

# 2014

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014  
NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
PENSION TRUST FUND OF THE STATE OF NEW MEXICO





**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2014**

Prepared by the staff of the New Mexico Educational Retirement Board  
Available online at [www.nmerb.org](http://www.nmerb.org)

# Table of Contents

|   |           |
|---|-----------|
| <b>INTRODUCTORY SECTION.....</b>  | <b>4</b>  |
| Professional Awards .....   | 4         |
| Executive Director’s Letter .....   | 6         |
| Chief Financial Officer’s Letter .....                                      | 9         |
| About NMERB .....   | 10        |
| Functional Organization Chart .....   | 10        |
| Functional Workgroups .....   | 11        |
| The NMERB Workforce .....   | 12        |
| Our Staff as of June 30, 2014.....  | 13        |
| Board of Trustees.....  | 14        |
| The Business of the Board of Trustees .....                                 | 15        |
| Mission and Vision Statements .....   | 15        |
| Strategic Planning.....   | 15        |
| Key Consultants and Service Providers .....                                 | 16        |
| <b>FINANCIAL SECTION.....</b>   | <b>17</b> |
| Report of Independent Auditors .....  | 17        |
| Management’s Discussion and Analysis.....                                   | 20        |
| Condensed Statement of Fiduciary Net Position .....                         | 23        |
| Condensed Statement of Changes in Fiduciary Net Position .....              | 24        |
| Statement of Fiduciary Net Position .....                                   | 26        |
| Statement of Changes in Fiduciary Net Position .....                        | 27        |
| Required Supplementary Information.....                                     | 54        |
| <b>ACTUARIAL SECTION .....</b>  | <b>64</b> |
| Actuarial Certification Letter.....   | 64        |
| Annual Valuation Report.....  | 69        |
| Annual Valuation Report – Supporting Exhibits .....                         | 75        |
| Annual Valuation Report – Summary of Plan Provisions .....                  | 95        |
| Annual Valuation Report – Summary of Actuarial Methods and Assumptions..... | 101       |
| Annual Valuation Report – Actuarial Glossary.....                           | 108       |

|   |            |
|---|------------|
| <b>INVESTMENT SECTION .....</b>                               | <b>112</b> |
| <b>Chief Investment Officer’s Letter.....</b>                 | <b>112</b> |
| <b>Investment Objectives.....</b>                             | <b>114</b> |
| <b>Investment Process.....</b>                                | <b>114</b> |
| <b>Investment Asset Allocation Policy .....</b>               | <b>115</b> |
| <b>Investment Performance.....</b>                            | <b>116</b> |
| <b>Summary of Largest Investment Holdings .....</b>           | <b>117</b> |
| <b>STATISTICS SECTION .....</b>                               | <b>119</b> |
| <b>Summary.....</b>   | <b>119</b> |
| <b>Financial Trends.....</b>                                  | <b>119</b> |
| <b>Operating Information.....</b>                             | <b>124</b> |
| <b>Demographic and Economic Information - Continued .....</b> | <b>125</b> |
| <b>Participating New Mexico Employers by County .....</b>     | <b>128</b> |
| <b>Glossary of Acronyms .....</b>                             | <b>134</b> |

# New Mexico Educational Retirement Board

## INTRODUCTORY SECTION Professional Awards

### Pension Standards Award for Standards and Administration

The Public Pension Coordinating Council (PPCC) awarded a **Pension Standards Award for Standards and Administration** for the fiscal year ended June 30, 2014. 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***

**2014**

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

### Government Finance Officers Association Certificate of Excellence in Reporting

The Government Finance Officers Association (GFOA) established the Achievement in Excellence in reporting Program (CAFR Program) in 1945 to encourage and assist state and local governments to go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure and then to recognize individual governments that succeed in achieving that goal. The goal of the program is not to assess the financial health of participating governments, but rather to ensure that users of their financial statements have the information they need to do so themselves.

GFOA's Executive Board instituted the Award for Outstanding Achievement in Popular Financial Reporting program to encourage governments to prepare popular annual financial reports (PAFRS) specifically designed to meet the needs of interested parties who may be unable or unwilling to use traditional financial reports. The goal of the program is not to replace reports prepared in conformity with generally accepted accounting principles (GAAP), but to supplement such reports so as to make the information they contain more readily accessible to a broader audience than that served by traditional financial reporting.

### Government Finance Officers Association Popular Annual Reporting Program



# ***New Mexico Educational Retirement Board***

## **INTRODUCTORY SECTION**

### **Executive Director's Letter**

**December 31, 2014**

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

The Comprehensive Annual Financial Report (CAFR) for fiscal year 2014 is a presentation of the fiscal year's financial results, and it provides useful information to evaluate the financial condition of the Plan.

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, 2014 and 2013. The independent auditor's report is located at the beginning of the financial section of this report in Financial Section. 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 an improved net fiduciary position for the New Mexico Educational Retirement Board Fund (Fund). The fair value of investment assets in our public pension portfolio ended the year at \$11.3 billion, outperforming the policy index by 0.7% and ranking in the 79<sup>th</sup> percentile of the Investor Force Public Funds > \$1 Billion universe. Over the past five (5) years the Fund returned 12.9% per annum gross of fees, outperforming the Plan's actuarially assumed rate of 7.75%. In fact, NMERB's net fiduciary position increased by \$1.154 billion, or an 11.33% increase when compared to the net fiduciary position on June 30, 2013. Management is committed to a sustainable and sound pension fund now and in the future.

The number of active members remained stable decreasing slightly from 61,177 to 61,173, while the retiree population increased from 40,310 to 42,246, or an increase of 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 are focusing 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, 2014 NMERB continued focus on improving service delivery and the overall security of our data and our systems. We are nearing completion of a multi-year upgrade of our core retirement software. Upon completion of the software upgrade within the first quarter of next fiscal year, we will begin customizing the core application used throughout the organization to increase its functionality for staff, members, and participating employers. This critical step opens the way for IT to concentrate on planning and implementation of our Disaster Recovery and Business Continuity Plan.

Staff continue to manage priorities and progress toward meeting NMERB's 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 2014 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.



# New Mexico Educational Retirement Board

## INTRODUCTORY SECTION

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

### Funding

The funded condition of the plan, as measured by ratio of the actuarial value of assets to the actuarial accrued liability, increased from 60.1% in fiscal year 2013 to 63.1% in fiscal year 2014. The increase was primarily due to the gain on the actuarial value of assets. The Plan's funding period as of the valuation date is 42.1 years, compared with a 95.1 year period calculated as of the prior actuarial valuation date.

One of NMERB's primary revenue sources is employer and employee contributions remitted by New Mexico public schools, colleges, and universities. We will be working with these employers to ensure a smooth transition to a new reporting interface through the core retirement application upgrade. An efficient payment mechanism for reporting and paying in contributions is a critical system component to our educational employers. Total contributions in fiscal year 2014 were \$631,156,528, which was 15.08% higher than in the prior year due to an increase in both employer and employee contribution rates.

### 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 strategy to maintain a 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](http://www.nmerb.org)

# New Mexico Educational Retirement Board

## INTRODUCTORY SECTION

### Chief Financial Officer's Letter

**December 31, 2014**

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

In addition to including the audited financial statements compiled for the fiscal years ended June 30, 2014 and 2013, 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**

Website enhancement and outreach initiatives are targeted to provide "secure retirement benefits for New Mexico's educational employees - past, present, and future."

NMERB is strengthening its interaction 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.

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](http://www.nmerb.org)

# New Mexico Educational Retirement Board

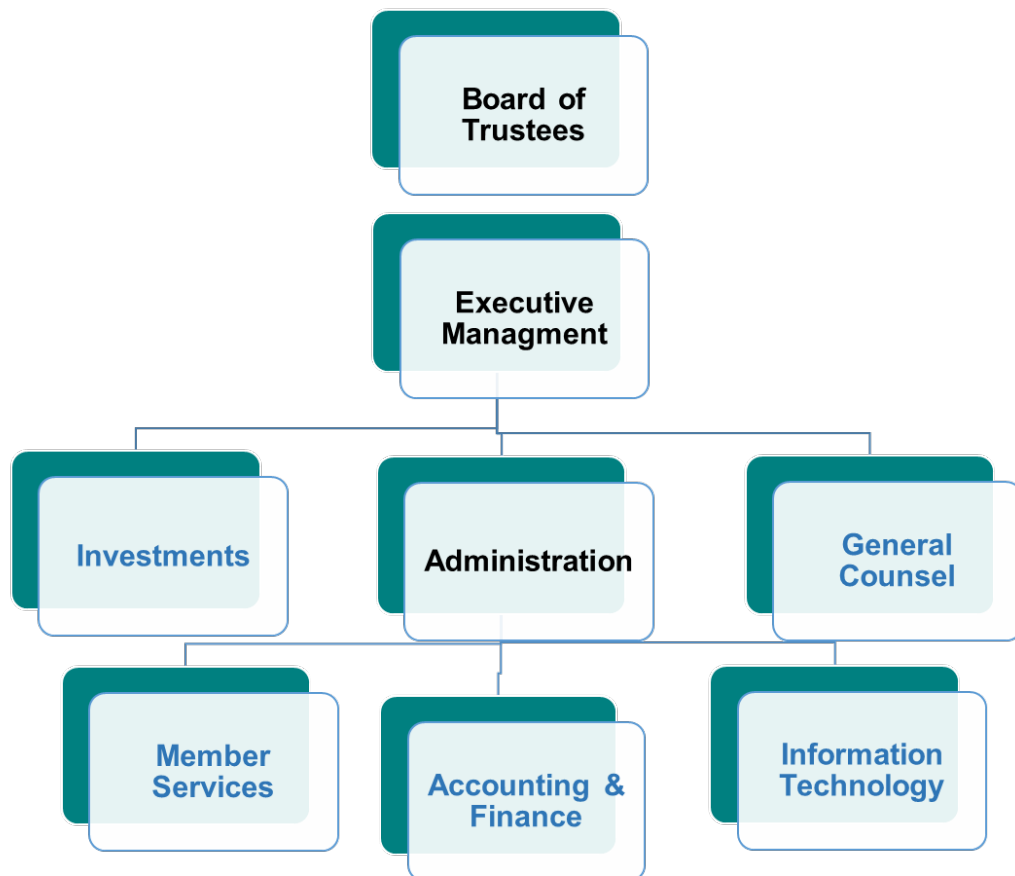
## INTRODUCTORY SECTION

### About NMERB

The New Mexico Educational Retirement Board (NMERB) is headquartered in Santa Fe, New Mexico to provide retirement benefit services to more than 140,000 members and 213 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 2014 the Agency was budgeted for sixty-five (65) full-time permanent positions and two full-time term positions. The Agency also hires employees into temporary positions to help manage records and customer service during peak retirement months. As of the year end ten (10) of the full-time 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.

# New Mexico Educational Retirement Board

## INTRODUCTORY SECTION

### Our Staff as of June 30, 2014

| <b>Executive Management</b>      |                  |                    |
|----------------------------------|------------------|--------------------|
| <i>Executive Director</i>        |                  | Jan Goodwin        |
| <i>Deputy Director</i>           |                  | Rick Scroggins     |
| <i>Human Resources Manager</i>   |                  | Patrick Herrera    |
| <b>Investment Division</b>       |                  |                    |
| <i>Chief Investment Officer</i>  |                  | Bob Jacksha        |
| <i>Investment Officer</i>        |                  | Steve Neel         |
| Aaron Armstrong                  | Kay Chippeaux    | Alan Myers         |
| Mark Canavan                     |                  | Christine Ortega   |
| <b>Legal Division</b>            |                  |                    |
| <i>General Counsel</i>           |                  | Chris Bulman       |
| <i>Assistant Deputy Counsel</i>  |                  | Robert Shulman     |
| Amanda Olsen                     | Anita Tellez     | Margo Salazar      |
| <b>Member Services</b>           |                  |                    |
| <i>Member Services Manager</i>   |                  | Kathy Webb         |
| <i>Benefits Manager</i>          |                  | Karla Leyba        |
| <i>Payroll Supervisor</i>        |                  | Raul Duran         |
| Cordelia Anaya                   | Barbara Feeney   | Cynthia Martinez   |
| Sara Cordova                     | Renee Garcia     | Melissa McFall     |
| Jocelyn Coriz                    | Starlene Lucero  | Jennifer Vigil     |
| Laura Crawforth                  | Jerome Lopez     | Crystal Vigil      |
| Joan Duran-Kuck                  | Jessica Maestas  | Rosa Weese         |
| <b>Information Technology</b>    |                  |                    |
| <i>Chief Information Officer</i> |                  | Jon Lucero         |
| Frank Arrellano                  | Robert Hampton   | Karyn Lujan        |
| Jonas Aylward                    | Nicole Jaramillo | Matthew Martinez   |
| Chad DeGroot                     |                  | Bea Pacheco        |
| <b>Accounting and Finance</b>    |                  |                    |
| <i>Chief Financial Officer</i>   |                  | Dianne L. Rossbach |
| <i>Operations Manager</i>        |                  | Debbi Lucero       |
| <i>School Reporting Manager</i>  |                  | Melinda Marquez    |
| <i>Accounting Manager</i>        |                  | Robert Cardon      |
|                                  | Kevin Long       |                    |
| Elizabeth Fischer                | Megan Mannila    | Angelina Romero    |
| Michelle Lopez-Montoya           | Stephanie Ortiz  | 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.

| <b>Trustee Name</b> | <b>Title</b>      | <b>Term</b>  |
|---------------------|-------------------|--|
| Mary Lou Cameron    | Chairman          | June 30, 2017                                      |
| H. Russell Goff     | Vice-Chairman     | June 30, 2016                                      |
| Hipolito J. Aguilar | Secretary         | Designate for Hanna Skandera,<br>Ex-officio Member |
| Beulah Woodfin      | Member            | June 30, 2016                                      |
| Larry Magid         | Member            | June 30, 2017                                      |
| Hanna Skandera      | Ex-officio Member | Secretary, Public Education Department             |
| James Lewis         | 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 appraises 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

|                               |   |
|-------------------------------|---|
| <b>Actuary</b>                | <b>Gabriel Roeder Smith &amp; Company</b><br>5605 N. MacArthur Blvd., Suite 870<br>Irving, TX 75038-2631  |
| <b>Auditor</b>                | <b>Moss Adams LLP</b><br>6565 Americas Parkway NE<br>Albuquerque, NM 87110  |
| <b>Investment Consultants</b> | <b>NEPC, LLC</b><br>255 State Street<br>Boston, MA 02109<br><b>Real Asset Portfolio Management</b><br>15350 SW Sequoia Pkwy, Suite 105<br>Portland, OR 97224<br><b>Caledon Capital Management, Inc.</b><br>141 Adelaide Street, Suite 1500<br>Toronto, Ontario M5H 3L5  |
| <b>Custody Bank</b>           | <b>J. P. Morgan</b><br>2200 Ross Avenue<br>Dallas, TX 75201   |
| <b>Legal Services</b>         | <b>Foster Pepper, PLLC</b><br>1111 Third Ave<br>Seattle, WA 98101<br><b>Freedman Boyd Holander Goldberg Urias Ward</b><br>200 3 <sup>rd</sup> St NW, Suite 700<br>Albuquerque, NM 87102<br><b>Groom Law Group, Chartered</b><br>1701 Pennsylvania Avenue, NW<br>Washington, DC 20006<br><b>K &amp; L Gates, LLP</b><br>925 4 <sup>th</sup> Ave Suite 290<br>Seattle, WA 98104 |
| <b>Software Maintenance</b>   | <b>ViTech Systems Group, LLC</b><br>401 Park Ave South<br>New York, NY 10016  |

# New Mexico Educational Retirement Board

## FINANCIAL SECTION

### Report of Independent Auditors

The Members of the State of New Mexico  
Educational Retirement Board

and

Mr. Hector H. Balderas  
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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the ERB’s basic financial statements as listed in the table of contents. We have also audited the Schedule of Revenues and Expenses-Budget to Actual for the New Mexico Educational Retirement Board presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements as of and for the year ended June 30, 2014, 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

# New Mexico Educational Retirement Board

## FINANCIAL SECTION

### Independent Auditor's Report - Continued

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2014 and 2013, 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. Also, in our opinion, the Schedule of Revenues and Expenses - Budget and Actual, presents fairly the revenues and expenses for the year ended June 30, 2014 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 on pages 7 through 16 and 54 through 57, respectively, 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.

##### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ERB's basic financial statements. The schedule of cash accounts, schedule of administrative, consultant, and budgeted investment expenses, and the schedule of accountability in government act – performance measures on pages 59 through 61 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

# New Mexico Educational Retirement Board

## FINANCIAL SECTION

### Independent Auditor's Report - Continued

The schedule of cash accounts, schedule of administrative, consultant, and budgeted investment expenses, and the schedule of accountability in government act – performance measures is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of cash accounts, schedule of administrative, consultant, and budgeted investment expenses, and the schedule of accountability in government act – performance measures is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 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.



Albuquerque, New Mexico  
December 15, 2014

# New Mexico Educational Retirement Board

## FINANCIAL SECTION

### Management's Discussion and Analysis

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended June 30, 2014, 2013 and 2012

#### INTRODUCTION

The New Mexico Educational Retirement Board (ERB) was created by the state's Educational Retirement Act to administer the New Mexico Educational Employees' Retirement Plan (Plan). The Plan is a cost sharing, multiple employer plan established to provide retirement and disability benefits for employees of the state's public schools, institutions of higher learning, and agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico.

