintenance	173,800
Dues and Subscriptions	40,300
Employee and Board Travel	25,500
Inventory and Supplies	23,300
IT Equipment	572,800
Training and Education	37,400
Telecommunication Services	143,100
Utilities	30,100
Other Miscellaneous Expenditures	55,500
Total Other Administrative Expenses	<u>1,101,800</u>
Total Administrative, Consultant & Budgeted Investment Expenses	<u>\$ 27,624,600</u>

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Actuarial Certification Letter



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March 26, 2016

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, 2015

The results of the June 30, 2015 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, 2015.

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, 2015, 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, 2015."

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

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Actuarial Certification Letter - Continued

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.)

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Actuarial Certification Letter - Continued

Progress Towards Realization of the Financing Objectives

The funded condition of the plan, as measured by the funded ratio, increased slightly from 2014 to 2015. The increase was primarily due to the gain on the actuarial value of assets (a gain of \$209 million) and the expected increase in the funded ratio due to the current level of contributions. This increase was offset by a loss due to the recent changes to the actuarial assumptions, as described below. This offsetting loss totaled \$349 million.

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, 2014 was 63.1%. It is now 63.7% as of June 30, 2015. Five years ago this ratio stood at 65.7%, and ten years ago the ratio was 70.4%. If the ratio were calculated using the market value of assets rather than the actuarial value of assets, it would be 63.8% as of June 30, 2015, down from 66.9% as of June 30, 2014. During the last fiscal year, the UAAL increased from \$6.3 billion to \$6.5 billion.

The plan's funding period as of the valuation date is 43.2 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 43.2-year period compares with the 42.1-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 2014 to 2015 on the market value of assets was approximately 3.7% and the annual return from that same period on the actuarial value of assets was 9.7%. The return on the actuarial value of assets of greater 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 2015 losses have been recognized in the actuarial value of assets. The net result of the losses from 2012 and 2015, and the gains from 2011, 2013 and 2014 that are recognized in this valuation is an overall gain on the actuarial value of assets measured from last year to this year (a return of 9.7% versus the assumed return of 7.75%).

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Actuarial Certification Letter - Continued

Benefit Provisions

There were no modifications to the benefit provisions that were reflected in the actuarial valuation as of June 30, 2015.

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, 2015 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, 2015 was also supplied by the ERB staff.

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.

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Actuarial Certification Letter - Continued

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.

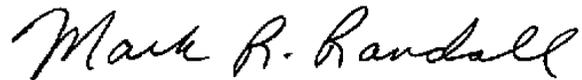
The undersigned are independent actuaries and consultants. Both are Enrolled Actuaries and are Members of the American Academy of Actuaries, and meet all of the Qualification Standards of the American Academy of Actuaries. Both of the undersigned are experienced in performing valuations for large public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

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report

Executive Summary

Valuation as of:	06/30/2015	06/30/2013
Contribution Rates for Fiscal Year Ending:	06/30/2016	06/30/2014
Membership		
• Number of		
- Active members	60,998	61,173
- Retirees and beneficiaries	44,043	42,246
- Inactive, vested	9,513	9,113
- Inactive, nonvested	<u>31,535</u>	<u>27,476</u>
- Total	146,089	140,008
• Payroll	\$ 2.6 billion	\$ 2.5 billion
Statutory contribution rates		
• Employer	13.90%	13.90%
• Member	10.70%	10.70%
Assets		
• Market value	\$ 11.5 billion	\$ 11.3 billion
• Actuarial value	\$ 11.5 billion	\$ 10.7 billion
• Return on market value	3.7%	14.2%
• Return on actuarial value	9.7%	12.0%
• Employer contributions	\$ 395.1 million	\$ 362.5 million
• External cash flow %	-2.4%	-2.6%
• Ratio of actuarial to market value	99.8%	94.4%
Actuarial Information		
• Normal cost %	12.98%	13.11%
• Unfunded actuarial accrued liability (UAAL)	\$ 6.5 billion	\$ 6.3 billion
• Funded ratio	63.7%	63.1%
• Funding period	43.2 years	42.1 years
• Funding Policy Contribution	16.78%	16.32%
Gains/(losses)		
• Asset experience	\$ 204.8 million	\$ 408.6 million
• Liability experience	(54.4) million	33.2 million
• COLA experience	47.0 million	47.2 million
• Benefit changes	0.0 million	0.0 million
• Assumption/method changes	<u>(348.9) million</u>	<u>0.0 million</u>
• Total	\$ (151.5) million	\$ 489.0 million

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New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Introduction

The results of the June 30, 2015 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 \$20.4 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 \$18.0 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 12.98% 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 2.28% to be funded by the employers (i.e., the current year's employer normal cost is 2.28% 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 \$6.5 billion as shown on line 7 in Table 1.

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

- Since the statutory employer contribution rate is 13.90% and the employer normal cost rate is 2.28%, the difference of 11.62% 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 43.2 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 37 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 \$484.9 million for imputed interest and decreased by \$350.7 million because of contributions made in excess of the normal cost. This means that the UAAL was expected to increase \$134.2 million before recognizing plan experience. The UAAL as of June 30, 2014 was \$6.3 billion, and the expected UAAL as of June 30, 2015, recognizing actual contributions made, is \$6.4 billion.

A cost-of-living adjustment (COLA) was applied as of July 1, 2015 to retirement benefits for retirees eligible to receive a COLA as defined in Section 22-11-31 of the New Mexico Statutes Annotated. A 1.60% 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 2011 or earlier. Since the plan's funded ratio as of June 30, 2014 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., \$1,566.22 as of June 30, 2015) received an annual adjustment of 1.44%. All remaining non-disability retirements received an annual adjustment of 1.28%. Note that the adjustment is only applied to members who retired in calendar year 2014 or earlier; members who retired in 2015 are ineligible.

The plan experienced an actuarial gain on investments of \$204.8 million. The investment gain resulted from the fact that the return on the actuarial value of assets, 9.7%, was greater than the 7.75% assumed investment return. This gain was the result of recognizing 20% of the losses from

ACTUARIAL SECTION

Annual Valuation Report – Continued

FYE 2012 and FYE 2015, with 20% of the gains from FYE 2011, FYE 2013 and FYE 2014. The market rate of return in FYE 2015 was 3.7%.

There were no benefit changes adopted since the last actuarial valuation. However, there are assumption changes adopted on June 12, 2015 which resulted in a net \$348.9 million increase in UAAL. Moreover, the actual COLA was less than the expected 2.0% which resulted in a net \$47.0 million decrease in UAAL.

As a result of all the above experience, the UAAL increased from \$6.3 billion to \$6.5 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, 2015 which resulted in an actuarial gain of \$47.0 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

ACTUARIAL SECTION

Annual Valuation Report – Continued

- 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, 2015 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 99.8% of the market value. The dollar amount of the difference between the actuarial value and market value is the value of the deferred gains, and totals \$25.3 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 2015 on market value was 3.7%, while it was 9.7% 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, 2.4% of market value.

ACTUARIAL SECTION

Annual Valuation Report – Continued

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.

Tables 6a and 6b summarize 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 slightly since last year, from 61,173 to 60,998.

Total payroll increased 2.8% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2014-2015 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, 2015. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 3.1% since last year. Average pay for members active in both this valuation and the last year's valuation increased 4.7%. The difference between these two figures is due to the effect of retirements and terminations, and their replacement by new members who generally earn less.

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Supporting Exhibits

Actuarial Information

	June 30, 2015 (1)	June 30, 2014 (2)
1. Payroll		
a. Supplied by System (annualized)	\$ 2,610,297,095	\$ 2,538,882,656
b. Adjusted for one-year's pay increase	2,749,412,635	2,685,699,253
2. Normal cost rate (payable monthly)		
a. Total normal cost rate	12.98%	13.11%
b. Less: member contribution rate	(10.70%)	(10.70%)
c. Employer normal cost rate	2.28%	2.41%
3. Employer normal cost (Item 2c * Item 1b)	\$ 62,686,608	\$ 64,725,352
4. Actuarial accrued liability for active members		
a. Actuarial present value of future benefits	\$ 9,131,557,971	\$ 8,895,326,237
b. Less: actuarial present value of future normal costs	(2,350,996,888)	(2,297,479,591)
c. Actuarial accrued liability	\$ 6,780,561,083	\$ 6,597,846,646
5. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	\$ 10,621,041,144	\$ 9,828,072,718
b. Inactive members	612,822,775	545,402,368
c. Active members (Item 4c)	6,780,561,083	6,597,846,646
d. Total	\$ 18,014,425,002	\$ 16,971,321,732
6. Actuarial value of assets	\$ 11,472,378,929	\$ 10,714,996,256
7. Unfunded actuarial accrued liability (UAAL) (Item 5d - Item 6)	\$ 6,542,046,073	\$ 6,256,325,476
8. Amortization payment for next fiscal year		
a. Employer contribution rate	13.90%	13.90%
b. Less: Employer normal cost rate (Item 2c)	(2.28%)	(2.41%)
c. Amortization rate	11.62%	11.49%
d. Amortization contribution (Item 8c * Item 1b)	\$ 319,481,748	\$ 308,586,844
e. Expected ARP contribution	5,549,985	5,208,428
f. Total	\$ 325,031,733	\$ 313,795,272
9. Funding period based on current 13.90% employer contribution requirement, with payments increasing at assumed payroll growth rate	43.2 years	42.1 years