This section presents management's discussion and analysis of ERB's financial position and performance for the fiscal year ended June 30, 2014, including comparisons to fiscal years June 30, 2013 and June 30, 2012. It is presented as a narrative overview and analysis, and should be read in conjunction with the financial statements and other detailed information presented within the notes and supplementary information sections. Throughout the discussion and analysis units of measure (i.e. billions, millions, or thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

#### FINANCIAL HIGHLIGHTS

- **Net Position:** ERB's net fiduciary position increased \$1,154.3 million, or 11.33%, during fiscal year 2014, primarily due to appreciation in the fair market value of the markets. This improvement follows an increase of \$702.7 million, or 7.41%, during the prior fiscal year 2013. The primary element of ERB's net fiduciary position is the fair market value of the investment portfolio.
- **Return on Investments:** ERB's rate of return on investments during fiscal year 2014 was a 14.71% increase, compared with an 11.12% increase in fiscal year 2013, and a 1.87% increase in fiscal year 2012. The increases in the rate of return are due primarily to increases in market performance. The portfolio return outperformed the fund's policy index return by 0.7% during fiscal year 2014.
- **Long Term Investments:** ERB's investment holdings increased \$1,587.0 billion, or 16.81%, in fiscal year 2014 after increasing \$261.3 million, or 2.85%, in fiscal year 2013.
- **Cash and Cash Equivalents:** Total cash and cash equivalents decreased \$470.7 million as of June 30, 2014 after increasing \$429.6 million in fiscal year 2013 when compared to fiscal year 2012. It is normal for the cash balance, as of a specific date, to fluctuate as ERB adjusts investment portfolio. For example, at June 30, 2013 ERB was transitioning between fund managers, explaining the increased cash on hand for that year-end. ERB's cash target allocation range for fiscal years 2014, 2013, and 2012 was between 0% and 10%. ERB has been in compliance with its cash target allocation throughout all three years.

# New Mexico Educational Retirement Board

## FINANCIAL SECTION

### Management Discussion and Analysis - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended June 30, 2014, 2013 and 2012

- **Total Investments:** The market value of the total ERB asset portfolio at June 30, 2014 was \$11.3 billion. Fund performance is shown in the following table.

#### Fund Performance Summary

| <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> | <u>10 Year</u> | <u>15 Year</u> | <u>20 Year</u> | <u>25 Year</u> | <u>30 Year</u> |
|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| 14.6%         | 9.1%          | 12.9%         | 7.5%           | 5.6%           | 8.2%           | 8.9%           | 10.0%          |

- **Receivables:** Total receivables decreased \$28.5 million during fiscal year 2014 after increasing \$11.2 million during fiscal year 2013. The majority of changes are related to the timing of investment sales. The fiscal year 2013 increase relates to a larger volume of investments sold at or near fiscal year end as compared to fiscal year 2014 or fiscal year 2012. Securities sales and purchases in the United States equity markets are usually based on “trade date + 3 days,” meaning the transaction will settle three business days after initiation. The number of days varies in other U.S. and foreign securities markets.
- **Contributions:** Employer and member contributions increased \$82.7 million, or 15.08% in fiscal year 2014 after increasing \$4.7 million, or 0.87%, in fiscal year 2013. Annual contribution totals vary year over year based on legislative rate changes, increases (or decreases) in the number of educators reported by Local Administrative Units, and on changing economic factors. The fiscal year 2014 combined total employer and member contribution rates increased 2.95% over the combined total for fiscal 2013. The rates in place for fiscal year 2013 had remained unchanged since fiscal year 2011.
- **Benefit Payments:** ERB age and service payments to retirees, including disability benefit payments, increased \$56.6 million, or 6.98%, in fiscal year 2014 over 2013 results, and \$57.2 million, or 7.57%, in fiscal year 2013 over 2012 results. These increases mirror a consistent, though modest, increase in the retiree population and the compounding cost of living adjustments (COLA) to annuity payments as retirees reach applicable age benchmarks.
- **Net Pension Liability:** ERB’s net pension liability for fiscal year 2014 is \$5,705.1 billion. This represents a \$571.1 million, or 9.1%, decrease from the fiscal year 2013 \$6,276.8 billion balance. The 2014 net pension liability stated as a percentage of covered payroll is 209.92%. The decrease in net pension liability is primarily due to investment gains.

# New Mexico Educational Retirement Board

## FINANCIAL SECTION

### Management Discussion and Analysis - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended June 30, 2014, 2013 and 2012

➤ **GASB Updates:** The Governmental Accounting Standards Board Statements issued Statements 67 and 68 in June 2012. They address new annual accounting and financial reporting requirements for pension plans and employers.

❖ The requirements of GASB 67 include changes in presentation of the financial statements, notes to the financial statements, and required supplementary information for ERB as a cost-sharing multiple employer pension plan. Specific changes include an actuarial calculation of total and net pension liability, comprehensive footnote disclosure regarding the pension liability calculation and assumptions, and increased investment activity disclosures. ERB elected to implement these changes beginning with its June 20, 2013 financial statements. The table below represents ERB's fiduciary net pension liability and sensitivity analysis fiscal years 2014 and 2013:

|      | Current Single Rate |                  |                  |
|------|---------------------|------------------|------------------|
|      | Assumption          |                  |                  |
|      | 6.75%               | 7.75%            | 8.75%            |
| 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 |

❖ GASB 68 applies to financial reporting changes that need to be implemented at the employer level, segregating and allocating a portion of the Plan's collective net pension liability to each participating employer based on their annual contributions. GASB 68 is effective for fiscal years beginning after June 15, 2014. ERB has elected to include information regarding the employer's proportionate shares of the net pension liability, deferred outflows and inflows of resources, and pension expense as of June 30, 2014 to ensure employers will have access to the information when they are ready to begin implementation.

## New Mexico Educational Retirement Board

### FINANCIAL SECTION

#### Condensed Statement of Fiduciary Net Position

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
CONDENSED FINANCIAL INFORMATION  
Years Ended June 30, 2014, 2013 and 2012**

|   | <b>Statement of Fiduciary Net Position</b> |                         |                        |                                    |                                    |                               |                               |
|---|--|-------------------------|------------------------|------------------------------------|------------------------------------|-------------------------------|-------------------------------|
|   | <b>FY14</b>                                | <b>FY13</b>             | <b>FY12</b>            | <b>FY14-FY13 \$<br/>Difference</b> | <b>FY13-FY12 \$<br/>Difference</b> | <b>Difference/<br/>FY13 %</b> | <b>Difference/<br/>FY12 %</b> |
| <b>Assets</b>                                       |  |                         |                        |                                    |                                    |                               |                               |
| Cash and short term investments                     | \$ 275,904,706                             | \$ 746,623,052          | \$ 317,056,896         | \$ (470,718,346)                   | \$ 429,566,156                     | -63.05%                       | 135.49%                       |
| Receivables   | 136,141,735                                | 164,616,757             | 153,420,332            | (28,475,022)                       | 11,196,425                         | -17.30%                       | 7.30%                         |
| Investment in state general fund<br>investment pool | 1,804,456                                  | 5,353,975               | 5,521,436              | (3,549,519)                        | (167,461)                          | -66.30%                       | -3.03%                        |
| Investments - at fair value                         | 11,026,291,924                             | 9,439,289,300           | 9,177,972,688          | 1,587,002,624                      | 261,316,612                        | 16.81%                        | 2.85%                         |
| Capital assets, net of<br>accumulated depreciation  | 2,028,628                                  | 2,175,777               | 2,862,746              | (147,149)                          | (686,969)                          | -6.76%                        | -24.00%                       |
| <b>Total assets</b>                                 | <u>\$ 11,442,171,449</u>                   | <u>\$10,358,058,861</u> | <u>\$9,656,834,098</u> | <u>\$1,084,112,588</u>             | <u>\$ 701,224,763</u>              | <u>10.47%</u>                 | <u>7.26%</u>                  |
| <b>Liabilities</b>                                  |  |                         |                        |                                    |                                    |                               |                               |
| Current liabilities                                 | 95,858,526                                 | 166,129,255             | 167,669,129            | (70,270,729)                       | (1,539,874)                        | -42.30%                       | -0.92%                        |
| Long-term liabilities<br>(compensated balances)     | 237,099                                    | 230,803                 | 203,800                | 6,296                              | 27,003                             | 0.03%                         | 13.25%                        |
| <b>Total liabilities</b>                            | <u>96,095,625</u>                          | <u>166,360,058</u>      | <u>167,872,929</u>     | <u>(70,264,433)</u>                | <u>(1,512,871)</u>                 | <u>-42.24%</u>                | <u>-0.90%</u>                 |
| <b>Net position restricted for<br/>pensions</b>     | <u>\$ 11,346,075,824</u>                   | <u>\$10,191,698,803</u> | <u>\$9,488,961,169</u> | <u>\$1,154,377,021</u>             | <u>\$ 702,737,634</u>              | <u>11.33%</u>                 | <u>7.41%</u>                  |



## New Mexico Educational Retirement Board

### FINANCIAL SECTION

#### Condensed Statement of Changes in Fiduciary Net Position

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
CONDENSED FINANCIAL INFORMATION  
Years Ended June 30, 2014, 2013 and 2012

#### Statement of Changes in Fiduciary Net Position

|   | FY14                     | FY13                    | FY12                   | FY14-FY13 \$<br>Difference | FY13-FY12 \$<br>Difference | Difference/<br>FY13 % | Difference/<br>FY12 % |
|---|--------------------------|-------------------------|------------------------|----------------------------|----------------------------|-----------------------|-----------------------|
| <b>Additions</b>                            |                          |                         |                        |                            |                            |                       |                       |
| Contributions                               | \$ 631,156,528           | \$ 548,442,717          | \$ 543,697,371         | \$ 82,713,811              | \$ 4,745,346               | 15.08%                | 0.87%                 |
| Investment income-net                       | 165,707,337              | 179,518,742             | 161,326,103            | (13,811,405)               | 18,192,639                 | -7.69%                | 11.28%                |
| Net change in fair value of<br>investments  | 1,278,664,135            | 837,193,133             | (565,488)              | 441,471,002                | 837,758,621                | 52.73%                | -148147.90%           |
| Other income                                | 2,681,458                | 1,898,276               | 3,061,710              | 783,182                    | (1,163,434)                | 41.26%                | -38.00%               |
| Total additions                             | <u>2,078,209,458</u>     | <u>1,567,052,868</u>    | <u>707,519,696</u>     | <u>511,156,590</u>         | <u>859,533,172</u>         | <u>32.62%</u>         | <u>121.49%</u>        |
| <b>Deductions</b>                           |                          |                         |                        |                            |                            |                       |                       |
| Benefit payments                            | 859,575,335              | 811,665,052             | 754,554,951            | 47,910,283                 | 57,110,101                 | 5.90%                 | 7.57%                 |
| Refunds                                     | 47,639,130               | 41,664,216              | 40,580,979             | 5,974,914                  | 1,083,237                  | 14.34%                | 2.67%                 |
| Administrative expenses                     | 16,617,970               | 10,985,966              | 11,985,538             | 5,632,004                  | (999,572)                  | 51.27%                | -8.34%                |
| Total deductions                            | <u>923,832,435</u>       | <u>864,315,234</u>      | <u>807,121,468</u>     | <u>59,517,201</u>          | <u>57,193,766</u>          | <u>6.89%</u>          | <u>7.09%</u>          |
| Net increase (decrease)                     | <u>1,154,377,023</u>     | <u>702,737,634</u>      | <u>(99,601,772)</u>    | <u>451,639,389</u>         | <u>802,339,406</u>         | <u>64.27%</u>         | <u>-805.55%</u>       |
| <b>Net position restricted for pensions</b> |                          |                         |                        |                            |                            |                       |                       |
| Beginning of the year                       | 10,191,698,803           | 9,488,961,169           | 9,588,562,941          | 702,737,634                | (99,601,772)               | 7.41%                 | -1.04%                |
| End of the year                             | <u>\$ 11,346,075,826</u> | <u>\$10,191,698,803</u> | <u>\$9,488,961,169</u> | <u>\$1,154,377,023</u>     | <u>\$702,737,634</u>       | <u>11.33%</u>         | <u>7.41%</u>          |

# New Mexico Educational Retirement Board

## FINANCIAL SECTION

### Management Discussion and Analysis - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended June 30, 2014, 2013 and 2012

#### CURRENTLY KNOWN FACTS AND CONDITIONS

Senate Bill 115, signed into law on March 29, 2013, included provisions applicable to the Educational Retirement Employees' pension plan. A summary of legislation that impacted the Plan is shown below:

- Raises employee contribution rates:
  - ❖ Employees with a salary over \$20,000 have a contribution rate 10.1% in FY14 and 10.7% in FY15.
  - ❖ Employees with a salary below \$20,000 have a contribution rate remaining at 7.9%.
- For new employees hired on or after July 1, 2013, they will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67.
- For new employees hired on or after July 1, 2013, the COLA begins at age 67, rather than age 65.
- For current retirees there is an immediate reduction of the COLA until the plan is 100% funded. The COLA reduction is based on the median retirement benefit (approximately \$18,500 for FY13) of all retirees excluding disability retirements. For a further description of the COLA changes please see note 2.

ERB conducts an actuarial experience study every two years. The actuarial experience study, presented to the Board of Trustees on April 26, 2013, compiled data for the six-year period ending June 30, 2013.

- Fiscal year 2014 and 2013 valuation assumptions that changed based on this study:
  - ❖ Lower wage inflation from 4.75% to 4.25%
  - ❖ Lower payroll growth from 3.75% to 3.50%
  - ❖ Minor changes to demographic assumptions
  - ❖ Population growth per year from 0.75% to 0.50%
- Assumptions that were not changed:
  - ❖ Investment return will remain at 7.75%
  - ❖ Inflation will remain at 3.00%

#### 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 June 30, 2014 and 2013

| Assets   | 2014                     | 2013                     |
|--|--------------------------|--------------------------|
| Cash   | \$ 211,310               | \$ 23,936                |
| Short term Investments                                   | 275,693,396              | 746,599,116              |
| Receivables  |                          |                          |
| Contributions  | 75,926,394               | 65,897,831               |
| Investment sales proceeds-brokers                        | 45,803,653               | 73,812,634               |
| Interest and Dividends                                   | 13,809,329               | 24,271,724               |
| Other, net   | 602,359                  | 634,568                  |
| Total receivables  | <u>136,141,735</u>       | <u>164,616,757</u>       |
| Interest in State General Fund Investment Pool           | <u>1,804,456</u>         | <u>5,353,975</u>         |
| Investments, at fair value                               |                          |                          |
| U. S. Treasury securities                                | 283,591,389              | 282,558,476              |
| Government agency securities                             | 187,403,651              | 289,974,464              |
| Asset and mortgage backed securities                     | 713,450,132              | 714,757,627              |
| Domestic corporate bonds                                 | 803,363,210              | 757,378,340              |
| Non-U.S. corporate bonds                                 | 253,934,520              | 245,228,240              |
| Domestic stocks  | 2,894,639,685            | 2,824,846,950            |
| International stocks                                     | 1,985,766,369            | 1,134,562,079            |
| Non-U.S. government bonds                                | 134,285,504              | 109,518,808              |
| Private equity   | 850,638,967              | 670,818,353              |
| Hedge Funds  | 631,121,208              | 463,853,968              |
| Private real estate                                      | 270,577,050              | 199,274,198              |
| Other investments  | 2,017,520,239            | 1,746,517,797            |
| Total investments  | <u>11,026,291,924</u>    | <u>9,439,289,300</u>     |
| Capital assets, at cost, net of accumulated depreciation | <u>2,028,628</u>         | <u>2,175,777</u>         |
| Total assets   | <u>\$ 11,442,171,449</u> | <u>\$ 10,358,058,861</u> |
| <b>Liabilities</b>                                       |                          |                          |
| Accounts payable   | \$ 4,371,357             | \$ 3,473,970             |
| Accounts payable school contributions                    | 115,924                  | 514,809                  |
| Accrued payroll and employee benefits                    | 115,458                  | 105,889                  |
| Accrued compensated absences                             | 237,099                  | 230,803                  |
| Refunds payable  | 2,613,132                | 1,079,930                |
| Investment purchases payable                             | 87,939,925               | 160,921,030              |
| Funds held for others                                    | 702,730                  | 33,627                   |
| Total liabilities  | <u>96,095,625</u>        | <u>166,360,058</u>       |
| <b>Net position restricted for pensions</b>              | <u>\$ 11,346,075,824</u> | <u>\$ 10,191,698,803</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

Years Ended June 30, 2014 and 2013

|   | 2014                    | 2013                    |
|---|-------------------------|-------------------------|
| <b>Additions</b>                            |                         |                         |
| Contributions                               |                         |                         |
| Employer                                    | \$ 362,462,537          | \$ 299,657,530          |
| Member                                      | 268,693,991             | 248,785,187             |
| Total contributions                         | <u>631,156,528</u>      | <u>548,442,717</u>      |
| Investment income from investing activities |                         |                         |
| Net change in fair value of investments     | 1,278,664,135           | 837,193,133             |
| Interest income                             | 41,809,254              | 47,709,542              |
| Dividend income                             | 137,617,862             | 147,230,301             |
| Total investing activity gain               | <u>1,458,091,251</u>    | <u>1,032,132,976</u>    |
| Investing activity expenses:                |                         |                         |
| Investment advisor fees                     | (13,326,824)            | (14,684,190)            |
| Custody fees                                | (392,955)               | (736,911)               |
| Total investing activity expenses           | <u>(13,719,779)</u>     | <u>(15,421,101)</u>     |
| Net gain from investing activities          | <u>1,444,371,472</u>    | <u>1,016,711,875</u>    |
| Miscellaneous income                        |                         |                         |
| Penalties                                   | -                       | -                       |
| Interest on restoration of service          | 2,819,583               | 1,744,359               |
| Other                                       | (138,125)               | 153,917                 |
| Total miscellaneous income                  | <u>2,681,458</u>        | <u>1,898,276</u>        |
| Total additions                             | <u>633,837,986</u>      | <u>550,340,993</u>      |
| <b>Deductions</b>                           |                         |                         |
| Age and service benefit payments            | 859,575,335             | 803,253,000             |
| Refunds to terminated members               | 34,561,687              | 35,882,999              |
| Interest on refunds                         | 4,361,396               | 5,781,217               |
| Administrative expenses                     | 16,617,970              | 10,985,967              |
| Disability benefit payments                 | 8,716,049               | 8,412,051               |
| Total deductions                            | <u>923,832,437</u>      | <u>864,315,234</u>      |
| Net increase (decrease)                     | <u>(289,994,451)</u>    | <u>(313,974,241)</u>    |
| <b>Net position restricted for pensions</b> |                         |                         |
| Beginning of the year                       | <u>9,174,986,928</u>    | 9,488,961,169           |
| End of the year                             | <u>\$ 8,884,992,477</u> | <u>\$ 9,174,986,928</u> |

See Accompanying Notes to Financial Statements

# New Mexico Educational Retirement Board

## FINANCIAL SECTION

### Notes to Financial Statements

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

#### NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2014 and 2013

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting**—ERB’s financial statements are prepared using the economic resources 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.

**Budgets and Budgetary Accounting**—Formal budgetary integration is used as a management control device by ERB in 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 per Section 6-10-4 NMSA 1978.

Each year the New Mexico Legislature approves multiple-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 un-expended portion of the 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 the State’s budgeting methodology.

Only administrative expenses and a small portion of interest income 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, budget and actual.

The Accountability in Government Act, Chapter 15, Laws of 1999, provides a general process for implementation of performance-based budgeting over a four-year period. ERB was included in performance-based budgeting for the first time in FY 2002. ERB developed performance measures which were approved by the State Budget Division (SBD), a division of New Mexico’s Department of Finance and Administration (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 periodically report to the SBD and the LFC on these performance measures.

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

ERB follows these procedures in establishing the annual budget:

- (1) By August 31, staff prepares a Budget Appropriation Request to present at a Legislative Finance Committee (LFC) hearing. The Request includes proposed expenses and the means of financing them.
- (2) On September 1, 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 budget approved by the Legislature is then sent to the Governor's office for final approval.
- (6) On May 1, ERB submits its annual operating budget to DFA and the LFC based on the appropriation 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. Therefore, the legal level of budgetary control would be the appropriation program level (A-Code, P-Code, R-Code, and Z-Code). The A-Code pertains to capital outlay appropriations (general obligation/severance tax or state general fund). The P-Code pertains to operating funds. The R-Code pertains to American Recovery & Reinvestment Act (ARRA) funds. The Z-Code pertains to special appropriations. ERB's budget is enacted at the P-Code level.

**Investments**— Investments are recorded at fair value. The estimated fair value of investments is based on quoted market prices, except for certain alternative investments for which quoted market prices are not available. The estimated fair value of these alternative investments is based on the most recent valuations provided by the external investment managers, adjusted for cash receipts, cash disbursements, and securities distributions through June 30, 2014.

# **New Mexico Educational Retirement Board**

## **FINANCIAL SECTION - Notes to Financial Statements - Continued**

### **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013**

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

ERB believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because 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.

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.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

ERB's investments in limited partnerships are valued at 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. At June 30, 2014, ERB had commitments for additional future contributions to the limited partnerships totaling \$2.346 billion.

Net investment income includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, securities lending income, and investment expense, which includes management and custodial fees, securities lending expense, and all other significant investment-related costs.

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.

For the fiscal year ending June 30, 2014, investment fees totaled \$163,715,539; of that total \$13,719,779 was covered by the agency's operating budget and \$147,995,760 was deducted directly from investment account balances. For the fiscal year ending June 30, 2013, the investment fees totaled \$125,478,811; of that total \$17,665,292 was covered by the agency's operating budget and \$107,813,519 was deducted directly from investment account balances.

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ERB or its designated agent may enter into contracts for the temporary exchange of securities for the use of broker/dealers, banks, and other recognized institutional investors for periods not to exceed one year, for a specified fee or consideration. No such contract shall be entered into unless the contract is fully secured by a collateralized, irrevocable letter of credit running to ERB. Cash or equivalent collateral of at least 102% of the market value of the securities plus accrued interest is temporarily exchanged. This collateral shall be delivered to the State fiscal agent or its designee contemporaneously with the transfer of funds or delivery of the securities.

Such contract may authorize ERB to invest cash collateral in instruments or securities that are authorized fund investments and may authorize payment of a fee from the Plan or from income generated by the investment of cash collateral to the borrower of securities providing cash as collateral. ERB may apportion income derived from the investment of cash collateral to pay its agent in securities lending transactions.

**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 to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

##### 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 to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Investments**— Investments are recorded at fair value. The estimated fair value of investments is based on quoted market prices, except for certain alternative investments for which quoted market prices are not available. The estimated fair value of these alternative investments is based on the most recent valuations provided by the external investment managers, adjusted for cash receipts, cash disbursements, and securities distributions through June 30, 2014.

ERB believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because 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.

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.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

ERB's investments in limited partnerships are valued at 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. At June 30, 2014, ERB had commitments for additional future contributions to the limited partnerships totaling \$2.346 billion.

Net investment income includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, securities lending income, and investment expense, which includes management and custodial fees, securities lending expense, and all other significant investment-related costs.

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.

For the fiscal year ending June 30, 2014, investment fees totaled \$163,715,539; of that total \$13,719,779 was covered by the agency's operating budget and \$147,995,760 was deducted directly from investment account balances. For the fiscal year ending June 30, 2013, the investment fees totaled \$125,478,811; of that total \$17,665,292 was covered by the agency's operating budget and \$107,813,519 was deducted directly from investment account balances.

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ERB or its designated agent may enter into contracts for the temporary exchange of securities for the use by brokers/dealers, banks, and other recognized institutional investors for periods not to exceed one year, for a specified fee or consideration. No such contract shall be entered into unless the contract is fully secured by a collateralized, irrevocable letter of credit running to ERB. Cash or equivalent collateral of at least 102% of the market value of the securities plus accrued interest is temporarily exchanged. This collateral shall be delivered to the State fiscal agent or its designee contemporaneously with the transfer of funds or delivery of the securities.

Such contract may authorize ERB to invest cash collateral in instruments or securities that are authorized fund investments and may authorize payment of a fee from the Plan or from income generated by the investment of cash collateral to the borrower of securities providing cash as collateral. ERB may apportion income derived from the investment of cash collateral to pay its agent in securities lending transactions.

**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 costing \$5,000 and greater. Assets with original cost at less than \$5,000 but categorized as sensitive, primarily IT equipment, are also capitalized for tracking and control purposes. Additions are capitalized at historical cost as of the date of acquisition, and depreciation is calculated on a straight-line basis over the asset's estimated useful life with no salvage value.

Estimated useful 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  |

**Funds Held for Others** - Payments from members pursuant to agreements to purchase service credits are recorded as funds held for others until the purchase agreements have been completed. Upon receipt of all payments necessary to complete the purchase agreement, service credit is recorded in the member's individual account and revenue is recognized in the appropriate revenue accounts for contributions, return of interest previously withdrawn, or interest charged on restoration of service.

**Refunds Payable** - Refunds payable represents amounts due to terminated members who have submitted a valid claim for refund, but who have not been paid on or before the end of the fiscal year.

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Accounting Pronouncements** - Governmental Accounting Standards Board (GASB) 67, *Financial Reporting for Pension Plans* and GASB 68, *Accounting & Financial Reporting for Pensions (Employer)*, address accounting and financial reporting requirements for pension plan activities. ERB is a cost-sharing multiple employer pension plan as defined by GASB 67. Changes were implemented in compliance with GASB 67 to the presentation of financial statements, notes to financial statements, and required supplementary information. ERB elected to early adopt and reflect these changes as of and for the year ended June 30, 2013. The implementation of GASB 67 did not significantly impact the accounts receivable and investment balances, as they were already accounted for in accordance with GASB 67 requirements and therefore no restatement of their 2012 balances was necessary. Implementation included the adoption of assumptions and actuarial calculation of total and net pension liability, comprehensive note disclosures regarding the assumptions and pension liability calculation, and increased investment activity disclosures.

GASB 68 applies changes implemented by GASB 67 at the employer level, segregating and allocating a portion of the Plan's collective net pension liability to each participating employer based on their annual contributions. GASB 68 is effective for fiscal years beginning after June 15, 2014.

**Net Pension Liability of Plan Membership**-The components of the net pension liability of the Plan's membership at June 30, 2014 and 2013, were as follows:

|  | 2014                    | 2013                    |
|--|-------------------------|-------------------------|
| Total pension liability  | \$ 17,051,806,637       | \$ 16,468,550,952       |
| Plan fiduciary net position  | <u>(11,346,075,824)</u> | <u>(10,191,698,803)</u> |
| Plan membership net pension liability                                      | <u>\$ 5,705,730,813</u> | <u>\$ 6,276,852,149</u> |
| <br>   |                         |                         |
| Plan fiduciary net position as a percentage of the total pension liability | 66.54%                  | 61.89%                  |

**Actuarial assumptions**---The total pension liability, net pension liability, and sensitivity information are based on an annual actuarial valuation performed as of June 30, 2013. The total pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2014. Specifically, the liabilities measured as of June 30, 2014 and 2013 incorporate the following assumptions:

- All members with annual salary of more than \$20,000 will contribute 10.10% during the fiscal year ending June 30, 2014 and 10.70%, thereafter,

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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, and
- These assumptions were adopted by ERB on April 26, 2013 in conjunction with the six- year experience study period ending June 30, 2012.

For purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years. The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

|                           |  |
|---------------------------|--|
| 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% 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 2014 using Scale AA (one year setback for females)                  |

*Rate of Return:* The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class.

Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation for 2014 and 2013 for 30-year return assumptions are summarized in the following table:

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

##### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| Asset Class                       | 2014                                      | 2013                                      |
|-----------------------------------|---|---|
|                                   | Long-Term Expected<br>Real Rate of Return | Long-Term Expected<br>Real Rate of Return |
| Cash                              | 1.50%                                     | 0.75%                                     |
| Treasuries                        | 2.00%                                     | 1.00%                                     |
| IG Corp Credit                    | 3.50%                                     | 3.00%                                     |
| MBS                               | 2.25%                                     | 2.50%                                     |
| Core Bonds                        | 2.53%                                     | 2.04%                                     |
| TIPS                              | 2.50%                                     | 1.50%                                     |
| High Yield Bonds                  | 4.50%                                     | 5.00%                                     |
| Bank Loans                        | 5.00%                                     | 5.00%                                     |
| Global Bonds (Unhedged)           | 1.25%                                     | 0.75%                                     |
| Global Bonds (Hedged)             | 1.38%                                     | 0.93%                                     |
| EMD External                      | 5.00%                                     | 4.00%                                     |
| EMD Local Currency                | 5.75%                                     | 5.00%                                     |
| Large Cap Equities                | 6.25%                                     | 6.75%                                     |
| Small/Mid Cap                     | 6.25%                                     | 7.00%                                     |
| International Equities (Unhedged) | 7.25%                                     | 7.75%                                     |
| International Equities (Hedged)   | 7.50%                                     | 8.00%                                     |
| Emerging International Equities   | 9.50%                                     | 9.75%                                     |
| Private Equity                    | 8.75%                                     | 9.00%                                     |
| Private Debt                      | 8.00%                                     | 8.50%                                     |
| Private Real Assets               | 7.75%                                     | 8.00%                                     |
| Real Estate                       | 6.25%                                     | 6.00%                                     |
| Commodities                       | 5.00%                                     | 5.00%                                     |
| Hedge Funds Low Vol               | 5.50%                                     | 4.75%                                     |
| Hedge Funds Mod Vol               | 5.50%                                     | 6.50%                                     |

*Discount Rate*-A single discount rate of 7.75% was used to measure the total pension liability as of June 30, 2014 and June 30, 2013. 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 projected to be available to finance all projected future benefit payments of current pension plan members. Therefore the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP) are included in the projection of cash flows. ARP contributions are assumed to remain at 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 to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### 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, 2014. 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:

|      | 1% Decrease      | Current Single Rate | 1% Increase      |
|------|------------------|---------------------|------------------|
|      | 6.75%            | Assumption          | 8.75%            |
|      | 7.75%            | 7.75%               | 8.75%            |
| 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**—The New Mexico Educational Retirement Board (ERB) was created by the state's Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the New Mexico Educational Employees' Retirement Plan (Plan). The Plan is a cost-sharing, multiple employer 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 agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico legislature has the authority to set or amend contribution rates.

For the fiscal year ended June 30, 2014 employers contributed 13.15% of employees' gross annual salary to the Educational Retirement Fund, and 10.10% of participating employees' gross annual salary for those earning more than \$20,000. Employees earning \$20,000 or less contributed 7.90%. For fiscal year ending June 30, 2015 employers will contribute 13.90%, and employees earning more than \$20,000 will contribute 10.70% of the gross annual salary. Employees earning \$20,000 or less will continue to contribute 7.90%.

The fiscal year 2014 breakdown of public schools, institutions of higher learning, and agencies with educational programs that contribute as employers to the Plan includes the following:

|                              |            |
|------------------------------|------------|
| Public schools               | 89         |
| Universities and colleges    | 15         |
| Charter schools              | 98         |
| Special schools              | 4          |
| State agencies               | <u>24</u>  |
| Total contributing employers | <u>230</u> |

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

##### NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

**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 defined a governing Board of Trustees for ERB composed of seven members (22-11-3 NMSA, 1978). The membership composition is as follows:

1. 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;
2. 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;
3. One member to be elected for a term of four years by members of the New Mexico Association of Educational Retirees;
4. One member to be elected for a term of four years by the members of the National Education Association of New Mexico;
5. One member to be elected for a term of four years by the New Mexico members of the American Association of University Professors; and
6. 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.

The Board criteria to determine whether other state agencies, boards, or commissions that benefit the members of ERB should be included within its financial reporting entity as component units include, but are not limited to, whether ERB 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, ERB 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.



## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

##### NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

ERB serves 230 employers in the State and has a total active, retired and inactive membership of 140,008 and 135,603 at June 30, 2014 and 2013, respectively. The following schedule shows the status and number of participants at June 30, 2014 and 2013:

|   | 2014           | 2013           |
|---|----------------|----------------|
| Retirees and beneficiaries of deceased retirees |                |                |
| currently receiving benefits                    | 42,246         | 39,088         |
| Inactive members                                | 36,589         | 35,304         |
| Current active members                          | <u>61,173</u>  | <u>61,211</u>  |
| Total membership                                | <u>140,008</u> | <u>135,603</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.

A brief summary of Plan coverage provisions follows:

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.
- The member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010. 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.

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

#### NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2014 and 2013

#### NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

- (1) *Eligibility Requirements* - To retire a member must have at least one year of employment after July 1, 1957, and at least five years of contributory employment. Eligible members who have one year of employment after July 1, 1957, but less than the required five years of contributory employment, may contribute to the fund for each year needed. The contributions amount is the sum of the prevailing combined contributions of the member and the local administrative unit in effect at the time of the contributory employment, which was 23.25% as of June 30, 2014, times the average annual salary of the last five years, for each year of contributory employment needed, plus 3% compounded interest from July 1, 1957, to the date of payment.
- (2) *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.
- (3) *Benefit Options* - There are three benefit options available.

**Option A – Single Life annuity** - There are 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** - 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** - 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.

- (4) *Cost of Living Adjustment* –Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later.

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

##### NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Prior to June 30, 2013 the COLA adjustment was equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the COLA would equal the change in CPI, but never less than zero.

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% 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 1.9%. All other retirees will have a 10% COLA reduction; their average 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.

(5) *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 ERB.

**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.

(6) *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.

(7) The Educational Retirement Act, Section 22-11-1 to 22-11-53, NMSA 1978, assigns the authority to establish and amend benefit provisions to ERB's Board of Trustees.

## **New Mexico Educational Retirement Board**

### **FINANCIAL SECTION - Notes to Financial Statements - Continued**

#### **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013**

##### **NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)**

***Refund of Contributions*** - Members may withdraw their contributions only when they terminate covered employment in the State and certification of termination has been provided by their former employers. Interest paid to members when they withdraw their contributions following termination of employment is at a rate set by ERB. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or those on deposit for less than one year.

***Alternative Retirement Plan*** - The New Mexico legislature established the Alternative Retirement Plan (ARP) through the Educational Retirement Act Sections 22-11- 47 through 52, NMSA 1978. In contrast to the defined benefit plan administered by ERB, the ARP is a defined contribution plan. Information about the ARP is provided to eligible employees by their employers, who make the election to participate in the ARP within 90 days of employment. Those who do not elect to participate in the Plan become members of the regular defined benefit plan. Section 22-11-47(D) allows an ARP participant the 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 vendor contracts. Retirement benefits shall, at the option of the employee, be paid in the form of a lifetime income, if held in an annuity contract, payments for a term of years, or a single-sum cash payment. Retirement, death, and other benefits, including disability benefits, cannot be paid from the Educational Retirement Fund and ERB does not calculate or determine what benefits can be paid from an ARP account.