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

Basis (1)	Year Ending	
	June 30, 2015 (2)	June 30, 2014 (3)
1. UAAL at prior valuation	\$ 6,256.3	\$ 6,533.7
2. Increases/(decreases) due to:		
a. Interest on UAAL	484.9	506.4
b. Amortization payments ¹	(350.7)	(294.8)
c. Liability experience	54.4	(33.2)
d. Asset experience	(204.8)	(408.6)
e. Actual COLA More/(Less) than Expected	(47.0)	(47.2)
f. Changes in actuarial assumptions and methods	348.9	0.0
g. Benefit changes	<u>0.0</u>	<u>0.0</u>
h. Total	\$ 285.7	\$ (277.4)
3. Current UAAL (1+2h)	\$ 6,542.0	\$ 6,256.3

Note : Dollar amounts in millions

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

ACTUARIAL SECTION

Annual Valuation Report – Continued

Actuarial Present Value of Future Benefits

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
	(1)	(2)
1. Active members		
a. Service retirement benefits	\$ 8,374,118,650	\$ 8,144,322,898
b. Refunds and deferred termination benefits	600,398,664	571,237,987
c. Survivor benefits	81,224,430	79,858,380
d. Disability retirement benefits	75,816,227	99,906,972
e. Total	<u>\$ 9,131,557,971</u>	<u>\$ 8,895,326,237</u>
2. Retired members		
a. Service retirement	\$ 10,121,094,164	\$ 9,354,087,456
b. Disability retirement	91,130,372	83,527,444
c. Beneficiaries	408,816,608	390,457,818
d. Total	<u>\$ 10,621,041,144</u>	<u>\$ 9,828,072,718</u>
3. Inactive members		
a. Vested terminations	\$ 481,721,884	\$ 430,623,837
b. Nonvested terminations	131,100,891	114,778,531
c. Total	<u>\$ 612,822,775</u>	<u>\$ 545,402,368</u>
4. Total actuarial present value of future benefits	\$ 20,365,421,890	\$ 19,268,801,323

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Analysis of Normal Cost

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
	(1)	(2)
1. Gross normal cost rate (payable monthly)		
a. Service retirement benefits	9.01%	9.19%
b. Refunds and deferred termination benefits	3.72%	3.61%
c. Disability retirement benefits	0.14%	0.19%
d. Survivor benefits	0.11%	0.12%
e. Total	<u>12.98%</u>	<u>13.11%</u>
2. Less: member contribution rate	<u>(10.70%)</u>	<u>(10.70%)</u>
3. Employer normal cost rate	2.28%	2.41%

ACTUARIAL SECTION

Annual Valuation Report – Continued

**Calculation of Funding Policy Contribution
(For Following Fiscal Year)**

	<u>June 30, 2015</u> (1)	<u>June 30, 2014</u> (2)
1. Funding period (years)	27	28
2. Amortization contribution percentage		
a. Amortization payment	\$ 404,138,621	\$ 378,878,984
b. Less: expected payment for ARP members	<u>5,549,985</u>	<u>5,208,428</u>
c. Net (a-b)	\$ 398,588,636	\$ 373,670,556
d. Expected payroll	2,749,412,635	2,685,699,253
e. Amortization contribution percentage (c/d)	14.50%	13.91%
3. Funding Policy Contribution for Employers		
a. Employer normal cost rate	2.28%	2.41%
b. Amortization percentage	<u>14.50%</u>	<u>13.91%</u>
c. Total	16.78%	16.32%
d. Statutory rate	13.90%	13.90%
e. Funding Policy Contribution (greater of (c,d))	16.78%	16.32%

ACTUARIAL SECTION

Annual Valuation Report – Continued

**Actual Contributions as Percentage of
Funding Policy Contribution for Year Ending June 30, 2015**

1. Actual employer contributions	
a. On behalf of active ERB members	\$ 379,514,528
b. On behalf of return-to-work retirees	10,252,789
c. On behalf of ARP members	<u>5,362,304</u>
d. Total	\$ 395,129,621
2. Statutory employer contribution rate	13.90%
3. Imputed fiscal year payroll for active ERB members (Item 1a / Item 2)	\$ 2,730,320,345
4. Funding Policy Contribution for Employers	
a. Employer's funding policy contribution for active ERB members as percent of payroll	16.32%
b. Employer's funding policy contribution for active ERB members (Item 4a * Item 3)	\$ 445,588,280
c. Funding policy contribution (Item 4b + Item 1c)	\$ 450,950,584
5. Percentage of Funding Policy Contribution Received in Prior Year (Item 1d / Item 4c)	87.6%

ACTUARIAL SECTION

Annual Valuation Report – Continued

Active Membership Data

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
	(1)	(2)
1. Active members		
<u>Tier 1</u>		
a. Number	38,967	43,122
b. Total payroll supplied by System (annualized)	\$ 1,868,367,296	\$ 1,960,476,340
c. Average salary	\$ 47,947	\$ 45,463
d. Average age	50.0	49.5
e. Average service	14.0	13.2
<u>Tier 2</u>		
a. Number	9,551	11,103
b. Total payroll supplied by System (annualized)	\$ 349,704,966	\$ 373,839,824
c. Average salary	\$ 36,614	\$ 33,670
d. Average age	42.2	40.8
e. Average service	3.5	2.5
<u>Tier 3</u>		
a. Number	12,480	6,948
b. Total payroll supplied by System (annualized)	\$ 392,224,833	204,566,492
c. Average salary	\$ 31,428	29,443
d. Average age	38.8	38.1
e. Average service	1.2	0.8
<u>Total</u>		
a. Number	60,998	61,173
b. Total payroll supplied by System (annualized)	\$ 2,610,297,095	\$ 2,538,882,656
c. Average salary	\$ 42,793	\$ 41,503
d. Average age	46.5	46.6
e. Average service	9.7	9.8

ACTUARIAL SECTION

Annual Valuation Report – Continued

Inactive Membership Data

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
	(1)	(2)
1. Vested inactive members (excluding pending refunds)		
a. Number	9,513	9,113
b. Total annual deferred benefits	\$ 71,524,251	\$ 66,449,776
c. Average annual deferred benefit	\$ 7,519	\$ 7,292
2. Nonvested inactive members and vested pending refunds		
a. Number	31,535	27,476
b. Employee assessments with interest due	\$ 131,100,891	\$ 114,778,531
c. Average refund due	\$ 4,157	\$ 4,177
3. Service retirees		
a. Number	40,140	38,438
b. Total annual benefits	\$ 906,554,310	\$ 855,101,418
c. Average annual benefit	\$ 22,585	\$ 22,246
4. Disabled retirees		
a. Number	832	828
b. Total annual benefits	\$ 8,535,673	\$ 8,339,827
c. Average annual benefit	\$ 10,259	\$ 10,072
5. Beneficiaries		
a. Number	3,071	2,980
b. Total annual benefits	\$ 46,470,989	\$ 44,184,471
c. Average annual benefit	\$ 15,132	\$ 14,827

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

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Historical Summary of Active Member Data

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

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Reconciliation of Plan Net Assets

	Year Ending	
	June 30, 2015 (1)	June 30, 2014 (2)
1. Value of assets at beginning of year (Value reported in prior valuation)	\$ 11,346,075,824	\$ 10,191,698,803
2. Revenue for the year		
a. Contributions		
i. Member contributions (Including redeposits and service purchases)	\$ 294,560,840	\$ 271,513,574
ii. Employer contributions	389,767,317	357,430,239
iii. Employer contributions for ARP members	5,362,304	5,032,298
iv. Total	<u>\$ 689,690,461</u>	<u>\$ 633,976,111</u>
b. Net investment income		
i. Investment income	\$ 447,816,245	\$ 1,457,953,126
ii. Investment expenses	(18,078,167)	(13,719,779)
iii. Net investment income	<u>\$ 429,738,078</u>	<u>\$ 1,444,233,347</u>
c. Total revenue	\$ 1,119,428,539	\$ 2,078,209,458
3. Expenditures for the year		
a. Refunds	\$ 36,427,981	\$ 38,923,083
b. Benefit payments	920,755,421	868,291,384
c. Administrative and miscellaneous expenses	10,597,846	16,617,970
d. Total expenditures	<u>\$ 967,781,248</u>	<u>\$ 923,832,437</u>
4. Increase in net assets (Item 2 - Item 3)	\$ 151,647,291	\$ 1,154,377,021
5. Value of assets at end of year (Item 1 + Item 4)	\$ 11,497,723,115	\$ 11,346,075,824