For the year ended June 30, 2014, colleges and universities contributed 10.15% of participating employees' gross annual salary to the ARP vendor on behalf of the participant and 3% of gross annual salary to the Educational Retirement Fund offsetting the impact of the ARP on the defined benefit plan. Employees participating in the ARP do not accrue rights to benefits in the defined benefit plan as a result of that contribution being made to the Fund.

Employer contributions include amounts remitted on behalf of the ARP defined contribution plan and the regular defined benefit plan. The 3% fee remitted to ERB for the years ended June 30, 2014 and 2013 were \$5,032,298 and \$4,684,962, respectively.

The ARP vendors are TIAA-CREF and Fidelity Investments.

##### **NOTE 3. GENERAL FUND INVESTMENT POOL**

The State General Fund Investment Pool (SGFIP) is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund is comprised of numerous state agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury. ERB does not collect any revenues that contribute or revert to the SGFIP, but does maintain all deposits on account at the State Treasurer's Office (STO) identified by ERB's business unit and fund number.

## **New Mexico Educational Retirement Board**

### **FINANCIAL SECTION - Notes to Financial Statements - Continued**

#### **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013**

##### **NOTE 3. GENERAL FUND INVESTMENT POOL - CONTINUED**

In 2012 an independent diagnostic report revealed that statewide cash balances in SHARE general ledger accounts had not been reconciled to the State General Fund Investment Pool maintained at STO since the implementation of SHARE in July 2006. Since then, DFA/FCD has taken, and continues to take, aggressive action toward appropriate resolution. Phase I of the Cash Remediation Project (completed May 2013) implemented statewide business process changes and corrected numerous SHARE system configuration issues. As a result of these changes and corrections, DFA/FCD began reconciling activity reported by the State's fiscal agent bank to the SHARE general ledger on a *point forward basis* beginning February 1, 2013. However, additional critical business process changes and corrections to configuration within the SHARE system remain to be completed. Therefore, DFA/FCD has initiated Cash Management Remediation Project Phase II which is scheduled to commence shortly.

On July 11, 2014, DFA/FCD initiated the Historical Cash Reconciliation Project in partnership with Deloitte & Touche, LLP. The scope of this project is July 1, 2006 (coinciding with SHARE implementation) to January 31, 2013 (when DFA/FCD began reconciling cash activity). While this project has not been completed, preliminary results have confirmed the need to disclose that rollover cash balances associated with the General Fund Investment Pool have not been reconciled to cash accounts maintained at STO since the implementation of the SHARE system. ERB generates payments via a third party system which has not been fully reconciled to the cash account balances maintained at STO since the implementation of the SHARE system.

ERB believes cash invested in the State Treasury's Overnight Pool is represented fairly and with no material misstatements due to reconciliation procedures performed by ERB. ERB has established internal control procedures that apply the State of New Mexico 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 to 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 current policies and procedures. Each deposit, payment voucher, investment, and other items that affect cash are verified to ensure the amounts are accurate and correctly classified in the state's general ledger system.

##### **NOTE 4. INTEREST IN THE GENERAL FUND INVESTMENT POOL**

State statute (Section 8-6-3 NMSA 1978) requires ERB's cash be managed by the New Mexico State Treasurer's Office. Accordingly, ERB's investments include an interest in the General Fund Investment Pool equal to the cash balance on hand that is managed by the New Mexico State Treasurer's Office.

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

##### **NOTE 4. INTEREST IN THE GENERAL FUND INVESTMENT POOL (CONTINUED)**

At June 30, 2014 and 2013, ERB had \$1,804,456 and \$5,353,975 respectively, invested in the General Fund Investment Pool and managed by the State Treasurer's Office.

**Interest Rate Risk** - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy manages exposure to the fair value of losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

**Credit risk** - The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2014.

##### **Cash Deposits**

In addition to the overnight investment at the New Mexico State Treasury, ERB invests in the Short-Term Investment Fund ("STIF"), held by J.P. Morgan. The STIF is used to facilitate more efficient trade procedures with ERB's external portfolio managers. Net cash balances in each internal and external investment manager's portfolio are swept into the STIF at the end of each day. STIF investments and cash of \$275,693,396 and \$746,599,116 as of June 30, 2014 and, 2013, respectively, are considered cash equivalents and are reported as cash and short term investment balances in the statement of fiduciary 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, 2014 and 2013, there were no cash balances exposed to custodial credit risk. All cash is invested in a mutual fund consisting of 100% U.S. Treasury securities.

##### **NOTE 5. REFUND OVERPAYMENTS**

In June 2010, ERB 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 overpayments to 834 individuals. The total amount over paid was \$1,691,929. IRS regulations require that reasonable efforts be made to recover these funds and that interest be assessed on the overpayments. ERB accrued a receivable as of June 30, 2011 for the total amount overpaid. As of June 30, 2014, the uncollected balance, including interest assessed, was \$400,296.

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 6. INVESTMENTS

ERB is authorized to invest or reinvest the fund in accordance with the Uniform Prudent Investor Act (45-7-601 NMSA 1978).

The Uniform Prudent Investor Act does the following:

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

**Asset Allocation Policy**---ERB's investment allocation policy is established and periodically reviewed. Allocation targets were amended on June 14, 2014. Plan assets are managed on a total return basis with the long-term objective of achieving and maintaining a fully funded status for benefits provided through the pension plan. The following schedule shows ERB's the asset allocation policy adopted on June 13, 2014 as well as the prior policy:

| <u>Asset Class</u>             | <u>After 6/13/2014<br/>Target Allocation</u> | <u>Prior to 6/14/2014<br/>Target Allocation</u> |
|--------------------------------|--|---|
| <b>Equities</b>                |  |   |
| <i>Domestic Equities</i>       |  |   |
| Large cap equities             | 18%  | 20%   |
| Small-mid cap equities         | 2%   | 2%  |
| <i>International Equities</i>  |  |   |
| Developed                      | 5%   | 5%  |
| Emerging markets               | <u>10%</u>                                   | <u>10%</u>                                      |
| Total Equities                 | <u>35%</u>                                   | <u>37%</u>                                      |
| <b>Fixed Income</b>            |  |   |
| Opportunistic credit           | 20%  | 20%   |
| Core bonds                     | 6%   | 7%  |
| Emerging market debt           | <u>2%</u>                                    | <u>2%</u>                                       |
| Total Fixed Income             | <u>28%</u>                                   | <u>29%</u>                                      |
| <b>Alternatives</b>            |  |   |
| Real estate - REITS            | 7%   | 5%  |
| Real assets                    | 8%   | 7%  |
| Private equity                 | 11%  | 8%  |
| Absolute return                | 0%   | 3%  |
| Global tactic asset allocation | 5%   | 5%  |
| Risk parity                    | <u>5%</u>                                    | <u>5%</u>                                       |
| Total Alternatives             | <u>36%</u>                                   | <u>33%</u>                                      |
| Cash                           | <u>1%</u>                                    | <u>1%</u>                                       |
| Total                          | <u>100%</u>                                  | <u>100%</u>                                     |

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 6. INVESTMENTS (CONTINUED)

**Rate of Return**---For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 14.71%. For the year ended June 30, 2013, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.12%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investments held by ERB's agent in the name of ERB as of June 30:

| <b>Investment Description:</b>        | <b>2014</b>              | <b>2013</b>             |
|---------------------------------------|--------------------------|-------------------------|
| U.S. government and agency securities | \$ 470,995,039           | \$ 572,532,940          |
| Non-U.S. government bonds             | 134,285,504              | 109,518,808             |
| Asset-and mortgage-backed securities  | 660,105,257              | 692,017,167             |
| Non-U.S. asset-backed securities      | 53,344,875               | 22,740,459              |
| Domestic corporate bonds              | 803,363,210              | 757,378,340             |
| Non-U.S. corporate bonds              | 253,934,520              | 245,228,240             |
| Domestic stocks                       | 2,894,639,685            | 2,824,846,950           |
| International stocks                  | 1,985,766,369            | 1,134,562,079           |
| Hedge funds of funds                  | 631,121,208              | 463,853,968             |
| Private equity                        | 850,638,967              | 670,818,353             |
| Private real estate                   | 270,577,050              | 199,274,198             |
| Infrastructure                        | 132,824,443              | 116,052,810             |
| Natural resources                     | 91,618,965               | 48,890,160              |
| Other investments                     | <u>1,793,076,832</u>     | <u>1,581,574,828</u>    |
| Total                                 | <u>\$ 11,026,291,924</u> | <u>\$ 9,439,289,300</u> |



## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

#### NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2014 and 2013

#### NOTE 6. INVESTMENTS (CONTINUED)

**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 was \$897,957,814 and \$1,451,831,846 as of June 30, 2014 and 2013, respectively. As of June 30, 2014, exposure to foreign currency risk by type is as follows:

| <b>Currency</b>                                  | <b>Equity Securities</b> | <b>Cash (overdraft)</b> |
|--|--------------------------|-------------------------|
| Australian Dollar                                | \$ 23,077,159            | \$ 3,317,644            |
| Brazilian Real                                   | 41,050,490               | 55,677                  |
| British Pound Sterling                           | 87,004,051               | 4,191,242               |
| Canadian Dollar                                  | 1,790,449                | 110,833                 |
| Chilean Peso                                     | 204,866                  | -                       |
| Chinese Yuan                                     | (21,691)                 | -                       |
| Chinese Yuan Renminbi (offshore)                 | 4,572                    | -                       |
| Colombian Peso                                   | 3,678,401                | -                       |
| Czech Koruna                                     | 676,774                  | (3,677)                 |
| Danish Krone                                     | 5,054,160                | -                       |
| Euro   | 219,461,000              | (15,493,648)            |
| Hong Kong Dollar                                 | 85,222,886               | 239,776                 |
| Hungarian Forint                                 | 7,520,755                | (1,178,604)             |
| Indian Rupee                                     | 41,767,803               | 41,531                  |
| Indonesian Rupiah                                | 15,322,840               | (2,692)                 |
| Israeli Shekel                                   | 1,643,785                | -                       |
| Japanese Yen                                     | 55,059,307               | 46,343                  |
| Malaysian Ringgit                                | 15,631,346               | -                       |
| Mexican Peso                                     | 20,398,514               | 48                      |
| Romanian Leu, New                                | 2,668,978                | -                       |
| Taiwan Dollar, New                               | 51,547,278               | 104,930                 |
| Turkish Lira, New                                | 23,594,599               | 15,139                  |
| New Zealand Dollar                               | -                        | 1,825                   |
| Nigerian Naira                                   | 2,044,615                | -                       |
| Norwegian Krone                                  | 1,595,678                | 33,989                  |
| Peruvian Nuevo Sol                               | 1,880,926                | -                       |
| Philippine Peso                                  | 935,542                  | -                       |
| Polish Zloty                                     | 9,790,428                | 2,463                   |
| Qatari Riyal                                     | 1,663,502                | -                       |
| Russian Ruble                                    | 9,943,706                | 1,685,655               |
| Singapore Dollar                                 | 7,271,795                | 3,579                   |
| South African Rand                               | 39,150,858               | (37,118)                |
| South Korean Won                                 | 84,116,875               | 139                     |
| Swedish Krona                                    | 9,229,267                | -                       |
| Swiss Franc                                      | 23,410,496               | (189,900)               |
| Thai Baht  | -                        | -                       |
| Total foreign exposure                           | 905,012,640              | (7,054,826)             |
| Investments not subject to foreign currency risk | 10,121,279,284           | 282,748,220             |
| Total Investments                                | <u>\$ 11,026,291,924</u> | <u>\$ 275,693,394</u>   |

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

#### NOTES TO FINANCIAL STATEMENTS

#### Years Ended June 30, 2014 and 2013

#### NOTE 6. INVESTMENTS (CONTINUED)

As of June 30, 2013 exposure to foreign currency risk is as follows:

| <b>Currency</b>                                     | <b>Equity Securities</b> | <b>Cash (overdraft)</b> |
|---|--------------------------|-------------------------|
| Australian Dollar                                   | \$ 31,982,137            | \$ 153,383              |
| Brazilian Real                                      | 76,289,449               | 243,540                 |
| British Pound Sterling                              | 140,848,446              | (5,968,354)             |
| Canadian Dollar                                     | 3,457,884                | 328,511                 |
| Chilean Peso  | 247,115                  | -                       |
| Chinese Yuan Renminbi (offshore)                    | 19,030                   | -                       |
| Colombian Peso                                      | 2,678,948                | -                       |
| Czech Koruna  | 4,796,272                | 52,531                  |
| Danish Krone  | 5,690,398                | (14,859)                |
| Euro  | 268,885,759              | 7,362,938               |
| Hong Kong Dollar                                    | 181,672,431              | 2,751,963               |
| Hungarian Forint                                    | 11,039,091               | 155,500                 |
| Indian Rupee  | 58,565,752               | 370,029                 |
| Indonesian Rupiah                                   | 33,443,062               | 54                      |
| Israeli Shekel                                      | 2,092,366                | 11,285                  |
| Japanese Yen  | 113,834,989              | 7,787                   |
| Malaysian Ringgit                                   | 16,253,070               | -                       |
| Mexican Peso  | 19,059,786               | 133,195                 |
| Romanian Leu, New                                   | 708,909                  | -                       |
| Taiwan Dollar, New                                  | 54,219,803               | 1,416,346               |
| Turkish Lira, New                                   | 47,101,447               | 55,644                  |
| New Zealand Dollar                                  | -                        | 1,610                   |
| Nigerian Naira                                      | 2,797,236                | -                       |
| Norwegian Krone                                     | 5,448,046                | (85,750)                |
| Peruvian Nuevo Sol                                  | 2,332,307                | -                       |
| Philippine Peso                                     | 1,358,743                | -                       |
| Polish Zloty  | 22,538,302               | 60,114                  |
| Qatari Riyal  | -                        | -                       |
| Russian Ruble                                       | 13,487,050               | 143,826                 |
| Singapore Dollar                                    | 12,625,599               | 58,568                  |
| South African Rand                                  | 45,724,796               | 171,001                 |
| South Korean Won                                    | 174,895,731              | 133                     |
| Swedish Krona                                       | 9,723,172                | 67,237                  |
| Swiss Franc   | 43,407,409               | 33,512                  |
| Thai Baht   | 37,097,566               | -                       |
| Total foreign exposure                              | 1,444,322,101            | 7,509,744               |
| Investments not subject to foreign<br>currency risk | <u>7,994,967,199</u>     | <u>739,089,372</u>      |
| Total Investments                                   | <u>\$ 9,439,289,300</u>  | <u>\$ 746,599,116</u>   |

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

##### 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 its investments or collateral securities that are in the possession of an outside party. Based on ERB's investment policies and custody agreements, ERB has determined its custody risk is very low.

All investments were held by J.P. Morgan (Dallas, Texas) during fiscal years 2014 and 2013 in the name of ERB. During fiscal year 2015 investments will be transferred to State Street (Boston, Massachusetts) to be held in custody for ERB.

ERB's investment policy limits holding of securities by counterparties to those involved with securities lending. In 2012, ERB ended its practice of securities lending.

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

As of June 30, 2014, ERB's exposure to interest rate risk is summarized below.

| Investment Type                                  | 2014                   | 2013                   | Duration |      |
|--|------------------------|------------------------|----------|------|
|  |                        |                        | 2014     | 2013 |
| U.S. treasury securities                         | \$ 328,169,191         | \$ 276,356,253         | 5.83     | 6.05 |
| U.S. government & government related obligations | 53,982,302             | 62,066,857             | 3.47     | 6.17 |
| International government Obligations             | 58,451,211             | 61,262,317             | 5.61     | 5.48 |
| Corporate obligations                            | 1,025,740,824          | 1,035,566,130          | 2.95     | 4.03 |
| Asset- & mortgage-backed sec.                    | 174,130,475            | 378,794,011            | 1.30     | 756  |
| Short term investments                           |                        | <u>124,396,288</u>     | 0.02     | 0.01 |
| Overall  | <u>\$1,700,543,684</u> | <u>\$1,938,441,856</u> | 3.75     | 3.68 |

**Credit Risk**—Credit risk is the risk that an issuer or other counterparty to an investment 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 as of June 30, 2014 and 2013, is presented in the Summary of Investment by Rating. The investments were rated and categorized according to Standard & Poor's rating standards.