ACTUARIAL SECTION

Annual Valuation Report – Continued

Development of Actuarial Value of Assets

	<u>Year Ending June 30, 2015</u>		
1. Market value of assets at beginning of year	\$ 11,346,075,824		
2. Net new investments			
a. Contributions	\$ 689,690,461		
b. Benefits and refunds paid	<u>(957,183,402)</u>		
c. Subtotal	(267,492,941)		
3. Market value of assets at end of year	\$ 11,497,723,115		
4. Net earnings (3-1-2c)	\$ 419,140,232		
5. Assumed investment return rate	7.75%		
6. Expected return	\$ 868,955,525		
7. Excess return (4-6)	\$ (449,815,293)		
8. Excess return on assets for last four years :			
<u>Period End</u>	<u>Excess Return</u>	<u>Percent Deferred</u>	<u>Deferred Amount</u>
(1)	(2)	(3)	(4)
a. June 30, 2012	(583,522,212)	20%	\$ (116,704,442)
b. June 30, 2013	282,232,094	40%	112,892,838
c. June 30, 2014	648,346,706	60%	389,008,024
d. June 30, 2015	<u>(449,815,293)</u>	80%	<u>(359,852,234)</u>
			\$ 25,344,186
9. Actuarial value of assets (Item 3 - Item 8)	\$ 11,472,378,929		
10. Actuarial value as percentage of market value			99.8%

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Estimation of Yields

	Year Ending	
	June 30, 2015 (1)	June 30, 2014 (2)
A. Market value yield		
1. Beginning of year market assets	\$ 11,346,075,824	\$ 10,191,698,803
2. Investment income (including realized and unrealized gains and losses)	\$ 419,140,232	\$ 1,427,615,377
3. End of year market assets	\$ 11,497,723,115	\$ 11,346,075,824
4. Estimated dollar weighted market value yield	3.7%	14.2%
B. Actuarial value yield		
1. Beginning of year actuarial assets	\$ 10,714,996,256	\$ 9,828,547,715
2. Actuarial return	\$ 1,024,875,614	\$ 1,159,686,897
3. End of year actuarial assets	\$ 11,472,378,929	\$ 10,714,996,256
4. Estimated actuarial value yield	9.7%	12.0%

ACTUARIAL SECTION

Annual Valuation Report – Continued

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%
Average Returns		
Last 5 years	9.7%	6.7%
Last 10 years	6.6%	6.5%
Last 15 years	4.7%	5.3%
Last 20 years	7.2%	7.5%

ACTUARIAL SECTION

Annual Valuation Report – Continued

Investment Experience Gain or Loss

Item	Year Ending	
	June 30, 2015	June 30, 2014
(1)	(2)	(3)
1. Actuarial assets, beginning of year	\$ 10,714,996,256	\$ 9,828,547,715
2. Total contributions during year	\$ 689,690,461	\$ 633,976,111
3. Benefits and refunds paid	\$ (957,183,402)	\$ (907,214,467)
4. Assumed net investment income		
a. Beginning of year assets	\$ 830,412,210	\$ 761,712,448
b. Contributions	26,725,505	24,566,574
c. Benefits and refunds paid	<u>(37,090,857)</u>	<u>(35,154,561)</u>
d. Total	\$ 820,046,858	\$ 751,124,461
5. Expected actuarial assets, end of year (Sum of items 1 through 4)	\$ 11,267,550,173	\$ 10,306,433,820
6. Actual actuarial assets, end of year	\$ 11,472,378,929	\$ 10,714,996,256
7. Asset gain (loss) for year (Item 6 - Item 5)	\$ 204,828,756	\$ 408,562,436

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Total Experience Gain or Loss

Item (1)	Year Ending	
	June 30, 2015 (2)	June 30, 2014 (3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	\$ 6,256,325,476	\$ 6,533,731,488
2. Normal cost for the previous year	\$ 352,095,172	\$ 350,247,724
3. Less: contributions for the year	\$ (689,690,461)	\$ (633,976,111)
4. Interest at 7.75 %		
a. On UAAL	\$ 484,865,224	\$ 506,364,190
b. On normal cost	13,643,688	13,572,099
c. On contributions	(26,725,505)	(24,566,574)
d. Total	\$ 471,783,407	\$ 495,369,715
5. Expected UAAL (Sum of Items 1 - 4)	\$ 6,390,513,594	\$ 6,745,372,816
6. Actual UAAL	\$ 6,542,046,073	\$ 6,256,325,476
7. Total gain (loss) for the year (Item 5 - Item 6)	\$ (151,532,479)	\$ 489,047,340
B. Source of gains and losses		
8. Asset gain (loss) for the year	\$ 204,828,756	\$ 408,562,436
9. Liability experience gain (loss) for the year	\$ (54,413,808)	\$ 33,247,382
10. Actual COLA (More) Less than Expected	\$ 46,971,889	\$ 47,237,522
11. Assumption change	\$ (348,919,316)	\$ 0
12. Benefit change	\$ 0	\$ 0
13. Total	\$ (151,532,479)	\$ 489,047,340

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

History of Cash Flow

Year Ending June 30,	Contributions ¹	Expenditures				External Cash Flow for the Year ²	Market Value of Assets	External Cash Flow as Percent of Market Value
		Benefit Payments	Refunds	Administrative Expenses	Total			
(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%

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).

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Solvency Test

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
	(1)	(2)
1. Actuarial accrued liability (AAL)		
a. Active member contributions	\$ 2,541,087,642	\$ 2,456,349,658
b. Retirees and beneficiaries	10,621,041,144	9,828,072,718
c. Active and inactive members (employer financed)	<u>4,852,296,216</u>	<u>4,686,899,356</u>
d. Total	\$ 18,014,425,002	\$ 16,971,321,732
2. Actuarial value of assets	\$ 11,472,378,929	\$ 10,714,996,256
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%

ACTUARIAL SECTION

Annual Valuation Report – Continued

Historical Retired Participants' Data

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

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

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Distribution of Active Members by Age and by Years of Service As of June 30, 2015

Attained Age	Years of Credited Service												Total
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	
	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	
Under 25	495 \$16,693	559 \$23,024	196 \$23,091	56 \$23,342	24 \$20,809	8 \$14,072	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	1,338 \$20,611
25-29	605 \$26,123	1,165 \$29,980	868 \$30,925	649 \$32,307	368 \$35,474	465 \$34,371	8 \$26,235	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	4,128 \$30,956
30-34	494 \$28,539	897 \$33,532	791 \$34,259	631 \$34,171	501 \$36,297	1,990 \$42,290	421 \$42,778	8 \$30,099	0 \$0	0 \$0	0 \$0	0 \$0	5,733 \$37,228
35-39	739 \$25,995	1,039 \$34,506	723 \$35,827	594 \$38,509	423 \$40,348	1,909 \$43,294	1,573 \$49,683	325 \$49,677	5 \$42,807	0 \$0	0 \$0	0 \$0	7,330 \$40,664
40-44	338 \$30,159	640 \$32,953	569 \$35,745	513 \$37,309	412 \$40,276	1,834 \$42,727	1,743 \$48,889	1,365 \$54,568	238 \$51,520	2 \$38,531	0 \$0	0 \$0	7,654 \$44,128
45-49	316 \$30,357	609 \$33,556	493 \$33,696	428 \$36,074	341 \$37,820	1,834 \$42,331	1,733 \$46,950	1,449 \$51,272	1,021 \$56,742	146 \$56,197	3 \$62,526	0 \$0	8,373 \$44,738
50-54	301 \$30,004	518 \$33,586	455 \$35,303	373 \$35,292	352 \$35,064	1,694 \$42,781	1,721 \$43,598	1,661 \$47,610	1,279 \$54,214	536 \$59,436	94 \$55,341	3 \$49,538	8,987 \$44,634
55-59	217 \$32,518	457 \$36,769	359 \$36,705	327 \$37,598	267 \$38,351	1,540 \$43,918	1,633 \$43,544	1,637 \$46,624	1,317 \$52,801	617 \$63,570	252 \$66,996	67 \$55,232	8,690 \$46,488
60-64	137 \$38,416	296 \$33,553	248 \$41,246	256 \$37,698	173 \$42,061	1,150 \$44,400	1,223 \$45,126	916 \$47,388	715 \$54,632	479 \$63,869	193 \$71,140	123 \$70,887	5,909 \$48,081
65 & Over	82 \$29,991	179 \$29,803	146 \$34,255	133 \$32,087	111 \$35,976	715 \$45,801	488 \$44,472	337 \$49,756	236 \$57,051	203 \$74,384	110 \$87,647	116 \$98,141	2,856 \$49,672
Total	3,724 \$27,114	6,359 \$32,194	4,848 \$34,198	3,960 \$35,522	2,972 \$37,735	13,139 \$42,835	10,543 \$46,095	7,698 \$49,460	4,811 \$54,420	1,983 \$63,064	652 \$70,006	309 \$77,517	60,998 \$42,793

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Reconciliation of Members by Status for Year Ending June 30, 2015

	Active Members	Inactive, Nonretired Members		Annuitants			Grand Total
		Vested	Nonvested	Service Retirees	Disabled Retirees	Beneficiaries	
Number at beginning of year	61,173	9,113	27,476	38,438	828	2,980	140,008
Refund paid (non-death)	(1,686)	(475)	(1,693)				(3,854)
Refund due	(3,198)		3,198				0
Vested terminations	(1,763)	1,763					0
Retirements (nondisabled)	(2,111)	(415)	(35)	2,561			0
Disabled retirements	(17)	(8)			25		0
New Alternate Payee resulting from QDRO				49			49
Death before retirement - refund	(16)						(16)
Death before retirement - annuity	(6)					6	0
Death of annuitant - survivor benefit due				(212)	(6)	218	0
Death of annuitant - no further benefits due				(677)	(17)	(133)	(827)
New hires	7,147	63	1,477				8,687
Reemployments	1,475	(539)	(927)	(9)			0
Adjustments and corrections		11	2,039 *	(10)	2		2,042
Number at end of year	60,998	9,513	31,535	40,140	832	3,071	146,089

* Includes 2,041 additional unallocated terminated records that were not reported in previous years, with a cumulative member contribution balance of \$4,000,304.

ACTUARIAL SECTION

Annual Valuation Report – 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 teachers, nurses, and administrators employed by public schools in New Mexico, including public colleges and universities, participate in ERB. These are the “regular members”, and their participation is a condition of employment. However, see the section on the Alternative Retirement Plan below for an exception. Generally, other employees of these schools are also required to participate, although such employees employed continuously since June 30, 1971 may exempt themselves from membership. Employees of state schools and certain state agencies also participate.
6. Member Contributions: Members must contribute a percentage of their salary to 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.

<u>Fiscal Year Ended</u>	<u>Member Contribution Rate</u>
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%.

ACTUARIAL SECTION

Annual Valuation Report – Continued

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

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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

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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.

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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.

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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 $\frac{1}{2}$ 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, new faculty members employed by higher education may elect participation in the ARP rather than in ERB. If this election is not made, 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

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.

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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.

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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

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

Retirement Per 100 Members

Age	Males - Years of Service					
	0-4	5-9	10-14	15-19	20-24	25+
45	0.00	0.00	0.00	0.00	0.00	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

Age	Females - Years of Service					
	0-4	5-9	10-14	15-19	20-24	25+
45	0.00	0.00	0.00	0.00	0.00	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

Age	Years of Service					
	Males			Females		
	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

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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.

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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.

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Annual Valuation Report – Actuarial Glossary

Actuarial 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.),

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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 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.

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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.

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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.

New Mexico Educational Retirement Board

INVESTMENT SECTION

Chief Investment Officer's Letter

December 31, 2015

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

For fiscal year 2015, NMERB's investment portfolio (Fund) posted a net of fee return of 4.0%, for annual investment gains of approximately \$441 million. The result for the year falls short of the Fund's actuarially required annual return assumption of 7.75%.

In a difficult year for investments, the Fund's investment performance ranked in the top 25 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 2.9%. Given the challenging equity market conditions during the fiscal year, NMERB's outcome is in line with expectations. As we have noted in past years, our asset 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, U.S. equities produced good results. The S&P 500 index returned 7.4% for the fiscal year. Foreign stocks produced poor results, however. The Europe, Australasia and Far East (EAFE) index for developed foreign equity markets lost 4.2%, while the MSCI Emerging Markets Equity index lost 5.1%. In the fixed income sector, returns were marginally positive. The Barclays Capital Aggregate index representing the U.S. investment grade bond market posted a return of only 1.9%. In the high yield bond space, the Bank of America/Merrill Lynch BB-B constrained High Yield index returned 0.7%. NMERB's fixed income portfolio is a combination of managers operating in markets related to those two indices.

While the 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, are results are as follows:

3 years:	9.7%
5 years:	9.8%
10 years:	6.7%
Since performance reporting inception in July 1983:	9.2%

New Mexico Educational Retirement Board

INVESTMENT SECTION

Chief Investment Officer's Letter - Continued

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

In regard to future results, I will quote the noted philosopher, Yogi Berra: "It's tough to make predictions, especially about the future." While we can tell you about past results in great detail, we can say little with certainty about the future. We can tell you that NMERB's Board of Trustees and staff are working to attain the best results possible in an uncertain and challenging environment.

Sincerely,



Bob Jacksha

Chief Investment Officer

New Mexico Educational Retirement Board

P O Box 26129

Santa Fe, NM 87502

Phone: (505) 827-8030

www.nmerb.org

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, 2015. Performance shown for periods longer than one year has been annualized.

New Mexico Educational Retirement Board

INVESTMENT SECTION

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 REITS (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.

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.

New Mexico Educational Retirement Board

INVESTMENT SECTION

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://www.nmerb.org/investment_policies.html.

The following schedule shows the current asset allocation policy adopted on June 14, 2014 as well as the prior allocation policy targets.

		Target Allocation	
		After 6/14/2014	Prior to 6/14/2014
Equities	Domestic Equities		
	<i>Large cap equities</i>	18%	20%
	<i>Small-mid cap equities</i>	2%	2%
	International Equities		
	<i>Developed</i>	5%	5%
	<i>Emerging markets</i>	10%	10%
	Total equities	<u>35%</u>	<u>37%</u>
Fixed Income	Opportunistic credit	20%	20%
	Core bonds	6%	7%
	Emerging market debt	2%	2%
	Total fixed income	<u>28%</u>	<u>29%</u>
Alternatives	Real estate - REITS	7%	5%
	Real assets	8%	7%
	Private equity	11%	8%
	Absolute return	0%	3%
	Global asset allocation	5%	5%
	Risk parity	5%	5%
	Total Alternatives	<u>36%</u>	<u>33%</u>
Cash		1%	1%
	Total	<u>100%</u>	<u>100%</u>

New Mexico Educational Retirement Board

INVESTMENT SECTION

Investment Performance

Performance overall in the past five (5) years was 10.1% per annum, outperforming the policy index by .8%, and the Plan's actuarial assumed rate of 7.75%. The fiscal year 2015 return was 4.0%. All asset classes were within NMERB's target allocation ranges as of June 30, 2015. Despite a lower investment return, investment holdings increased by \$107.5 million over fiscal year 2014. The following table provides a summary of total fund performance (gross of fees) across earning horizons NMERB tracks.

Fund Performance Summary at June 30, 2015

1 Year	3 Year	5 Year	10 Year	15 Year	20 Year	25 Year	30 Year
4.0%	9.8%	10.1%	6.9%	5.0%	7.4%	8.7%	9.2%

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.

The schedules below show investments held by NMERB's agent in NMERB's name as of June 30, 2015 and 2014.

Investment Portfolio Summary

	2015	2014
Cash & equivalents	\$ 545,161,540	275,693,396
Investments, at fair value	<u>10,858,494,641</u>	<u>11,026,291,924</u>
Total	<u>\$ 11,403,656,181</u>	<u>11,301,985,320</u>

Schedule of Investments by Asset Class

Investments, at fair value	2015	% of Total	2014	% of Total
Non-U.S. government bonds	\$ 109,849,871	1.01%	134,285,504	1.22%
Non-U.S. corporate bonds	328,554,498	3.03%	253,934,520	2.30%
Private real estate	380,197,078	3.50%	270,577,050	2.45%
Hedge fund of funds	409,511,379	3.77%	631,121,208	5.72%
U.S. treasury securities	585,177,300	5.39%	470,995,039	4.27%
Asset and mortgage backed securities	587,797,042	5.41%	713,450,132	6.47%
Mutual funds	678,439,795	6.25%	384,411,683	3.49%
Domestic corporate bonds	701,482,119	6.46%	803,363,210	7.29%
Limited partnership units	762,309,555	7.02%	1,022,968,379	9.28%
Other investments	868,323,365	8.00%	610,140,178	5.53%
Private equity	1,028,279,120	9.47%	850,638,968	7.71%
International stocks	1,875,881,084	17.28%	1,985,766,369	18.01%
Domestic stocks	<u>2,542,692,435</u>	<u>23.42%</u>	<u>2,894,639,685</u>	<u>26.25%</u>
Total investments	<u>\$ 10,858,494,641</u>	<u>100.00%</u>	<u>11,026,291,924</u>	<u>100.00%</u>