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO RETIREMENT BOARD

#### NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2014 and 2013

#### NOTE 6. INVESTMENTS (CONTINUED)

#### Summary by Credit Risk Rating

| Investment Type                                       | Rating | 2014<br>Fair Value    | Rating | 2013<br>Fair Value    |
|---|--------|-----------------------|--------|-----------------------|
| Asset Backed Securities                               | A      | \$ 2,550,282          | A      | \$ -                  |
|   | A-     | 854,815               | A-     | 326,704               |
|   | A+     | 195,539               | A+     | 3,396,227             |
|   | AA-    | -                     | AA-    | 2,752,095             |
|   | AA+    | 1,378,301             | AA+    | 1,373,085             |
|   | AAA    | 2,381,679             | AAA    | 1,166,787             |
|   | B      | -                     | B      | 1,475,147             |
|   | B-     | 612,869               | B-     | 726,309               |
|   | B+     | -                     | B+     | 843,752               |
|   | BB     | -                     | BB     | 625,056               |
|   | BB-    | -                     | BB-    | 2,803,920             |
|   | BB+    | 877,807               | BB+    | 1,646,159             |
|   | BBB    | 631,958               | BBB    | -                     |
|   | BBB-   | 239,610               | BBB-   | 754,798               |
|   | BBB+   | 769,620               | BBB+   | 3,508,673             |
|   | CC     | 20,746                | CC     | 4,541                 |
|   | CCC    | 1,540,467             | CCC    | 2,914,298             |
|   | CCC-   | 407,060               | CCC-   | 526,249               |
|   | D      | 251                   | D      | 370,349               |
|   | NR     | <u>3,748,066</u>      | NR     | <u>10,731,333</u>     |
| <b>Sub Total Asset Backed Securities</b>              |        | <u>16,209,069</u>     |        | <u>35,945,482</u>     |
| Commercial Mortgage Backed-REMIC                      | A      | 3,299,452             | A      | 4,272,389             |
|   | A-     | 509,665               | A-     | 2,069,348             |
|   | A+     | 4,390,579             | A+     | 6,462,388             |
|   | AA     | 5,001,021             | AA     | 4,951,201             |
|   | AA-    | -                     | AA-    | 1,734,784             |
|   | AA+    | 834,653               | AA+    | 25,172,635            |
|   | AAA    | 14,339,622            | AAA    | 20,849,127            |
|   | B      | 514,213               | B      | 774,283               |
|   | B-     | 458,215               | B-     | -                     |
|   | B+     | 829,051               | B+     | -                     |
|   | BB     | 54,391                | BB     | 890,377               |
|   | BB-    | -                     | BB-    | 483,384               |
|   | BB+    | 173,577               | BB+    | 465,894               |
|   | BBB    | -                     | BBB    | 3,248,428             |
|   | BBB-   | 8,627,366             | BBB-   | 9,930,636             |
|   | BBB+   | 11,761,347            | BBB+   | 15,858,641            |
|   | CC     | -                     | CC     | 1,193,566             |
|   | CCC    | 674,45                | CCC    | 4,117,344             |
|   | CCC+   | 226,626               | CCC+   | -                     |
|   | D      | 842,095               | D      | 5,046,012             |
|   | NR     | <u>8,173,049</u>      | NR     | <u>8,960,300</u>      |
| <b>Subtotal Commercial Mortgage Backed Securities</b> |        | <u>60,709,376</u>     |        | <u>116,480,737</u>    |
| Mortgage Backed Securities                            | AA+    | 122,521,250           | AA+    | 205,715,824           |
| Residential Mortgage Backed Security                  | CCC    | <u>3,363,806</u>      | CCC    | <u>-</u>              |
| <b>Total Asset &amp; Mortgage Backed Securities</b>   |        | <u>\$ 202,803,501</u> |        | <u>\$ 358,142,043</u> |

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 6. INVESTMENTS (CONTINUED)

##### Summary by Credit Risk Rating (Continued)

| Investment Type  | Rating   | 2014                 |                   | 2013        |            |
|--|--|----------------------|-------------------|-------------|------------|
|  |  | Rating               | Fair Value        | Rating      | Fair Value |
| <b>Collateralized Debt-Loan Obligations</b>              | AA-  | AA-                  | \$ 2,835,345      | AA-         | \$ -       |
|  | B  | B                    | 1,664,100         | B           | -          |
|  | B-   | B-                   | 645,737           | B-          | -          |
|  | BB   | BB                   | 730,232           | BB          | -          |
|  | BB+  | BB+                  | 2,213,050         | BB+         | -          |
|  | BBB+   | BBB+                 | 474,071           | BBB+        | -          |
|  | CCC+   | CCC+                 | 728,997           | CCC+        | -          |
|  | NR   | NR                   | 1,851,184         | NR          | -          |
|  | <b>Subtotal Collateralized Debt-Loan Obligations</b> |                      | <b>11,142,716</b> |             | <b>-</b>   |
| <b>Collateralized Mortgage Obligation/REMIC</b>          | A+   | A+                   | 565,209           | A+          | -          |
|  | AA+  | AA+                  | 836,513           | AA+         | -          |
|  | AAA  | AAA                  | 1,970,250         | AAA         | -          |
|  | B  | B                    | 675,894           | B           | -          |
|  | BBB  | BBB                  | 1,025,729         | BBB         | -          |
|  | BBB-   | BBB-                 | 1,337,587         | BBB-        | -          |
|  | BBB+   | BBB+                 | 581,623           | BBB+        | -          |
|  | CC   | CC                   | 846,772           | CC          | -          |
|  | CCC  | CCC                  | 966,135           | CCC         | -          |
|  | D  | D                    | 2,194,884         | D           | -          |
|  | NR   | NR                   | 1,087,526         | NR          | -          |
| <b>Subtotal Collateralized Mortgage Obligation/REMIC</b> |  | <b>12,088,123</b>    |                   | <b>-</b>    |            |
| <b>Total Collateralized Debt Obligations</b>             |  | <b>\$ 23,230,839</b> |                   | <b>\$ -</b> |            |

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 6. INVESTMENTS (CONTINUED)

| Summary by Credit Risk Rating (Continued) | 2014   |                       | 2013   |                       |
|---|--------|-----------------------|--------|-----------------------|
| Investment Type                           | Rating | Fair Value            | Rating | Fair Value            |
| Corporate Bonds                           | A      | \$ 35,525,907         | A      | \$ 41,111,424         |
|   | A-     | 73,579,414            | A-     | 75,261,961            |
|   | A+     | 13,581,147            | A+     | 14,506,159            |
|   | AA     | 2,850,945             | AA     | 4,762,359             |
|   | AA-    | 7,577,036             | AA-    | 9,051,938             |
|   | AA+    | 4,917,261             | AA+    | 7,068,655             |
|   | AAA    | 373,031               | AAA    | 346,441               |
|   | B      | 14,610,140            | B      | 53,906,046            |
|   | B-     | 58,470,962            | B-     | 81,556,774            |
|   | B+     | 8,408,611             | B+     | 19,718,930            |
|   | BB     | 1,565,433             | BB     | 5,464,875             |
|   | BB-    | 2,624,787             | BB-    | 1,574,050             |
|   | BB+    | 12,155,066            | BB+    | 8,870,611             |
|   | BBB    | 69,839,101            | BBB    | 83,111,389            |
|   | BBB-   | 58,488,780            | BBB-   | 53,644,216            |
|   | BBB+   | 69,048,894            | BBB+   | 54,296,843            |
|   | C      | 2,969,250             | C      | 1,276,843             |
|   | CC     | 571,200               | CC     | 4,273,315             |
|   | CCC    | 15,971,976            | CCC    | 23,169,923            |
|   | CCC-   | 25,730,506            | CCC-   | 23,869,704            |
|   | CCC+   | 42,867,696            | CCC+   | 87,221,268            |
|   | D      | 8,180,217             | D      | 3,000,820             |
|   | NR     | <u>102,262,848</u>    | NR     | <u>124,050,538</u>    |
| Subtotal Corporate Bonds                  |        | <u>632,170,208</u>    |        | <u>781,115,082</u>    |
| Corporate Convertible Bonds               | NR     | 13,631,012            | NR     | 12,581                |
| Common Stock                              | NR     | <u>92,993,837</u>     | NR     | <u>60,019,213</u>     |
| Preferred Stock                           | D      | 730,209               | D      | -                     |
|   | NR     | <u>4,304,468</u>      | NR     | <u>15,031</u>         |
| Subtotal Preferred Stock                  |        | <u>5,034,677</u>      |        | <u>15,031</u>         |
| Total Domestic Corporate Securities       |        | <u>\$ 743,829,734</u> |        | <u>\$ 841,161,907</u> |

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 6. INVESTMENTS (CONTINUED)

| Summary by Credit Risk Rating Cont                  | 2014   |                          | 2013   |                         |
|---|--------|--------------------------|--------|-------------------------|
| Investment Type                                     | Rating | Fair Value               | Rating | Fair Value              |
| <b>Bank Loans</b>                                   | B      | \$ 7,174,861             | B      | \$ 22,271,989           |
|   | B-     | 14,868,320               | B-     | 25,129,006              |
|   | B+     | 14,210,746               | B+     | 7,399,821               |
|   | BB-    | (110,712)                | BB-    | -                       |
|   | CCC    | 10,696,722               | CCC    | 16,730,614              |
|   | CCC-   | 6,807,880                | CCC-   | -                       |
|   | CCC+   | 25,748,680               | CCC+   | 17,394,221              |
|   | D      | 14,819,805               | D      | -                       |
|   | NR     | <u>174,109,344</u>       | NR     | <u>61,994,639</u>       |
| <b>Subtotal Bank Loans</b>                          |        | <u>268,325,647</u>       |        | <u>150,920,290</u>      |
| <b>Municipal &amp; Provincial Bonds</b>             | A      | 2,258,611                | A      | 5,790,728               |
|   | A-     | 6,230,958                | A-     | 4,048,878               |
|   | A+     | 2,252,107                | A+     | 84,012                  |
|   | AA     | 1,545,951                | AA     | -                       |
|   | AA-    | 991,191                  | AA-    | -                       |
|   | AA+    | <u>199,264</u>           | AA+    | <u>-</u>                |
| <b>Subtotal Government Agencies</b>                 |        | <u>13,478,081</u>        |        | <u>9,923,618</u>        |
| <b>Government Bonds</b>                             | A      | 25,111,778               | A      | 8,520,138               |
|   | A-     | 10,510,943               | A-     | 37,227,454              |
|   | A+     | -                        | A+     | 837,154                 |
|   | AA-    | 3,429,431                | AA-    | 3,978,722               |
|   | AA+    | 21,579,345               | AA+    | 25,587,621              |
|   | AAA    | 622,139                  | AAA    | 2,821,180               |
|   | B-     | 294,000                  | B-     | -                       |
|   | BB     | 7,511,959                | BB     | 5,992,772               |
|   | BB+    | 1,312,986                | BB+    | -                       |
|   | BBB    | 12,152,394               | BBB    | 3,065,909               |
|   | BBB-   | 3,638,845                | BBB-   | 1,314,939               |
|   | BBB+   | 19,951,968               | BBB+   | 8,860,780               |
|   | NR     | <u>52,124,417</u>        | NR     | <u>38,215,442</u>       |
| <b>Subtotal Government Bonds</b>                    |        | <u>158,240,206</u>       |        | <u>136,422,111</u>      |
| <b>Treasury Bills</b>                               | BBB+   | 398,297                  | BBB+   | -                       |
|   | NR     | <u>857,813</u>           | NR     | <u>-</u>                |
| <b>Subtotal Treasury Bills</b>                      |        | <u>1,256,110</u>         |        | <u>-</u>                |
| <b>Other Fixed Income</b>                           | B-     | 9,241,025                | B-     | -                       |
|   | BB+    | 2,072,892                | BB+    | -                       |
|   | NR     | <u>9,190,422</u>         | NR     | <u>4,707,917</u>        |
| <b>Subtotal Other Investments</b>                   |        | <u>20,504,339</u>        |        | <u>4,707,917</u>        |
| <b>Other Investments Not Subject To Credit Risk</b> |        | <u>9,594,623,466</u>     |        | <u>7,938,011,414</u>    |
| <b>Grand Total</b>                                  |        | <u>\$ 11,026,291,924</u> |        | <u>\$ 9,439,289,300</u> |

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 6. INVESTMENTS (CONTINUED)

**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).

**Concentration Risk**—Concentration risk is identified by the amount of investment in any one issuer that represents 5% or more of the pension plan's fiduciary net position. As of June 30, 2014 and 2013, with the exception of U.S. government and agency securities, ERB was not exposed to any concentration risk greater than 5%.

#### 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.

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

The following table summarizes the aggregate notional or contractual amounts for ERB's derivative financial instruments as of June 30, 2014 and 2013.

#### Notional Amounts

| <b>Instrument</b>                       | <b>2014</b>  | <b>2013</b>  |
|---|--------------|--------------|
| Futures contracts - long                | \$ 1,043,000 | \$ 4,430,000 |
| Futures contracts - short               | 37,743,000   | (15,500,000) |
| Foreign exchange forward contracts, net | 200,722,000  | 403,280,000  |
| Swaps - credit default swap             | 1,870,000    | 7,870,000    |
| Swaps - index swap                      | 227,000      | 284,000      |



## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

##### NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

The fair values of derivative instruments outstanding as of June 30, 2014 and 2013 are classified by type and by the changes in fair value of the derivative instrument in the following table.

##### Fair Value at June 30, 2014

| <u>Derivative Type</u>            | <u>Classification</u> | <u>Gain/(Loss)</u> | <u>Classification</u> | <u>Amount</u> |
|-----------------------------------|-----------------------|--------------------|-----------------------|---------------|
| Futures                           | Investment Income     | \$ (216,000)       | Investment            | \$(304,000)   |
| Options - purchased               | Investment Income     | 9,000              | Investment            | 9,000         |
| Options - sold                    | Investment Income     | (15,000)           | Investment            | (15,000)      |
| Swaps - Credit Default Swap Index | Investment Income     | (51,000)           | Investment            | 24,000        |
| Swaps - Interest Rate Swaps       | Investment Income     | (6,000)            | Investment            | 23,000        |
| Swaps - Index                     | Investment Income     | -                  | Investment            | 29,000        |

##### Fair Value at June 30, 2013

| <u>Derivative Type</u>            | <u>Classification</u> | <u>Gain/(Loss)</u> | <u>Classification</u> | <u>Amount</u> |
|-----------------------------------|-----------------------|--------------------|-----------------------|---------------|
| Futures                           | Investment Income     | \$ 14,000          | Investment            | \$(87,000)    |
| Options - purchased               | Investment Income     | 6,000              | Investment            | -             |
| Options - sold                    | Investment Income     | 141,000            | Investment            | -             |
| Swaps - Credit Default Swap Index | Investment Income     | 183,000            | Investment            | 76,000        |
| Swaps - Interest Rate Swaps       | Investment Income     | 21,000             | Investment            | -             |
| Swaps - Index                     | Investment Income     | 12,000             | Investment            | 29,000        |

**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. The fund managers that are authorized to invest in derivatives are given specific parameters as to the types of derivatives invested in and ratings of the counterparties they are allowed to enter into contracts with to ensure transactions are entered into with only high quality institutions. ERB is exposed to market risk; the risk that changes in market conditions may make an investment less valuable. Exposure to market risk is managed within risk limits set by management through buying and selling of specific instruments or by entering into offsetting positions. As discussed in note 6, foreign currency risk for investments 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 to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

##### NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

*Foreign Currency Exchange Contracts* - The Board 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 currency as of June 30, 2014 and 2013.

##### Summary of Foreign Exchange Contracts by Currency Fiscal Year Ending June 30, 2014

| Currency               | Buys                     | Gain/(Loss)         | Sells                    | Unrealized<br>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       | 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)                 |
| Romanian Leu, New      | 1,168,000                | 9,000               | 15,892,914               | (3,821)                   |
| Taiwan Dollar, New     | -                        | 5,000               | 2,023,802                | (4,652)                   |
| Turkish Lira, New      | 8,453,000                | 45,000              | -                        | (29,944)                  |
| 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)                  |
| 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                     |
| US Dollar              | 52,013,000               | -                   | 48,065,216               | -                         |
| <b>Total</b>           | <b>\$ 17,112,717,000</b> | <b>\$ 1,580,000</b> | <b>\$ 25,287,563,982</b> | <b>\$ (1,728,798)</b>     |

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

##### Summary of Foreign Exchange Contracts by Currency

##### Fiscal Year Ending June 30, 2013

| Currency               | Buys                  | Unrealized<br>Gain/(Loss) | Sells                 | Unrealized<br>Gain/(Loss) |
|------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
| Australian Dollar      | \$ 3,205,000          | \$ (96,000)               | \$ 3,146,000          | \$ 390,000                |
| Brazilian Real         | 5,734,000             | (209,000)                 | 3,617,000             | 144,000                   |
| British Pound Sterling | -                     | -                         | 5,589,000             | 22,000                    |
| Canadian Dollar        | 275,000               | (3,000)                   | 1,917,000             | 49,000                    |
| Chilean Peso           | 825,000               | (3,000)                   | 1,639,000             | 21,000                    |
| Chinese Yuan Renminbi  | 1,164,000             | 32,000                    | 1,165,000             | (22,000)                  |
| Colombian Peso         | 1,178,000             | (72,000)                  | -                     | 46,000                    |
| Euro                   | 3,091,000             | (50,000)                  | 39,029,000            | (17,000)                  |
| Hungarian Forint       | 6,206,000             | (114,000)                 | 6,530,000             | 28,000                    |
| Indian Rupee           | -                     | (1,000)                   | -                     | 1,000                     |
| Indonesian Rupiah      | -                     | (5,000)                   | 1,646,000             | (6,000)                   |
| Japanese Yen           | 9,836,000             | (361,000)                 | 9,876,000             | 113,000                   |
| Malaysian Ringgit      | 184,000               | (8,000)                   | -                     | -                         |
| Mexican Peso           | 18,153,000            | (514,000)                 | 12,248,000            | 424,000                   |
| Romanian Leu, New      | 429,000               | (7,000)                   | -                     | -                         |
| Taiwan Dollar, New     | 1,555,000             | (5,000)                   | 1,528,000             | 6,000                     |
| Turkish Lira, New      | 3,017,000             | (42,000)                  | -                     | 72,000                    |
| Peruvian Nuevo Sol     | -                     | -                         | 239,000               | 2,000                     |
| Philippine Peso        | 2,266,000             | (68,000)                  | 3,151,000             | 143,000                   |
| Polish Zloty           | 3,867,000             | (44,000)                  | 814,000               | 68,000                    |
| Russian Ruble          | 6,834,000             | (114,000)                 | 10,980,000            | 458,000                   |
| Singapore Dollar       | 4,299,000             | (67,000)                  | 5,035,000             | 111,000                   |
| South African Rand     | 4,155,000             | (53,000)                  | 4,259,000             | 16,000                    |
| South Korean Won       | 6,794,000             | (74,000)                  | 6,794,000             | 121,000                   |
| Thai Baht              | -                     | 7,000                     | 1,738,000             | (5,000)                   |
| US Dollar              | 118,483,000           | -                         | 80,788,000            | -                         |
| <b>Total</b>           | <b>\$ 201,550,000</b> | <b>\$(1,871,000)</b>      | <b>\$ 201,728,000</b> | <b>\$ 2,185,000</b>       |

**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.

During 2014 and 2013, 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, ERB 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.