New Mexico Educational Retirement Board

INVESTMENT SECTION

Summary of Largest Investment Holdings as of June 30, 2015

Schedule of Fund's Ten Largest Stock Holdings

Company Name	Number of Shares	Fair Value
Apple Inc.	609,966	\$ 76,504,986
Microsoft Corp	856,547	37,816,550
Exxon Mobil Corp	443,480	36,897,536
Johnson & Johnson	293,943	28,647,685
General Electric Co	1,064,007	28,270,666
Wells Fargo & Co	495,666	27,876,256
J. P. Morgan Chase & Co	394,150	26,707,604
Simon Property Group Inc.	152,500	26,385,550
Berkshire Hathway Inc. CL B	192,807	26,242,961
Procter & Gamble Company	285,518	22,338,928
Total	<u>4,788,584</u>	<u>\$ 337,688,721</u>

Schedule of Ten Largest Fixed Income Holdings

Security Name	Rate	Due	CUSIP No.	Fair Value
U. S. TREASURY N/B	0.750%	6/30/2017	912828TB6	\$ 55,108,371
U. S. TREASURY N/B	1.250%	1/31/2020	912828H52	24,903,447
U. S. TREASURY N/B	1.750%	2/28/2022	912828J43	24,710,730
U. S. TREASURY N/B	2.000%	2/15/2025	912828J27	22,518,698
U. S. TREASURY N/B	1.375%	2/29/2020	912828J50	19,918,516
U. S. TREASURY N/B	1.500%	1/31/2022	912828H86	19,487,738
U. S. TREASURY N/B	1.000%	2/15/2018	912828H94	18,121,084
U. S. TREASURY N/B	1.375%	2/28/2019	912828SH4	15,121,737
FNMA POOL AL6864	4.000%	9/1/1944	3138EPTW4	10,824,348
FNMA POOL AS0194	3.000%	8/1/2028	3138W9GC8	10,518,870
Total				<u>\$ 221,233,539</u>

The ten (10) largest fixed income holdings are based on the Fund's separately managed portfolios.

New Mexico Educational Retirement Board

INVESTMENT SECTION

Investment Expenses

Schedule of Management Fees and Commissions

Fiscal Year 2015

	<u>Investment</u>	
	<u>Fees</u>	<u>Commissions</u>
Investment manager expenses		
Domestic equities	\$ 2,569,863	\$ 748,701
Domestic fixed income	1,018,528	34,946
International equities	11,241,491	335,675
International fixed income	376,454	-
Subtotal	<u>15,206,336</u>	<u>\$ 1,119,322</u>
Custodial fees	956,303	
Other investment expenses	<u>1,915,528</u>	
	<u>\$ 18,078,167</u>	

The amounts shown above exclude fees and commissions associated with comingled funds.

New Mexico Educational Retirement Board

STATISTICS SECTION

Summary

The objectives of the Statistical Section of NMERB's CAFR are to provide additional historical perspective, context, and relevant details to assist readers in using information found within the fiscal year 2015 financial statements, note disclosures, and supplementary information. This information has not been audited by our independent auditor. All nonaccounting data is taken from internal NMERB sources.

Data for this section has been generated from annual financial reports, actuarial studies and data maintained by NMERB's integrated retirement management system.

Financial Trends

The following tables contain trend information that may assist the reader in assessing NMERB's financial performance by placing it in historical perspective. Unless otherwise noted, the information included in the Financial Trends tables is derived from the annual financial reports for the relevant year.

New Mexico Educational Retirement Board

STATISTICS SECTION

Financial Trends - Continued

State of New Mexico Educational Retirement Board										
Summary of Changes in Fiduciary Net Position (\$000's)- Last Ten Years (accrual basis of accounting)										
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Additions										
Contributions										
Employer	\$ 389,767	357,430	294,973	248,894	304,310	313,276	323,685	290,846	255,853	226,479
Member	294,561	271,514	248,785	289,852	247,408	250,667	212,014	201,916	189,391	178,221
Employer ARP	5,362	5,032	4,685	4,952	4,057	4,253	4,727	4,469	4,076	3,950
Total Contributions	689,690	633,976	548,443	543,697	555,776	568,195	540,426	497,231	449,320	408,650
Investment Income										
Interest, dividends, other	139,413	180,493	196,838	175,422	187,486	188,063	219,893	299,985	207,952	235,102
Investment expenses	(18,078)	(13,720)	(15,421)	(11,035)	(35,436)	(31,892)	(31,019)	(78,675)	(20,836)	(60,096)
Net change asset value	308,404	1,277,460	837,193	(565)	1,396,479	1,095,258	(1,724,902)	(785,485)	1,177,440	716,078
Net investment income	429,738	1,444,233	1,018,610	163,822	1,548,529	1,251,429	(1,536,028)	(564,175)	1,364,556	891,085
Total additions	1,119,429	2,078,209	1,567,053	707,520	2,104,305	1,819,625	(995,602)	(66,943)	1,813,876	1,299,734
Deductions										
Benefit payments, refunds	957,183	907,214	853,329	795,136	736,858	685,012	647,392	608,251	567,669	522,402
Administrative expense	10,598	16,618	10,986	11,986	11,407	11,488	8,672	6,089	5,625	5,231
Other	-	-	-	-	-	-	-	-	-	-
Total deductions	967,781	923,832	864,315	807,121	748,265	696,500	656,064	614,339	573,294	527,633
Net increase in net position	151,647	1,154,377	702,738	(99,602)	1,356,040	1,123,124	(1,651,666)	(681,283)	1,240,582	772,101
Net position restricted for pensions										
Beginning of the year	11,346,076	10,191,699	9,488,961	9,588,563	8,253,997	7,130,873	8,782,539	9,463,821	8,223,240	7,451,138
End of the year	\$11,497,723	11,346,076	10,191,699	9,488,961	9,610,037	8,253,997	7,130,873	8,782,539	9,463,821	8,223,240

New Mexico Educational Retirement Board

STATISTICS SECTION

Financial Trends – Continued

Schedule of of Revenues and Expenses - Budget and Actual - Last Ten Years

Year	Revenues			Variance - Final Budget v Actual Favorable (Unfavorable)	Actual Expenses				Variance - Final Budget v Actual Favorable (Unfavorable)
	Original Budget	Final Budget	Actual Budgetary Basis		Personal Services & Employee Benefits	Contractual Services	Other Costs	Total Expenses	
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
2006	\$23,306,648	26,376,648	26,376,648	\$ -	\$ 3,082,009	19,215,129	746,258	23,043,396	\$ 3,333,252

New Mexico Educational Retirement Board

STATISTICS SECTION

Financial Trends - Continued

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	Contribution % of Covered Payroll
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%
2006		\$299,967,996	\$226,479,332	\$ 73,488,664	\$ 2,219,411,615	13.52%

Benefit and Refund Deductions From Net Position (\$000's) - Last Ten Years										
Deduction Type	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Retirement Benefits	\$911,833	859,575	803,253	746,494	694,153	648,962	610,664	572,192	533,924	487,913
Disability Benefits	8,922	8,716	8,412	8,061	7,618	7,271	7,041	6,539	6,220	6,184
Separation Refunds	32,313	34,562	35,883	34,520	29,287	24,574	24,052	23,730	23,335	24,063
Interest on Refunds	4,115	4,361	5,781	6,061	5,800	4,206	5,635	5,745	4,190	4,243
Total	\$957,183	907,214	853,329	795,136	736,858	685,012	647,392	608,206	567,669	522,402

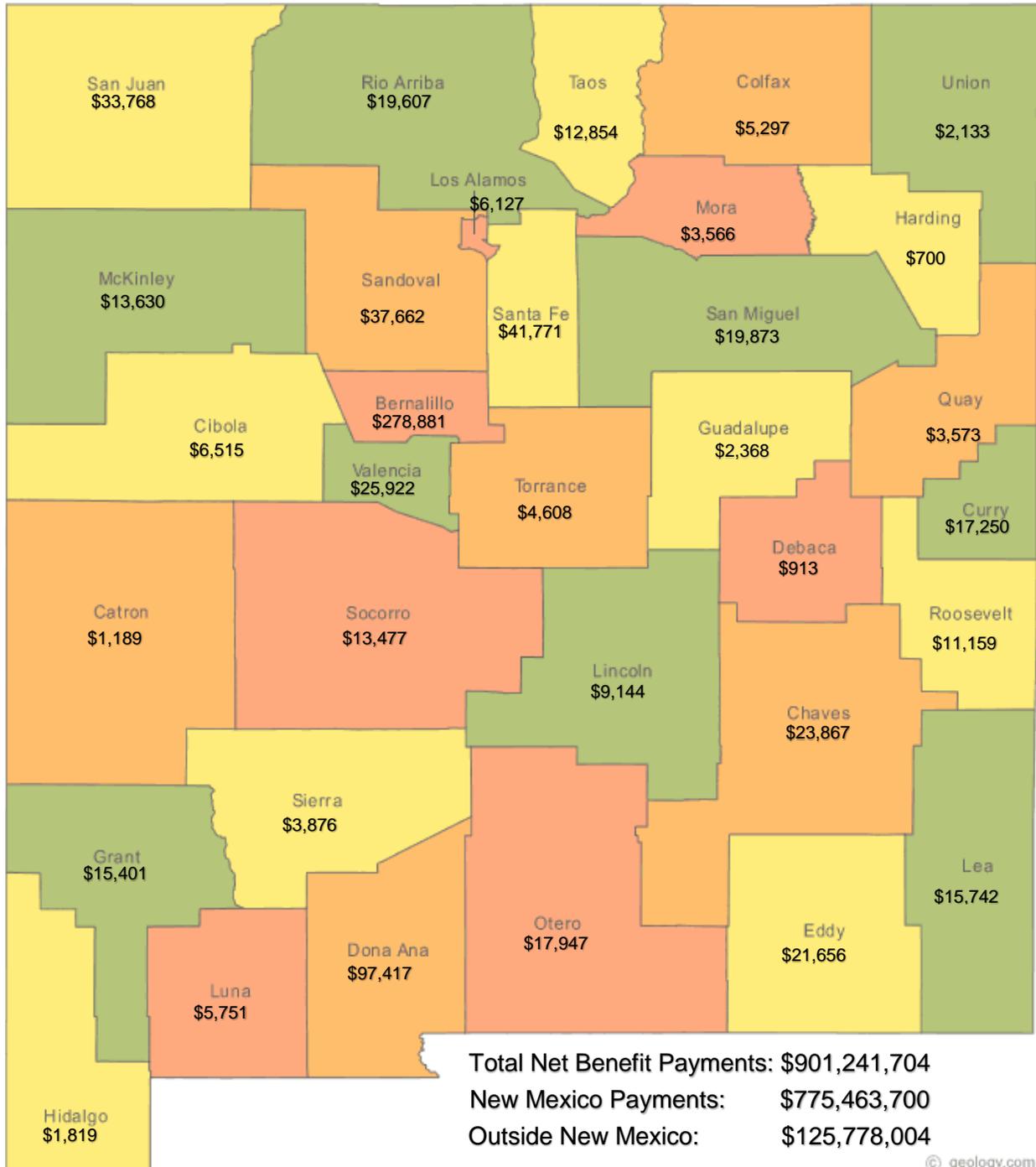
Note: These figures have been compiled on an accrual basis from financial statement data. The following table represents net benefits paid to annuitants.

New Mexico Educational Retirement Board

STATISTICS SECTION

Financial Trends - Continued

2015 Retiree Net Benefits by County in New Mexico (\$000s)



The direct impact of the Educational Retirement Board's pension benefits ripples through New Mexico's economy.

New Mexico Educational Retirement Board

STATISTICS SECTION

Operating Information

These tables contain service and infrastructure indicators that can enhance one's understanding of how the information in NMERB's financial statements relates to the services the Plan provides and the activities it performs.

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

Year	Contribution Rates by Wage Category			Contribution Rates by Wage Category		
	\$20,000 or Less			Over \$20,000		
	Employee	Employer	Combined	Employee	Employer	Combined
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%
2006				7.675%	9.400%	17.075%

New Mexico Educational Retirement Board

STATISTICS SECTION

Demographic and Economic Information - Continued

These tables help the reader understand the environment within which the Agency's financial activities take place.

Total membership in the pension trust retirement system administered by NMERB increased in fiscal year 2015 over the prior year by four percent (4.3%), despite stability in the Active working member category. The largest increases were seen in service retirees and inactive vested and nonvested members. NMERB is charged with providing secure retirement benefits for New Mexico's educational employees. This includes employees at schools providing kindergarten through 12th grade instruction, colleges and universities, special state schools, and educational programs at state agencies.

The fiscal year 2015 CAFR contains demographic and economic information about participating educational employers who remit contributions and reporting information. A complete listing of educational employers shown by county, a summary of the ten (10) largest employers by active status members, and covered payroll have been included below.

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 (9) years. The schedule on the following page shows the top ten (10) largest employers by number of members in active status for the current year and the last nine (9) years.

State of New Mexico Educational Retirement Board										
Schedule of Members by Membership Status and Type of Benefit by Fiscal Year - Last Ten Years										
Status	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Active-working	60,998	61,173	61,177	60,855	61,673	63,295	63,819	63,698	62,687	61,829
Service retirees	40,140	38,438	36,614	33,741	31,974	30,377	29,234	28,064	26,955	25,648
Beneficiaries	3,071	2,980	2,882	2,809	2,709	2,611	2,517	2,409	2,311	2,212
Disability	832	828	814	786	774	759	745	719	703	679
Inactive, vested	9,513	9,113	8,615	9,648	9,333	9,054	8,459	8,408	8,298	8,369
Inactive-nonvested	31,535	27,476	25,482	24,384	23,678	22,782	22,115	21,574	21,644	21,581
Total	146,089	140,008	135,584	132,223	130,141	128,878	126,889	124,872	122,598	120,318

New Mexico Educational Retirement Board

STATISTICS SECTION

Demographic and Economic Information - Continued

State of New Mexico Educational Retirement Board

Principal Employers Ranked by Number of Employees in Active Status

Employer Name	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		June 30, 2006	
Albuquerque Public Schools	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%	12,306	20%
University of New Mexico	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%	8,035	13%
New Mexico State University	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%	4,790	8%
Las Cruces Public Schools	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%	3,967	6%
Gallup McKinley County Schools	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%	2,194	4%
Rio Rancho Public Schools	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%	1,503	2%
Gadsden Independent School	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%	1,994	3%
Central New Mexico Community College	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%	1,702	3%
Santa Fe Public Schools	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%	1,714	3%
Farmington Public Schools	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%	1,301	2%
All other active employees	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%	22,323	35%
Total	60,998	100%	61,173	100%	61,177	100%	60,855	100%	63,297	100%	63,297	100%	63,822	100%	63,822	100%	63,822	100%	61,829	100%

New Mexico Educational Retirement Board

STATISTICS SECTION

Demographic and Economic Information - Continued

Years of Credited Service and Average Annual Compensation for Active Members

Member Age	Years of Credited Service												Total by Member Age
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	
	Count & Avg Comp	Count & Avg Comp	Count & Avg Comp	Count & Avg Comp	Count & Avg Comp	Count & Avg Comp	Count & Avg Comp	Count & Avg Comp	Count & Avg Comp	Count & Avg Comp	Count & Avg Comp	Count & Avg Comp	
Under 25	495 \$ 16,693	559 23,024	196 23,091	56 23,342	24 20,809	8 14,072	- -	- -	- -	- -	- -	- -	1,338 \$ 20,611
25-29	605 \$ 26,123	1,165 29,980	868 30,925	649 32,307	368 35,474	465 34,371	8 26,235	- -	- -	- -	- -	- -	4,128 \$ 30,956
30-34	494 \$ 28,539	897 33,532	791 34,259	631 34,171	501 36,297	1,990 42,290	421 42,778	8 30,099	- -	- -	- -	- -	5,733 \$ 37,228
35-39	739 \$ 25,995	1,039 34,506	723 35,827	594 38,509	423 40,348	1,909 43,294	1,573 49,683	325 49,677	5 42,807	- -	- -	- -	7,330 \$ 40,664
40-44	338 \$ 30,159	640 32,953	569 35,745	513 37,309	412 40,276	1,834 42,727	1,743 48,889	1,365 54,568	238 51,520	2 38,531	- -	- -	7,654 \$ 44,128
45-49	316 \$ 30,357	609 33,556	493 33,696	428 36,074	341 37,820	1,834 42,331	1,733 46,950	1,449 51,272	1,021 56,742	146 56,197	3 62,526	- -	8,373 \$ 44,738
50-54	301 \$ 30,004	518 33,586	455 35,303	373 35,292	352 35,064	1,694 42,781	1,721 43,598	1,661 47,610	1,279 54,214	536 59,436	94 55,341	3 49,538	8,168 \$ 44,634
55-59	217 \$ 32,518	457 36,769	359 36,705	327 37,598	267 38,351	1,540 43,918	1,633 43,544	1,637 46,624	1,317 52,801	617 63,570	252 66,996	67 55,232	8,690 \$ 46,488
60-64	137 \$ 38,416	296 33,553	248 41,246	256 37,698	173 42,061	1,150 44,400	1,223 45,126	916 47,388	715 54,632	479 63,869	193 71,140	123 70,887	5,909 \$ 48,081
65&Over	82 \$ 29,991	179 29,803	146 34,255	133 32,087	111 35,976	715 45,801	488 44,472	337 49,756	236 57,051	203 74,384	110 87,647	116 98,141	2,856 \$ 49,672
Total by Years of Service	3,724 \$ 27,114	6,359 32,194	4,848 34,198	3,960 35,522	2,972 37,735	13,139 42,835	10,543 46,095	7,698 49,460	4,811 54,420	1,983 63,064	652 70,006	309 77,517	60,998 \$ 42,793