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

##### NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

Subsequent payments are then made or received by the ERB, depending on the daily fluctuation in the value of the underlying contracts. Cash Collateral in the amount of \$750,061 as of June 30, 2014 was held in a Money Market fund by the custodial bank. U.S. Treasury Securities owned and included in the investments of the ERB, with a value of approximately \$1,800,000 as of June 30, 2013 were held by the Plan's broker as performance security on futures contracts.

##### 2014

##### Summary of Outstanding Futures Contracts

|                           | <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             |

##### 2013

##### Summary of Outstanding Futures Contracts

|                           | <u>No. of Contracts</u> | <u>Notional Amount</u> |
|---------------------------|-------------------------|------------------------|
| Futures Contracts - Long  | 134                     | \$ 4,430,000           |
| Futures Contracts - Short | 107                     | \$ 15,500,000          |
|                           |                         | <u>Fair Value</u>      |
| Margin Deposit            |                         | \$ 1,800,000           |

**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, 2014 and June 30, 2013, there were no open written or purchased options.

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

**Swap Contracts** — Swap contracts are executed on a number of different bases. The two types employed by ERB on June 30, 2014 and June 30 2013, were interest rate swap contracts and credit default swap contracts. 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.

**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. The securities are held for investment purposes. The assets are as follows:

| <b>Investment</b>                        | <b>2014</b>    | <b>2013</b>    |
|--|----------------|----------------|
| Asset Backed Securities                  | \$ 17,759,591  | \$ 18,862,108  |
| Collateralized Debt Obligations          | 11,142,716     | 41,616,321     |
| Commercial Mortgage-Backed /REMIC        | 62,957,532     | 76,699,558     |
| Collateralized Mortgage Obligation/REMIC | 12,154,510     | 19,149,599     |
|  | <hr/>          | <hr/>          |
|  | \$ 104,014,349 | \$ 156,327,586 |
|  | <hr/>          | <hr/>          |

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 8. CAPITAL ASSETS

Capital assets relate to all assets of ERB that are used in operations and have useful lives extending beyond a single reporting period. Depreciation expense was \$168,880 and \$695,347 for the years ended 2014 and 2013, respectively. Capital asset activity for the years ended June 30, 2014 and 2013 is as follows:

|  | <b>Beginning<br/>Balance</b> | <b>Additions</b>    | <b>Deletions</b> | <b>Ending<br/>Balance</b> |
|--|------------------------------|---------------------|------------------|---------------------------|
| <b>2014:</b>                                       |                              |                     |                  |                           |
| 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 (Art in Public Places)                | 30,500                       | -                   | -                | 30,500                    |
| Integrated Retirement Information<br>System (IRIS) | 9,156,963                    | 21,548              | 62,602           | 9,115,909                 |
| Total  | <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                   |
| Integrated Retirement Information<br>System (IRIS) | 9,156,963                    | 57,949              | 64,381           | 9,150,531                 |
| Total  | <u>11,727,507</u>            | <u>168,880</u>      | <u>86,211</u>    | <u>11,810,176</u>         |
| Capital assets—net                                 | <u>\$ 2,175,777</u>          | <u>\$ (147,332)</u> | <u>\$ (183)</u>  | <u>\$ 2,028,629</u>       |

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### NOTE 8. CAPITAL ASSETS (CONTINUED)

|  | Beginning<br>Balance | Additions           | Deletions     | Ending<br>Balance   |
|--|----------------------|---------------------|---------------|---------------------|
| <b>2013:</b>                                       |                      |                     |               |                     |
| 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                            | 1,124,917            | 8,496               | 50,839        | 1,082,574           |
| Other assets (Art in Public Places)                | 30,500               | -                   | -             | 30,500              |
| Integrated Retirement Information<br>System (IRIS) | 9,156,963            | -                   | -             | 9,156,963           |
| Total  | <u>13,945,627</u>    | <u>8,496</u>        | <u>50,839</u> | <u>13,903,284</u>   |
| Accumulated depreciation:                          |                      |                     |               |                     |
| Depreciable land improvements                      | 5,022                | 699                 | -             | 5,721               |
| Building and building improvements                 | 1,514,134            | 101,891             | -             | 1,616,025           |
| Furniture and equipment                            | 912,815              | 86,704              | 50,721        | 948,798             |
| Integrated Retirement Information<br>System (IRIS) | 8,650,910            | 506,053             | -             | 9,156,963           |
| Total  | <u>11,082,881</u>    | <u>695,347</u>      | <u>50,721</u> | <u>11,727,507</u>   |
| Capital assets—net                                 | <u>\$ 2,862,746</u>  | <u>\$ (686,851)</u> | <u>\$ 118</u> | <u>\$ 2,175,777</u> |

#### NOTE 9. 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 (ERB Plan) through the Educational Retirement Act, while most employees have elected to participate in the Public Employees Retirement Plan (PERA Plan).

**Public Employees Retirement Association (PERA).** Certain full-time employees elect to participate in the PERA Plan authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the PERA Plan which is a cost-sharing multiple-employer defined benefit retirement plan. The Plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the PERA Plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at [www.pera.state.nm.us](http://www.pera.state.nm.us).

PERA announced on September 10, 2014 that the agency will implement GASB 67 in their fiscal year 2014 financial report. The total collective pension liability will then be allocated to participant employers for fiscal year 2015 reporting.

## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

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

##### NOTE 9. RETIREMENT PLANS (CONTINUED)

The Schedule of Employer Allocations will be provided to employers, including ERB, in April 2015, allowing enough time for incorporation into ERB's fiscal year 2015 financial report as required by GASB 68.

**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 of plan members and ERB are established in State statute 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 the fiscal years ending June 30, 2014 and 2013, and 2012 were \$709,380, \$656,229, and \$661,881, respectively, which equal the amount of the required contributions for each fiscal year.

**Educational Retirement Board.** Certain full-time employees elect to participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The ERB is the administrator of the ERB Plan, which is a cost-sharing multiple employer defined benefit retirement plan. The Plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members (certified teachers, and other employees of State public school districts, colleges and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the ERB Plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's website at [www.nmerb.org](http://www.nmerb.org).

##### **ERB Funding Policy.**

###### *Member Contributions*

Plan members whose annual salary is \$20,000 or less are required by statute to contribute 7.9% of their gross salary. Plan members whose annual salary is over \$20,000 are required to make the following contributions to the Plan: 9.4% of their gross salary in fiscal year 2013; 10.1% of their gross salary in fiscal year 2014; and 10.7% of their gross salary in fiscal year 2015 and thereafter.

###### *Employer Contributions*

ERB contributed 13.15% of gross covered employee salaries in fiscal year 2014. Contributions will be 13.9% of gross covered salary in fiscal year 2015.

In fiscal year 2013, ERB was required to contribute 12.4% of the gross covered salary for employees whose annual salary was \$20,000 or less, and 10.9% of the gross covered salary for employees whose annual salary was more than \$20,000.

The contribution requirements of Plan members and ERB are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. ERB's contributions to the Plan for the fiscal years ending June 30, 2014 and 2013 were \$2,623 and \$7,190 respectively, which equal the amount of the required contributions for each fiscal year.



## New Mexico Educational Retirement Board

### FINANCIAL SECTION - Notes to Financial Statements - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

##### **NOTE 10. POST EMPLOYMENT BENEFITS-STATE RETIREE HEALTHCARE PLAN**

**Plan Description:** ERB contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multi-employer defined benefit post-employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The 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 (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 the 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 defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; (4) former governing authority members who served at least four years.

RHCA issues a publicly available stand-alone 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 NE, Suite 104, Albuquerque, NM 87107.

**Funding Policy.** The Retiree Health Care Act (Section 10-7C-13, NMSA 1978) authorizes RHCA 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 former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the RHCA Plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The employer, employee and retiree contributions are required to be remitted to RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by RHCA.

# New Mexico Educational Retirement Board

## FINANCIAL SECTION - Notes to Financial Statements - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS Years Ended June 30, 2014 and 2013

#### **NOTE 10. POST EMPLOYMENT BENEFITS-STATE RETIREE HEALTHCARE PLAN**

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 PERA 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 PERA 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 contributions to the RHCA for the years ending June 30, 2014 and 2013 were \$56,618 and \$55,678 for employer contributions and \$36,915 and \$27,836 in employee contributions, respectively, which equal the required contributions for each year.

#### **NOTE 11. RISK MANAGEMENT**

With the exception of investment losses, ERB is exposed to various business risks of loss for which it carries insurance through the Risk Management Division of the New Mexico General Services Department. In the event of a claim being filed, ERB is responsible for only a small deductible payment in amounts that vary according to the type of claim.

#### **NOTE 12. 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 received the following specific appropriations:

#### **IRIS ENHANCEMENT PROJECT**

##### **Laws of 2011, Chapter 179, Section 7, Item 3**

|   |                  |
|---|------------------|
| Appropriation                             | \$ 3,500,000     |
| Expended FY 2012 to 2014                  | (3,452,901)      |
| Outstanding Encumbrance at end of FY 2014 | <u>-</u>         |
| Unencumbered balance for FY2015           | <u>\$ 47,099</u> |

**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, 2014 and 2013

|   | 2014                            | 2013                            |
|---|---------------------------------|---------------------------------|
| <b>Total Pension Liability</b>  |                                 |                                 |
| Service cost  | \$ 350,247,724                  | \$ 348,266,697                  |
| Interest  | 1,254,730,237                   | 1,202,676,449                   |
| Benefit changes   | -                               | 10,093,494                      |
| Difference between actual & expected experience                               | (114,507,809)                   | -                               |
| Assumption changes  | -                               | (5,035,689,829)                 |
| Benefit payments and refunds  | (907,214,467)                   | (853,329,267)                   |
| <b>Net Change in Pension Liability</b>  | <u>\$ 583,255,685</u>           | <u>\$ (4,327,982,456)</u>       |
| <b>Total Pension Liability - Beginning</b>                                    | <u>16,468,550,952</u>           | <u>20,796,533,408</u>           |
| <b>Total Pension Liability - Ending (a)</b>                                   | <u><u>\$ 17,051,806,637</u></u> | <u><u>\$ 16,468,550,952</u></u> |
| <b>Plan Fiduciary Net Position</b>  |                                 |                                 |
| Employer contributions  | \$ 362,462,537                  | \$ 299,657,530                  |
| Member contributions  | 268,693,991                     | 250,529,546                     |
| Pension plan net investment income  | 1,444,371,472                   | 1,016,865,792                   |
| Benefit payments and refunds  | (907,214,467)                   | (811,665,051)                   |
| Pension plan administrative expense   | (16,617,970)                    | (41,664,216)                    |
| Other   | 2,681,458                       | (10,985,967)                    |
| <b>Net change in plan fiduciary net position</b>                              | <u>\$ 1,154,377,021</u>         | <u>\$ 702,737,634</u>           |
| <b>Plan fiduciary net position - beginning</b>                                | <u>10,191,698,803</u>           | <u>9,488,961,169</u>            |
| <b>Plan fiduciary net position - ending (b)</b>                               | <u><u>\$ 11,346,075,824</u></u> | <u><u>\$ 10,191,698,803</u></u> |
| <b>Net pension liability (a-b)</b>  | <u><u>\$ 5,705,730,813</u></u>  | <u><u>\$ 6,276,852,149</u></u>  |
| <b>Plan fiduciary net position as a percentage of total pension liability</b> | 66.54%                          | 61.89%                          |
| <b>Covered employee payroll</b>   | \$ 2,718,100,677                | \$ 2,706,170,349                |
| <b>Net pension liability as a percentage of covered employee payroll</b>      | 209.92%                         | 231.95%                         |

#### Notes to schedule:

The change in total pension liability due to assumption changes for the fiscal year ending June 30, 2013 includes the impact of the new assumptions adopted by the Board of Trustees on April 26, 2013 as well as the change in the single discount rate between June 30, 2012 and June 30, 2013.

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

## New Mexico Educational Retirement Board

### FINANCIAL SECTION – RSI - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF NET PENSION LIABILITY Years Ended June 30, 2014 and 2013

|   | 2014                    | 2013                    |
|---|-------------------------|-------------------------|
| Total Pension Liability   | \$17,051,806,637        | \$ 16,468,550,952       |
| Plan Fiduciary Net Position   | <u>11,346,075,824</u>   | <u>10,191,698,803</u>   |
| Net Pension Liability   | <u>\$ 5,705,730,813</u> | <u>\$ 6,276,852,149</u> |
| <br>  |                         |                         |
| Plan Fiduciary Net Position as a<br>Percentage of Total Pension Liability | 66.54%                  | 61.89%                  |
| <br>  |                         |                         |
| Covered Employee Payroll  | \$ 2,718,100,677        | \$ 2,706,170,349        |
| <br>  |                         |                         |
| Net Pension Liability as a Percentage<br>of Covered Employee Payroll      | 209.92%                 | 231.95%                 |

**New Mexico Educational Retirement Board**

**FINANCIAL SECTION – RSI - Continued**

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF INVESTMENT RETURNS**

| <b><u>Fiscal<br/>Year<br/>Ending</u></b> | <b><u>Annual Money -Weighted<br/>Rate of Return,<br/>Net of Investment Expense</u></b> |
|--|--|
| 2014                                     | 14.71%   |
| 2013                                     | 11.12%   |
| 2012                                     | 1.87%  |
| 2011                                     | 19.30%   |

# New Mexico Educational Retirement Board

## FINANCIAL SECTION – RSI - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF EMPLOYER CONTRIBUTIONS

| <b>Fiscal Year Ending</b> | <b>Actuarially Determined Contribution</b> | <b>Actual Contribution</b> | <b>Contribution Deficiency (Excess)</b> | <b>Covered Payroll</b> | <b>Contribution as a % of Covered Payroll</b> |
|---------------------------|--|----------------------------|---|------------------------|---|
| 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

|                                      |   |
|--------------------------------------|---|
| <b>Actuarial Cost Method</b>         | Entry age normal  |
| <b>Amortization Method</b>           | Level percentage of payroll   |
| <b>Remaining Amortization Period</b> | Amortized over a closed thirty-year period from June 30, 2012 ending June 30, 2042  |
| <b>Asset Valuation Method</b>        | Five-year smoothed market   |
| <b>Inflation</b>                     | 3.00%   |
| <b>Salary Increases</b>              | 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                        |
| <b>Investment Rate of Return</b>     | 7.75%   |
| <b>Retirement Age</b>                | 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 |
| <b>Mortality</b>                     | 90% of RP-2000 Combined Mortality Table with White Collar Adjustment, projected to 2015 using Scale AA (with one-year setback for females)                                      |

**O SUPPLEMENTARY INFORMATION**



# New Mexico Educational Retirement Board

## FINANCIAL SECTION – OSI - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF REVENUES AND EXPENSES BUDGET AND ACTUAL For the Year Ended June 30, 2014

|   | Original<br>Budget   | Final Budget      | Actual Budgetary<br>Basis | Variance -<br>Final Budget<br>Favorable<br>(Unfavorable) |
|---|----------------------|-------------------|---------------------------|--|
| Revenues:   |                      |                   |                           |  |
| Other state funds                                     | \$ 31,971,300        | 31,971,300        | 31,971,300                | -  |
| Total budgeted revenue                                | <u>\$ 31,971,300</u> | <u>31,971,300</u> | <u>31,971,300</u>         | <u>-</u>   |
| Expenses:   |                      |                   |                           |  |
| Personal services and employee benefits               | \$ 5,758,400         | 5,758,400         | 5,104,000                 | 654,400  |
| Contractual services                                  | 25,387,400           | 25,387,400        | 24,221,400                | 1,166,000  |
| Other Costs   | 825,500              | 825,500           | 742,600                   | 82,900   |
| Total expenses  | <u>\$ 31,971,300</u> | <u>31,971,300</u> | <u>30,068,000</u>         | <u>1,903,300</u>   |
| Reconciliation of GAAP basis to budgetary basis:      |                      |                   |                           |  |
| Revenue GAAP basis                                    |                      |                   | \$ 2,078,209,458          |  |
| Net appreciation (depreciation) in investment value   |                      |                   | 1,587,002,625             |  |
| Investment advisor and custody fees                   |                      |                   | (13,719,779)              |  |
| Current year revenue not needed for budgeted expenses |                      |                   | (3,619,521,004)           |  |
| Revenue - budgetary basis                             |                      |                   | <u>\$ 31,971,300</u>      |  |
| Expenses GAAP basis - administrative                  |                      |                   | \$ 16,516,696             |  |
| Depreciation expense                                  |                      |                   | (168,475)                 |  |
| Investment advisor and custody fees                   |                      |                   | 13,719,779                |  |
| Expenses - budgetary basis                            |                      |                   | <u>\$ 30,068,000</u>      |  |

**New Mexico Educational Retirement Board**

**FINANCIAL SECTION – RSI – Continued**

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**

**SCHEDULE OF CASH ACCOUNTS**

**As of June 30, 2014 and 2013**

| <b>Educational Employees' Retirement Fund<br/>Pension Trust Account<br/>Fund 60500</b> | <b>2014</b>           | <b>2013</b>           |
|--|-----------------------|-----------------------|
| Petty cash   | \$ 100                | \$ 100                |
| Qualified Excess Benefit Arrangement Trust   | 211,210               | 23,836                |
| Checking Account at Wells Fargo Bank   | 1,804,456             | 5,353,975             |
| Short-term investment accounts:  |                       |                       |
| Overnight repurchase agreement pool - State Treasurer                                  |                       |                       |
| Short Term Investment Funds - STIF   | 275,693,396           | 746,599,116           |
| Balance per financial statements   | <u>\$ 277,709,162</u> | <u>\$ 751,977,027</u> |
| Pledged collateral for Wells Fargo demand deposit account:                             |                       |                       |
| Total amount on deposit at June 30   | \$ 211,210            | \$ 23,836             |
| Less Federal Deposit Insurance Corporation coverage                                    | (211,210)             | (23,836)              |
| Total uninsured public funds   | <u>\$ -</u>           | <u>\$ -</u>           |

# New Mexico Educational Retirement Board

## FINANCIAL SECTION – RSI - Continued

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF ADMINISTRATIVE EXPENSES For the Year Ended June 30, 2014

|   | <u>2014</u>          |
|---|----------------------|
| <b>Personal Services and Benefits</b>                                     |                      |
| Salaries  | \$ 3,253,235         |
| Benefits  | 1,850,442            |
| <b>Total Personal Services and Benefits</b>                               | <u>5,103,677</u>     |
| <b>Consultant Services</b>  |                      |
| Medical Review Board Fees   | 19,993               |
| Audit Fees  | 85,566               |
| Legal Fees  | 2,290,289            |
| Information Technology Fees   | 1,695,229            |
| Other Consultant Services Fees  | 6,526,900            |
| <b>Total Consultant Services Expenses</b>                                 | <u>10,617,977</u>    |
| <b>Budgeted Investment Expenses</b>                                       |                      |
| Custodial Expenses  | 392,955              |
| Investment Manager Expenses   |                      |
| Domestic Fixed Income   | 5,149,426            |
| Domestic Equity   | 2,237,924            |
| Non-US Equity   | 2,909,801            |
| Non-US Fixed Income   | 410,413              |
| Investment Consulting Expenses  | 1,614,677            |
| Other Investment Expenses   | 1,004,583            |
| <b>Total Budgeted Investment Expenses</b>                                 | <u>13,719,77</u>     |
| <b>Other Administrative Expenses</b>                                      |                      |
| Building and Maintenance  | 150,382              |
| Dues and Subscriptions  | 37,430               |
| Employee and Board Travel   | 64,748               |
| Inventory and Supplies  | 54,244               |
| IT Equipment  | 151,158              |
| Training and Education  | 12,952               |
| Telecommunication Services  | 100,807              |
| Utilities   | 31,085               |
| Other Miscellaneous Expenditures  | 118,739              |
| <b>Total Other Administrative Expenses</b>                                | <u>721,544</u>       |
| <b>Total Administrative, Consultant &amp; Budgeted Investment Expense</b> | <u>\$ 30,162,978</u> |

## New Mexico Educational Retirement Board

### FINANCIAL SECTION – RSI - Continued

#### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF ACCOUNTABILITY IN GOVERNMENT ACT PERFORMANCE MEASURES As of June 30, 2014

| Type    | Description  | Target | Actual  |
|---------|--|--------|---------|
| Outcome | Average number of days to process refund requests                              | 15     | 8       |
| Outcome | Percentage of member satisfaction with seminars and trainings                  | 95%    | 98%     |
| Outcome | Average rate of return over a cumulative five-year period                      | 7.75 % | 12.90 % |
| Output  | Number of benefit estimates and purchase of service requests computed annually | 7,000  | 6,725   |
| Output  | Number of member workshops conducted   | 30     | 28      |
| Outcome | Funding period of UAAL in years  | ≤ 30   | 42.1    |

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Actuarial Certification Letter



Gabriel Roeder Smith & Company  
Consultants & Actuaries

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

469.524.0000 phone  
469.524.0003 fax  
www.gabrielroeder.com

October 27, 2014

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, 2014**

The results of the June 30, 2014 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, 2014.

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, 2014, 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.

**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 no longer provides information related to Governmental Accounting Standards Board (GASB) Statement No.25. All of the information required by GASB is provided in a stand-alone report entitled "GASB 67 Reporting and Disclosure Information for Fiscal Year Ending June 30, 2014", dated October 13, 2014.

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 with the June 30, 2012 experience study, 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.

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

#### Financing Objectives

In accordance with HB 628 (2011 Regular Session) and SB 115 (2013 Regular Session), employer and member contributions are scheduled as follows.

For employees with annual salary more than \$20,000/ less than \$20,000 per year

| <i>Fiscal Year End</i>     | <i>Employer Contribution Rate</i> | <i>Member Contribution Rate</i> |
|----------------------------|-----------------------------------|---------------------------------|
| <u>2014</u>                | 15%/13.15%                        | 10%/7.90%                       |
| <u>2015 and thereafter</u> | 90%/13.90%                        | 70%/7.90%                       |

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

# **New Mexico Educational Retirement Board**

## **ACTUARIAL SECTION**

### **Actuarial Certification Letter - Continued**

as the funding period, is the number of years expected to be required to completely amortize the UAAL, assuming that ERB's experience exactly follows all of the actuarial assumptions.)

#### **Progress Towards Realization of the Financing Objectives**

The funded condition of the plan, as measured by the funded ratio, increased from 2013 to 2014. The increase was primarily due to the gain on the actuarial value of assets (a gain of \$409 million). There was a liability gain of \$47 million due to cost-of-living adjustments (COLAs) granted that were less than the expected 2% and an additional net gain on the liabilities of \$33 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, 2013 was 60.1%. It is now 63.1% as of June 30, 2014. Five years ago this ratio stood at 67.5%, and ten years ago the ratio was 75.4%. If the ratio were calculated using the market value of assets rather than the actuarial value of assets, it would be 66.9% as of June 30, 2014, up from 62.3% as of June 30, 2013. During the last fiscal year, the UAAL decreased from \$6.5 billion to \$6.3 billion.

The plan's funding period as of the valuation date is 42.1 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 42.1-year period compares with the 95.1-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) the expected future growth in the active membership (0.50% per annum).

#### **Recent Events**

The annual return from 2013 to 2014 on the market value of assets was approximately 14.2% and the annual return from that same period on the actuarial value of assets was 12.0%. 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 2012 not all the losses were recognized at one time in the actuarial value of assets and likewise, for this valuation, not all of the 2014 losses have been recognized in the actuarial value of assets. The net result of the loss from 2012, and the gains from 2010, 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 12.0% 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, 2014.

#### **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 April 26, 2013 in conjunction with the six-year actuarial experience study period ending June 30, 2012. At that time, the Board adopted a number of assumption changes, including a decrease in the annual wage inflation rate from 4.75% to 4.25%, a decrease in the payroll growth from 3.75% to 3.50%, and changes to the mortality, retirement, and termination rates.

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, 2014 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, 2014 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, FCA, EA, MAAA  
Chief Executive Officer

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report

#### Executive Summary

| Valuation as of:                              | 06/30/2014         | 06/30/2013          |
|---|--------------------|---------------------|
| Contribution Rates for Fiscal Year Ending:    | 06/30/2015         | 06/30/2014          |
| <b>Membership</b>                             |                    |                     |
| • Number of                                   |                    |                     |
| - Active members                              | 61,173             | 61,177              |
| - Retirees and beneficiaries                  | 42,246             | 40,310              |
| - Inactive, vested                            | 9,113              | 8,615               |
| - Inactive, nonvested                         | <u>27,476</u>      | <u>25,482</u>       |
| - Total                                       | 140,008            | 135,584             |
| • Payroll                                     | \$ 2.5 billion     | \$ 2.5 billion      |
| <b>Statutory contribution rates</b>           |                    |                     |
| • Employer                                    | 13.90%             | 13.15%              |
| • Member                                      | 10.70%             | 10.10%              |
| <b>Assets</b>                                 |                    |                     |
| • Market value                                | \$ 11.3 billion    | \$ 10.2 billion     |
| • Actuarial value                             | \$ 10.7 billion    | \$ 9.8 billion      |
| • Return on market value                      | 14.2%              | 10.8%               |
| • Return on actuarial value                   | 12.0%              | 5.6%                |
| • Employer contributions                      | \$ 362.5 million   | \$ 299.7 million    |
| • External cash flow %                        | -2.6%              | -3.1%               |
| • Ratio of actuarial to market value          | 94.4%              | 96.4%               |
| <b>Actuarial Information</b>                  |                    |                     |
| • Normal cost %                               | 13.11%             | 13.16%              |
| • Unfunded actuarial accrued liability (UAAL) | \$ 6.3 billion     | \$ 6.5 billion      |
| • Funded ratio                                | 63.1%              | 60.1%               |
| • Funding period                              | 42.1 years         | 95.1 years          |
| • Funding Policy Contribution                 | 16.32%             | 17.47%              |
| <b>Gains/(losses)</b>                         |                    |                     |
| • Asset experience                            | \$ 408.6 million   | \$ (207.4) million  |
| • Liability experience                        | (54.4) million     | 107.0 million       |
| • COLA experience                             | 47.0 million       | 20.8 million        |
| • Benefit changes                             | 0.0 million        | (14.1) million      |
| • Assumption/method changes                   | <u>0.0 million</u> | <u>81.5 million</u> |
| • Total                                       | \$ 489.0 million   | \$ (12.2) million   |

# **New Mexico Educational Retirement Board**

## **ACTUARIAL SECTION**

### **Annual Valuation Report – Continued**

---

#### **Introduction**

The results of the June 30, 2014 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 \$19.3 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 \$17.0 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 13.11% 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 2.41% to be funded by the employers (i.e., the current year's employer normal cost is 2.41% 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 \$6.3 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 2.41%, the difference of 11.49% 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 42.1 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 26 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, and assuming membership growth of 0.50% per year.)

#### **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 \$506.4 million for imputed interest and decreased by \$294.7 million because of payments made. This means that the UAAL was expected to increase \$211.7 million before recognizing plan experience. The UAAL as of June 30, 2013 was \$6.5 billion, and the expected UAAL as of June 30, 2014, recognizing actual contributions made, is \$6.7 billion.

The plan experienced a liability gain of \$33.2 million, the vast majority of which is due to a gain from actual salary increases being less than expected. This gain represents 0.2% of the total actuarial accrued liability.

A cost-of-living adjustment (COLA) was applied as of July 1, 2014 to retirement benefits for retirees eligible to receive a COLA as defined in Section 22-11-31 of the New Mexico Statutes Annotated. A 1.50% 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 2010 or earlier. Since the plan's funded ratio as of June 30, 2013 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., \$1,543.06 as of June 30, 2013) will receive an annual adjustment of 1.35%. All remaining non-disability retirements received an annual adjustment of 1.20%. Note that the adjustment is only applied to members who retired in calendar year 2013 or earlier; members who retired in 2014 are ineligible.

ACTUARIAL SECTION

Annual Valuation Report – Continued

The plan experienced an actuarial gain on investments of \$408.6 million. The investment gain resulted from the fact that the return on the actuarial value of assets, 12.0%, was greater than the 7.75% assumed investment return. This gain was the result of recognizing 20% of the loss from FYE 2012, with 20% of the gains from FYE 2010, FYE 2011, FYE 2013 and FYE 2014. The market rate of return in FYE 2014 was 14.2%.

There were no benefit changes and no assumption changes since the last actuarial valuation. However, the actual COLA was less than the expected 2.0% which resulted in a net \$47.2 million decrease in UAAL.

As a result of all the above experience, the UAAL increased from \$6.5 billion to \$6.3 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, 2014 which resulted in an actuarial gain of \$47.2 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 April 12, 2013 in conjunction with the six-year experience study period ending June 30, 2012. At that time, the Board adopted a number of assumption changes, including a decrease in the wage inflation from 4.75% to 4.25%, a decrease in the payroll growth from 3.75% to 3.50%, and changes to the mortality, retirement, and termination rates.

ACTUARIAL SECTION

Annual Valuation Report – Continued

We believe the recommended assumptions are internally consistent and are reasonable 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, 2014 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 94.4% 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 \$631.1 million. Over any short time period, a disparity between actuarial value and market value may appear, but over the long term, we would expect the actuarial value and the market value to continue to track each other fairly closely.

Table 9a shows that the investment return rate for FYE 2014 on market value was 14.2%, while it was 12.0% 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, 2.6% of market value.

## *New Mexico* Educational Retirement Board

### 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 61,177 to 61,173.

Total payroll increased 0.9% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2013-2014 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, 2014. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 0.9% since last year. Average pay for members active in both this valuation and the last year's valuation increased 2.9%. 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

**Table 1 Actuarial Information**

|  | June 30, 2014          | June 30, 2013          |
|--|------------------------|------------------------|
|  | (1)                    | (2)                    |
| 1. Payroll   |                        |                        |
| a. Supplied by System (annualized)   | \$ 2,538,882,656       | \$ 2,516,874,274       |
| b. Adjusted for one-year's pay increase  | 2,685,699,253          | 2,661,456,872          |
| 2. Normal cost rate (payable monthly)  |                        |                        |
| a. Total normal cost rate  | 13.11%                 | 13.16%                 |
| b. Less: member contribution rate  | <u>(10.70%)</u>        | <u>(10.10%)</u>        |
| c. Employer normal cost rate   | 2.28%                  | 3.06%                  |
| 3. Employer normal cost<br>(Item 2c * Item 1b)   | \$ 64,725,352          | \$ 81,440,580          |
| 4. Actuarial accrued liability for active members  |                        |                        |
| a. Actuarial present value of future benefits  | \$ 8,895,326,237       | \$ 8,834,309,174       |
| b. Less: actuarial present value of future normal costs  | <u>(2,297,479,591)</u> | <u>(2,265,061,327)</u> |
| c. Actuarial accrued liability   | \$ 6,597,846,646       | \$ 6,597,846,646       |
| 5. Total actuarial accrued liability for:  |                        |                        |
| a. Retirees and beneficiaries  | \$ 9,828,072,718       | \$ 9,285,395,005       |
| b. Inactive members  | 545,402,368            | 507,636,351            |
| c. Active members (Item 4c)  | <u>6,597,846,646</u>   | <u>6,569,247,847</u>   |
| d. Total   | \$ 16,971,321,732      | \$ 16,362,279,203      |
| 6. Actuarial value of assets   | \$ 11,472,378,929      | \$ 9,828,547,715       |
| 7. Unfunded actuarial accrued liability (UAAL)<br>(Item 5d - Item 6)   | \$ 6,542,046,073       | \$ 6,533,731,488       |
| 8. Amortization payment for next fiscal year   |                        |                        |
| a. Employer contribution rate  | 13.90%                 | 13.15%                 |
| b. Less: Employer normal cost rate (Item 2c)   | <u>(2.41%)</u>         | <u>(3.06%)</u>         |
| c. Amortization rate   | 11.49%                 | 10.09%                 |
| d. Amortization contribution ( Item 8c * Item 1b)  | \$ 308,586,844         | \$ 268,540,998         |
| e. Expected ARP contribution   | <u>5,208,428</u>       | <u>4,848,936</u>       |
| f. Total   | \$ 313,795,272         | \$ 273,389,934         |
| 9. Funding period based on current 13.90% employer contribution requirement, with payments increasing at assumed payroll growth rate (13.15% for prior year) | 42.1 years             | 95.1 years             |



New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Table 2

**Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)**

| Basis   | Year Ending   |               |
|---|---------------|---------------|
|   | June 30, 2014 | June 30, 2013 |
| (1)   | (2)           | (3)           |
| 1. UAAL at prior valuation                      | \$ 6,533.7    | \$ 6,230.7    |
| 2. Increases/(decreases) due to:                |               |               |
| a. Interest on UAAL                             | 506.4         | 482.9         |
| b. Amortization payments <sup>1</sup>           | 294.8)        | (192.1)       |
| c. Liability experience                         | 33.2          | (107.0)       |
| d. Asset experience                             | (408.6)       | (207.4)       |
| e. Actual COLA More/(Less) than Expected        | (47.2)        | (20.8)        |
| f. Changes in actuarial assumptions and methods | 0.0           | (81.5)        |
| g. Benefit changes                              | 0.0           | 14.1          |
| h. Total  | \$ 277.4      | \$ (303.0)    |
| 3. Current UAAL (1+2h)                          | \$ 6,256.3    | \$ 6,533.7    |

Note : Dollar amounts in millions

<sup>1</sup> Actual contributions reduced by normal cost, and adjusted for timing.