New Mexico Educational Retirement Board

STATISTICS SECTION

Demographic and Economic Information - Continued

Participating New Mexico Employers by County

Employer Name	Category	Employer Code	County
Amy Biehl High School	Charter School	02303	Bernalillo
East Mountain High School	Charter School	02304	Bernalillo
Twenty-First Century Public Academy	Charter School	02308	Bernalillo
South Valley Academy	Charter School	02309	Bernalillo
Southwest Secondary Learning Center	Charter School	02310	Bernalillo
Nuestros Valores Charter School	Charter School	02311	Bernalillo
Roots And Wings Community School	Charter School	02313	Bernalillo
Robert F Kennedy Charter School	Charter School	02318	Bernalillo
Public Academy For Performing Arts	Charter School	02320	Bernalillo
Los Puentes Charter School	Charter School	02322	Bernalillo
El Camino Real Academy	Charter School	02323	Bernalillo
Horizon Academy West	Charter School	02327	Bernalillo
North Valley Academy	Charter School	02328	Bernalillo
La Academia De Esperanza	Charter School	02329	Bernalillo
Montessori-Rio Grande Charter Sch	Charter School	02334	Bernalillo
Cesar Chavez Community School	Charter School	02336	Bernalillo
Creative Education Prep Institute #1	Charter School	02338	Bernalillo
Gilbert L Sena Charter High School	Charter School	02339	Bernalillo
Integrated Academics & Technologies	Charter School	02340	Bernalillo
Alb Institute for Math & Science-UNM	Charter School	02341	Bernalillo
Mountain Mahogany Community	Charter School	02342	Bernalillo
La Promesa Early Learning	Charter School	02343	Bernalillo
Academy Of Trades And Technology	Charter School	02344	Bernalillo
Southwest Intermediate Learning Ctr	Charter School	02345	Bernalillo
Southwest Primary Learning Center	Charter School	02346	Bernalillo
Digital Arts And Technology Academy	Charter School	02350	Bernalillo
The Montessori Elementary School	Charter School	02351	Bernalillo
Christine Duncan's Heritage Academy	Charter School	02353	Bernalillo
Native American Community Academy	Charter School	02354	Bernalillo
Alice King Community School	Charter School	02356	Bernalillo
La Resolana Leadership Academy	Charter School	02357	Bernalillo
Bataan Military Academy	Charter School	02360	Bernalillo
Alb Talent Development Secondary Ch	Charter School	02361	Bernalillo
Gordon Bernell Charter School	Charter School	02362	Bernalillo
Corrales International School	Charter School	02363	Bernalillo
Cottonwood Classical Prep School	Charter School	02364	Bernalillo
Media Arts Collaborative Charter Sch	Charter School	02365	Bernalillo

New Mexico Educational Retirement Board

STATISTICS SECTION

Demographic and Economic Information - Continued

Participating New Mexico Employers by County

Employer Name	Category	Employer Code	County
Cien Aguas International School	Charter School	02367	Bernalillo
International School - Mesa Del Sol	Charter School	02368	Bernalillo
Tierra Adentro Of New Mexico	Charter School	02370	Bernalillo
Ace Leadership High School	Charter School	02390	Bernalillo
South Valley Preparatory School	Charter School	02396	Bernalillo
Albuquerque Sign Language Academy	Charter School	02402	Bernalillo
Albuquerque School Of Excellence	Charter School	02412	Bernalillo
The Great Academy	Charter School	02413	Bernalillo
NM International School	Charter School	02414	Bernalillo
Wm & Josephine Dorn Comm Sch	Charter School	02417	Bernalillo
Sage Montessori Charter School	Charter School	02418	Bernalillo
SW Aeronautics Math & Science Acad	Charter School	02420	Bernalillo
Coral Community Charter School	Charter School	02421	Bernalillo
Mission Achievement & Success Sch	Charter School	02425	Bernalillo
Health Leadership Community School	Charter School	02430	Bernalillo
Explore Academy	Charter School	02432	Bernalillo
Albuquerque Public Schools	Public School	02003	Bernalillo
New Mexico Activities Association	State Agency	02148	Bernalillo
Central Regional Education Coop	State Agency	02150	Bernalillo
University Of New Mexico	Universities & Colleges	02095	Bernalillo
Central NM Community College	Universities & Colleges	02123	Bernalillo
University Hospitals	Universities & Colleges	02295	Bernalillo
Quemado Independent Schools	Public School	28084	Catron
Reserve Independent Schools	Public School	28085	Catron
Sidney Gutierrez Middle School	Charter School	04317	Chaves
Dexter Consolidated Schools	Public School	04008	Chaves
Hagerman Municipal Schools	Public School	04009	Chaves
Lake Arthur Municipal Schools	Public School	04010	Chaves
Roswell Independent Schools	Public School	04011	Chaves
New Mexico Military Institute	Special State Schools	04097	Chaves
Moreno Valley High School	Charter School	09324	Colfax
Cimarron Municipal Schools	Public School	09027	Colfax
Maxwell Municipal Schools	Public School	09028	Colfax
Raton Public Schools	Public School	09029	Colfax
Springer Municipal Schools	Public School	09030	Colfax
High Plains Reg Ed Coop #3	State Agency	09150	Colfax
Clovis Municipal Schools	Public School	05012	Curry

New Mexico Educational Retirement Board

STATISTICS SECTION Demographic and Economic Information - Continued

Participating New Mexico Employers by County

Employer Name	Category	Employer Code	County
Melrose Schools	Public School	05014	Curry
Texico Municipal Schools	Public School	05015	Curry
Regional Educational Center # 6	State Agency	05016	Curry
Clovis Community College	Universities & Colleges	05011	Curry
Fort Sumner Municipal Schools	Public School	27083	DeBaca
Alma D'Arte Charter High School	Charter School	07335	Dona Ana
La Academia Dolores Huerta	Charter School	07337	Dona Ana
Las Montanas Charter High School	Charter School	07338	Dona Ana
Anthony Charter School	Charter School	07339	Dona Ana
Health Sciences Academy	Charter School	07347	Dona Ana
J Paul Taylor Academy	Charter School	07420	Dona Ana
New America School-Las Cruces	Charter School	07421	Dona Ana
Gadsden Independent Schools	Public School	07021	Dona Ana
Hatch Valley Public Schools	Public School	07022	Dona Ana
Las Cruces Public Schools	Public School	07023	Dona Ana
New Mexico State University	Universities & Colleges	07098	Dona Ana
Jefferson Montessori Academy	Charter School	03321	Eddy
Artesia Public Schools	Public School	03004	Eddy
Carlsbad Municipal Schools	Public School	03005	Eddy
Loving Municipal Schools	Public School	03006	Eddy
Aldo Leopold High School	Charter School	08347	Grant
Cobre Consolidated Schools	Public School	08024	Grant
Silver Consolidated Schools	Public School	08026	Grant
Western New Mexico University	Universities & Colleges	08099	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	06016	Lea
Hobbs Municipal Schools	Public School	06017	Lea
Jal Public Schools	Public School	06018	Lea
Lovington Municipal Schools	Public School	06019	Lea
Tatum Municipal Schools	Public School	06020	Lea
Regional Educational Coop #7	State Agency	06150	Lea
New Mexico Junior College	Universities & Colleges	06124	Lea

New Mexico Educational Retirement Board

STATISTICS SECTION

Demographic and Economic Information - Continued

Participating New Mexico Employers by County

Employer Name	Category	Employer Code	County
Carrizozo Municipal Schools	Public School	26078	Lincoln
Corona Public Schools	Public School	26079	Lincoln
Hondo Valley Public Schools	Public School	26080	Lincoln
Ruidoso Municipal School District	Public School	26081	Lincoln
Region IX Educational Cooperative	State Agency	26150	Lincoln
Los Alamos Public Schools	Public School	32093	Los Alamos
Deming Cesar Chavez Charter High Sch	Charter School	19301	Luna
Deming Public Schools	Public School	19059	Luna
Middle College High School	Charter School	13369	McKinley
Uplift Community School	Charter School	13430	McKinley
Gallup Mckinley County Schools	Public School	13041	McKinley
Zuni Public Schools	Public School	13142	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
NM Sch for Blind - Visually Impaired	Special State Schools	15104	Otero
San Jon Schools	Public School	10032	Quay
Tucumcari Public Schools	Public School	10033	Quay
House Municipal Schools	Public School	10119	Quay
Logan Municipal Schools	Public School	10120	Quay
Mesalands Community College	Universities & Colleges	10141	Quay
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
Espanola Public Schools	Public School	17054	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
Northern New Mexico College	Universities & Colleges	17105	Rio Arriba
Elida Municipal Schools	Public School	11034	Roosevelt
Portales Municipal Schools	Public School	11035	Roosevelt
Dora Consolidated Schools	Public School	11117	Roosevelt
Floyd Municipal Schools	Public School	11118	Roosevelt
ENMU - Portales	Universities & Colleges	11101	Roosevelt
Eastern NM University - Roswell	Universities & Colleges	11102	Roosevelt

New Mexico Educational Retirement Board

STATISTICS SECTION

Demographic and Economic Information - Continued

Participating New Mexico Employers by County

Employer Name	Category	Employer Code	County
Mosaic Academy Charter	Charter School	16356	San Juan
Carinos Charter School	Charter School	16357	San Juan
New Mexico Virtual Academy	Charter School	16358	San Juan
Aztec Municipal Schools	Public School	16050	San Juan
Bloomfield Schools	Public School	16051	San Juan
Farmington Municipal Schools	Public School	16052	San Juan
Central Consolidated Schools	Public School	16053	San Juan
San Juan College	Universities & Colleges	16155	San Juan
Rio Gallinas School	Public School	12326	San Miguel
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
Pecos Valley Rec #8	State Agency	12150	San Miguel
Northeast Regional Education Coop	State Agency	12151	San Miguel
New Mexico Highlands University	Universities & Colleges	12102	San Miguel
Luna Community College	Universities & Colleges	12128	San Miguel
San Diego Riverside Charter School	Charter School	29305	Sandoval
Walatowa Charter High School	Charter School	29330	Sandoval
The Ask Academy	Charter School	29408	Sandoval
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
Northwest Regional Education #2	State Agency	29150	Sandoval
Academy For Technology & Classics	Charter School	01301	Santa Fe
Monte Del Sol Charter School	Charter School	01306	Santa Fe
Turquoise Trail Charter School	Charter School	01315	Santa Fe
Tierra Encantada Charter School	Charter School	01343	Santa Fe
The Masters Program	Charter School	01398	Santa Fe
New Mexico School For The Arts	Charter School	01416	Santa Fe
New Mexico Connections Academy	Charter School	01418	Santa Fe
Pojoaque Valley Schools	Public School	01001	Santa Fe
Santa Fe Public Schools	Public School	01002	Santa Fe
New Mexico School For The Deaf	Special State Schools	01094	Santa Fe
State of New Mexico	State Agency	01341	Santa Fe
Santa Fe Community College	Universities & Colleges	01003	Santa Fe

New Mexico Educational Retirement Board

STATISTICS SECTION

Demographic and Economic Information - Continued

Participating New Mexico Employers by County

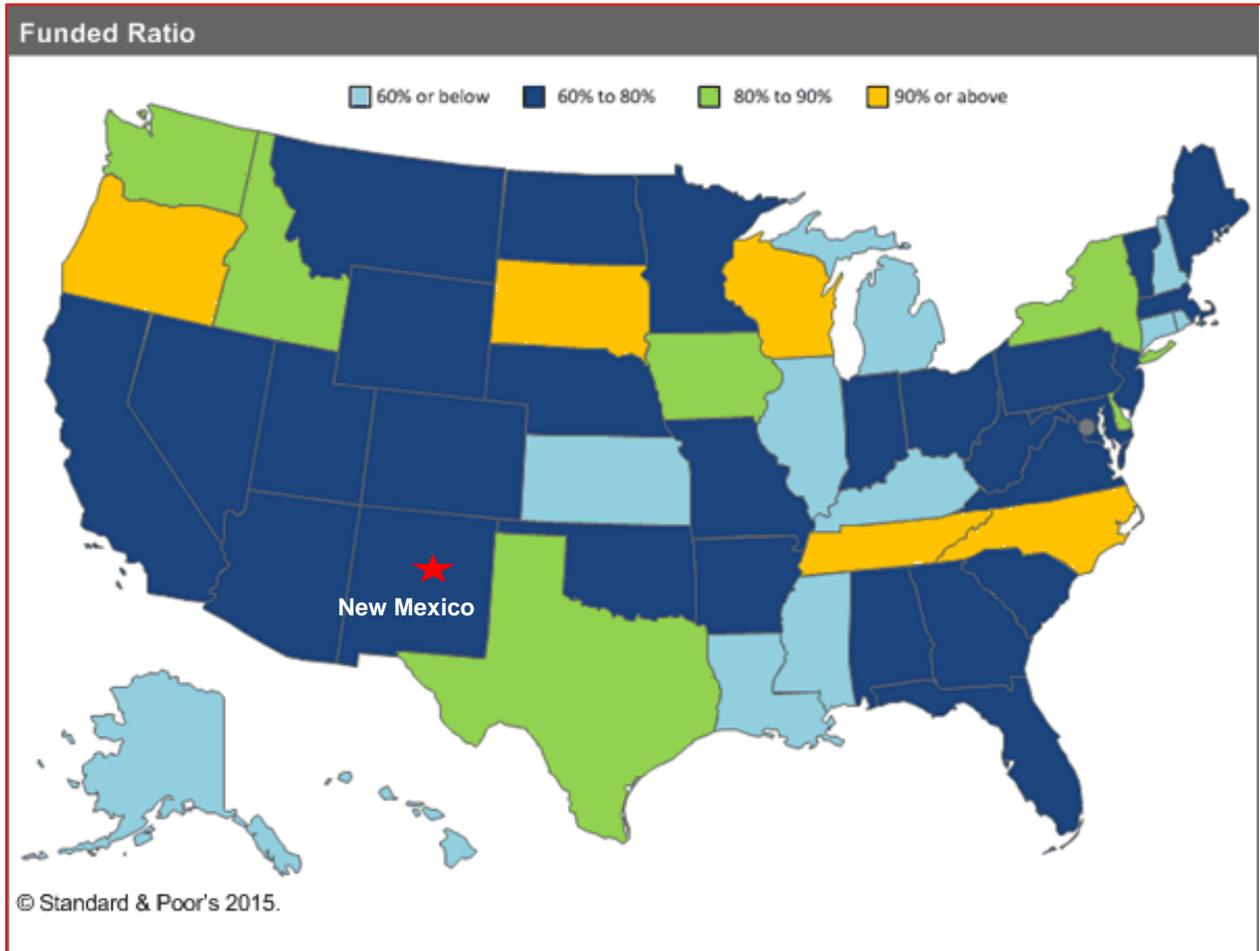
Employer Name	Category	Employer Code	County
Southwest Reg Ed Coop #10	State Agency	21150	Sierra
Cottonwood Valley Charter Schools	Charter School	25319	Socorro
Magdalena Municipal Schools	Public School	25075	Socorro
Socorro Consolidated Schools	Public School	25076	Socorro
NM Institute of Mining & Technology	Special State Schools	25106	Socorro
Taos International School	Charter School	20435	Taos
Taos Academy Charter School	Charter School	20265	Taos
La Jicarita Community School	Charter School	20266	Taos
Taos Charter School	Charter School	20307	Taos
Red River Valley Charter Schools	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
Penasco Independent Schools	Public School	20060	Taos
Taos Municipal Schools	Public School	20062	Taos
Questa Independent Schools	Public School	20125	Taos
Estancia Valley Classical Academy	Charter School	22201	Torrance
Estancia Municipal Schools	Public School	22065	Torrance
Moriarty-Edgewood School District	Public School	22066	Torrance
Mountainair Public Schools	Public School	22067	Torrance
Clayton Municipal Schools	Public School	18056	Union
Des Moines Municipal Schools	Public School	18057	Union
School Of Dreams Academy	Charter School	14366	Valencia
Belen Consolidated Schools	Public School	14043	Valencia
Grants-Cibola County Schools	Public School	14044	Valencia
Los Lunas Schools	Public School	14045	Valencia

New Mexico Educational Retirement Board

STATISTICS SECTION

Demographic and Economic Information - Continued

Net Pension Liability Funding Ratio by State



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. As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded.

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.

Glossary of Acronyms - Continued

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.

Glossary of Acronyms - Continued

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 550 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.

Glossary of Acronyms - Continued

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,

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This publication may be found on the New Mexico Educational Retirement Board's website.

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