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Table 3

**Actuarial Present Value of Future Benefits**

|   | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|---|----------------------|----------------------|
|   | (1)                  | (2)                  |
| 1. Active members                                   |                      |                      |
| a. Service retirement benefits                      | \$ 8,144,322,898     | \$ 8,094,301,763     |
| b. Refunds and deferred termination benefits        | 571,237,987          | 561,924,896          |
| c. Survivor benefits                                | 79,858,380           | 79,763,813           |
| d. Disability retirement benefits                   | <u>99,906,972</u>    | <u>98,318,702</u>    |
| e. Total  | \$ 8,895,326,237     | \$ 8,834,309,174     |
| 2. Retired members                                  |                      |                      |
| a. Service retirement                               | \$ 9,354,087,456     | \$ 8,829,122,071     |
| b. Disability retirement                            | 91,130,372           | 81,930,423           |
| c. Beneficiaries                                    | <u>390,457,818</u>   | <u>374,342,511</u>   |
| d. Total  | \$ 10,621,041,144    | \$ 9,828,072,718     |
| 3. Inactive members                                 |                      |                      |
| a. Vested terminations                              | \$ 430,623,837       | \$ 403,770,204       |
| b. Nonvested terminations                           | <u>114,778,531</u>   | <u>103,866,147</u>   |
| c. Total  | \$ 545,402,368       | \$ 507,636,351       |
| 4. Total actuarial present value of future benefits | \$ 19,268,801,323    | \$ 18,627,340,530    |

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Table 4

**Analysis of Normal Cost**

|  | <u>June 30, 2014</u><br>(1) | <u>June 30, 2013</u><br>(2) |
|--|-----------------------------|-----------------------------|
| 1. Gross normal cost rate (payable monthly)  |                             |                             |
| a. Service retirement benefits               | 9.19%                       | 9.28%                       |
| b. Refunds and deferred termination benefits | 3.61%                       | 3.58%                       |
| c. Disability retirement benefits            | 0.19%                       | 0.18%                       |
| d. Survivor benefits                         | 0.12%                       | 0.12%                       |
| e. Total                                     | <u>13.11%</u>               | <u>13.16%</u>               |
| 2. Less: member contribution rate            | <u>(10.70%)</u>             | <u>(10.10%)</u>             |
| 3. Employer normal cost rate                 | 2.41%                       | 3.06%                       |

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Table 5a

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

|  | <u>June 30, 2014</u><br>(1) | <u>June 30, 2013</u><br>(2) |
|--|-----------------------------|-----------------------------|
| 1. Funding period (years)                          | 28                          | 29                          |
| 2. Amortization contribution percentage            |                             |                             |
| a. Amortization payment                            | \$ 378,878,984              | \$ 388,334,633              |
| b. Less: expected payment for ARP members          | <u>5,208,428</u>            | <u>4,848,936</u>            |
| c. Net (a-b)                                       | \$ 373,670,556              | \$ 383,485,697              |
| d. Expected payroll                                | 2,685,699,253               | 2,661,456,872               |
| e. Amortization contribution percentage (c/d)      | 13.91%                      | 14.41%                      |
| 3. Funding Policy Contribution for Employers       |                             |                             |
| a. Employer normal cost rate                       | 2.41%                       | 3.06%                       |
| b. Amortization percentage                         | <u>13.91%</u>               | <u>14.41%</u>               |
| c. Total   | 16.32%                      | 17.47%                      |
| d. Statutory rate                                  | 13.90%                      | 13.15%                      |
| e. Funding Policy Contribution (greater of (c,d) ) | 16.32%                      | 17.47%                      |

*The calculation of the Funding Policy Contribution complies with the requirements of Governmental Accounting Standard Board Statement No. 27 and can be used in the development of the sponsor's financial statements.*

Annual Valuation Report – Continued

Table 5b

**Actual Contributions as Percentage of  
Funding Policy Contribution for Year Ending June 30, 2014**

|  |                  |
|--|------------------|
| 1. Actual employer contributions   |                  |
| a. On behalf of ERB members  | \$ 357,430,239   |
| b. On behalf of ARP members  | 5,032,298        |
|  | <hr/>            |
| c. Total   | \$ 369,462,537   |
| 2. Statutory employer contribution rate  | 13.15%           |
| 3. Imputed fiscal year payroll for ERB members<br>(Item 1a / Item 2)                       | \$ 2,718,100,677 |
| 4. Funding Policy Contribution for Employers   |                  |
| a. Employer's funding policy contribution for<br>ERB members as percent of payroll         | 17.47%           |
| b. Employer's funding policy contribution for<br>ERB members (Item 4a * Item 3)            | \$ 474,852,188   |
| c. Funding policy contribution (Item 4b + Item 1b)   | \$ 479,884,486   |
| 5. Percentage of Funding Policy Contribution Received in Prior Year<br>(Item 1c / Item 4c) | 75.5%            |

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Table 6a

Active Membership Data

|  | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|--|----------------------|----------------------|
|  | (1)                  | (2)                  |
| 1. Active members                                |                      |                      |
| <u>Tier 1</u>                                    |                      |                      |
| a. Number  | 43,122               | 47,259               |
| b. Total payroll supplied by System (annualized) | \$ 1,960,367,340     | \$ 2,076,786,766     |
| c. Average salary                                | \$ 45,463            | \$ 43,945            |
| d. Average age                                   | 49.5                 | 49.2                 |
| e. Average service                               | 13.2                 | 12.4                 |
| <u>Tier 2</u>                                    |                      |                      |
| a. Number  | 11,103               | 11,918               |
| b. Total payroll supplied by System (annualized) | \$ 373,839,824       | \$ 440,087,508       |
| c. Average salary                                | \$ 33,670            | \$ 31,620            |
| d. Average age                                   | 40.8                 | 39.4                 |
| e. Average service                               | 2.5                  | 1.5                  |
| <u>Tier 3</u>                                    |                      |                      |
| a. Number  | 6,948                | N/A                  |
| b. Total payroll supplied by System (annualized) | \$ 204,566,492       | N/A                  |
| c. Average salary                                | \$ 29,443            | N/A                  |
| d. Average age                                   | 38.1                 | N/A                  |
| e. Average service                               | 0.1                  | N/A                  |
| <u>Total</u>                                     |                      |                      |
| a. Number  | 61,173               | 61,177               |
| b. Total payroll supplied by System (annualized) | \$ 2,538,882,656     | \$ 2,516,874,274     |
| c. Average salary                                | \$ 41,503            | \$ 41,141            |
| d. Average age                                   | 46.6                 | 47.0                 |
| e. Average service                               | 9.8                  | 9.9                  |

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Table 6b

**Inactive Membership Data**

|  | June 30, 2014  | June 30, 2013  |
|--|----------------|----------------|
|  | (1)            | (2)            |
| 1. Vested inactive members (excluding pending refunds)   |                |                |
| a. Number  | 9,113          | 9,615          |
| b. Total annual deferred benefits                        | \$ 66,449,776  | \$ 61,681,408  |
| c. Average annual deferred benefit                       | \$ 7,292       | \$ 7,160       |
| 2. Nonvested inactive members and vested pending refunds |                |                |
| a. Number  | 27,476         | 25,482         |
| b. Employee assessments with interest due                | \$ 114,778,531 | \$ 103,866,147 |
| c. Average refund due                                    | \$ 4,177       | \$ 4,076       |
| 3. Service retirees                                      |                |                |
| a. Number  | 38,438         | 36,614         |
| b. Total annual benefits                                 | \$ 855,101,418 | \$ 804,407,328 |
| c. Average annual benefit                                | \$ 22,246      | \$ 21,970      |
| 4. Disabled retirees                                     |                |                |
| a. Number  | 828            | 814            |
| b. Total annual benefits                                 | \$ 8,339,827   | \$ 8,150,908   |
| c. Average annual benefit                                | \$ 10,072      | \$ 10,013      |
| 5. Beneficiaries   |                |                |
| a. Number  | 2,980          | 2,882          |
| b. Total annual benefits                                 | \$ 44,184,471  | \$ 42,071,195  |
| c. Average annual benefit                                | \$ 14,827      | \$ 14,598      |

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

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

**Table 6c**

#### Historical Summary of Active Member Data

| Year Ending<br>June 30, | Active Members |                     | Covered Payroll          |                     | Average Salary |                     | Average<br>Age | Average<br>Service |
|-------------------------|----------------|---------------------|--------------------------|---------------------|----------------|---------------------|----------------|--------------------|
|                         | Number         | Percent<br>Increase | Amount in<br>\$ Millions | Percent<br>Increase | \$ Amount      | Percent<br>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

Table 7

Reconciliation of Plan Net Assets

|   | Year Ending          |                      |
|---|----------------------|----------------------|
|   | June 30, 2014<br>(1) | June 30, 2013<br>(2) |
| 1 Value of assets a beginning of year                                   |                      |                      |
| a. Value reported in prior valuation                                    | \$ 10,191,698,803    | \$ 9,488,961,169     |
| b. Prior period adjustments   | -                    | -                    |
| c. Revised value  | \$ 10,191,698,803    | \$ 9,488,961,169     |
| 2 Revenue for the year  |                      |                      |
| a. Contributions  |                      |                      |
| i. Member contributions<br>(including redeposits and service purchases) | \$ 271,513,574       | \$ 250,529,546       |
| ii. Employer contributions  | 357,430,239          | 294,972,568          |
| iii. Employer contributions for ARP members                             | 5,032,298            | 4,684,962            |
| iv. Total   | \$ 633,976,111       | \$ 550,187,076       |
| b. Income   |                      |                      |
| i. Interest, dividends, and other income                                | \$ 180,493,151       | \$ 195,093,760       |
| ii. Investment expenses   | (13,719,779)         | (15,421,101)         |
| iii. Net  | \$ 166,773,372       | \$ 179,672,659       |
| c. Net realized and unrealized gains                                    | \$ 1,277,459,975     | \$ 837,193,133       |
| d. Total revenue  | \$ 2,078,209,458     | \$ 1,567,052,868     |
| 3 Expenditures for the year   |                      |                      |
| a. Refunds  | \$ 38,923,083        | \$ 41,664,216        |
| b. Benefit payments   | 868,291,384          | 811,665,051          |
| c. Administrative and miscellaneous expenses                            | 16,617,970           | 10,985,967           |
| d. Total expenditures   | \$ 923,832,437       | \$ 864,315,234       |
| 4 Increase in net assets<br>(Item 2 - Item 3)                           | \$ 1,154,377,021     | \$ 702,737,634       |
| 5 Value of assets at end of year<br>(Item 1 - Item 4)                   | \$ 11,346,075,824    | \$ 10,191,698,803    |

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

Table 8

#### Development of Actuarial Value of Assets

|  | <b>Year Ending</b><br><b>June 30, 2014</b>   |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
|--|--|------------------|--------------------|------------------|----------------|-----|-----|-----|-----|------------------|-------------|-----|----------------|------------------|---------------|-----|---------------|------------------|-------------|-----|-------------|------------------|-------------|-----|--------------------|--|--|--|----------------|
| 1 Market Value o assets at beginning of year     | \$ 10,191,698,803  |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| 2 Net new investments                            |  |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| a. Contributions                                 | \$ 633,976,111   |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| b. Benefits and refunds paid                     | <u>(907,214,467)</u>   |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| c. Subtotal                                      | (273,238,356)  |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| 3 Market value of assets a end of year           | \$ 11,346,075,824  |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| 4 Net earnings (3 - 1 - 2c)                      | \$ 1,427,615,377   |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| 5 Assumed invstment return rate                  | 7.75%  |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| 6 Expected return                                | \$ 779,268,671   |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| 7 Excess return (4 - 6)                          | \$ 648,346,706   |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| 8 Excess return on assets for last four years:   |  |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
|  | <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Period End</th> <th style="text-align: center;">Excess Return</th> <th style="text-align: center;">Percent Deferred</th> <th style="text-align: center;">Defined Amount</th> </tr> <tr> <th style="text-align: center;">(1)</th> <th style="text-align: center;">(2)</th> <th style="text-align: center;">(3)</th> <th style="text-align: center;">(4)</th> </tr> </thead> <tbody> <tr> <td>a. June 30, 2011</td> <td style="text-align: right;">882,359,159</td> <td style="text-align: center;">20%</td> <td style="text-align: right;">\$ 176,471,832</td> </tr> <tr> <td>b. June 30, 2012</td> <td style="text-align: right;">(583,522,212)</td> <td style="text-align: center;">40%</td> <td style="text-align: right;">(233,408,885)</td> </tr> <tr> <td>c. June 30, 2013</td> <td style="text-align: right;">282,232,094</td> <td style="text-align: center;">60%</td> <td style="text-align: right;">169,339,256</td> </tr> <tr> <td>d. June 30, 2014</td> <td style="text-align: right;">648,346,706</td> <td style="text-align: center;">80%</td> <td style="text-align: right;"><u>518,677,365</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">\$ 631,079,568</td> </tr> </tbody> </table> | Period End       | Excess Return      | Percent Deferred | Defined Amount | (1) | (2) | (3) | (4) | a. June 30, 2011 | 882,359,159 | 20% | \$ 176,471,832 | b. June 30, 2012 | (583,522,212) | 40% | (233,408,885) | c. June 30, 2013 | 282,232,094 | 60% | 169,339,256 | d. June 30, 2014 | 648,346,706 | 80% | <u>518,677,365</u> |  |  |  | \$ 631,079,568 |
| Period End                                       | Excess Return  | Percent Deferred | Defined Amount     |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| (1)  | (2)  | (3)              | (4)                |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| a. June 30, 2011                                 | 882,359,159  | 20%              | \$ 176,471,832     |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| b. June 30, 2012                                 | (583,522,212)  | 40%              | (233,408,885)      |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| c. June 30, 2013                                 | 282,232,094  | 60%              | 169,339,256        |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| d. June 30, 2014                                 | 648,346,706  | 80%              | <u>518,677,365</u> |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
|  |  |                  | \$ 631,079,568     |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| 9 Actuarial value of assets (Item 3 - Item 8)    | \$ 10,714,996,256  |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |
| 10 Actuarial value as percentage of market value | 94.4%  |                  |                    |                  |                |     |     |     |     |                  |             |     |                |                  |               |     |               |                  |             |     |             |                  |             |     |                    |  |  |  |                |

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Table 9a

Estimation of Yields

|   | Year Ending          |                      |
|---|----------------------|----------------------|
|   | June 30, 2014<br>(1) | June 30, 2013<br>(2) |
| A. Market value yield   |                      |                      |
| 1. Beginning of year market assets  | \$ 10,191,698,803    | \$ 9,488,961,169     |
| 2. Investment income (including realized and unrealized gains and losses) | \$ 1,427,615,377     | \$ 1,005,879,825     |
| 3. End of year market assets  | \$ 11,346,075,824    | \$ 10,191,698,803    |
| 4. Estimated dollar weighted market value yield                           | 14.2%                | 10.8%                |
| B. Actuarial value yield  |                      |                      |
| 1. Beginning of year actuarial assets                                     | \$ 9,828,547,715     | \$ 9,606,304,017     |
| 2. Actuarial return   | \$ 1,159,686,897     | \$ 525,385,889       |
| 3. End of year actuarial assets   | \$ 10,714,996,256    | \$ 9,828,547,715     |
| 4. Estimated actuarial value yield  | 12.0%                | 5.6%                 |

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Table 9b

History of Investment Return Rates

| Plan Year Ending<br>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%     |
| Average Returns                |        |           |
| Last 5 years                   | 12.5%  | 5.1%      |
| Last 10 years                  | 7.2%   | 5.6%      |
| Last 15 years                  | 5.3%   | 5.6%      |
| Last 20 years                  | 7.9%   | 7.6%      |

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Table 10a

**Investment Experience Gain or Loss**

| Item  | Year Ending         |                     |
|---|---------------------|---------------------|
|   | June 30, 2014       | June 30, 2013       |
| (1)   | (2)                 | (3)                 |
| 1. Actuarial assets, beginning of year                                  | \$ 9,828,547,715    | \$ 9,606,304,017    |
| 2. Total contributions during year                                      | \$ 633,976,111      | \$ 550,187,076      |
| 3. Benefits and refunds paid  | \$ (907,214,467)    | \$ (853,329,267)    |
| 4. Assumed net investment income  |                     |                     |
| a. Beginning of year assets   | \$ 761,712,448      | \$ 744,488,561      |
| b. Contributions  | 24,566,574          | 21,319,749          |
| c. Benefits and refunds paid  | <u>(35,154,561)</u> | <u>(33,066,509)</u> |
| d. Total  | \$ 751,124,461      | \$ 732,741,801      |
| 5. Expected actuarial assets, end of year<br>(Sum of items 1 through 4) | \$ 10,306,433,820   | \$ 10,035,903,627   |
| 6. Actual actuarial assets, end of year                                 | \$ 10,714,996,256   | \$ 9,828,547,715    |
| 7. Asset gain (loss) for year (Item 6 - Item 5)                         | \$ 408,562,436      | \$ (207,355,912)    |

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Table 10b

Total Experience Gain or Loss

| Item<br>(1)  | Year Ending          |                        |
|--|----------------------|------------------------|
|  | June 30, 2014<br>(2) | June 30, 2013<br>(3)   |
| A. Calculation of total actuarial gain or loss                   |                      |                        |
| 1. Unfunded actuarial accrued liability (UAAL),<br>previous year | \$ 6,533,731,488     | \$ 6,230,668,513       |
| 2. Normal cost for the previous year                             | \$ 350,247,724       | \$ 365,342,765         |
| 3. Less: contributions for the year                              | \$ (689,690,461)     | \$ (550,187,076)       |
| 4. Interest at 7.75 %  |                      |                        |
| a. On UAAL   | \$ 506,364,190       | \$ 482,876,810         |
| b. On normal cost  | 13,572,099           | 14,157,032             |
| c. On contributions  | <u>(24,566,574)</u>  | <u>(21,319,749)</u>    |
| d. Total   | \$ 495,369,715       | \$ 475,714,093         |
| 5. Expected UAAL (Sum of Items 1 - 4)                            | \$ 6,745,372,816     | \$ 6,521,538,295       |
| 6. Actual UAAL   | \$ 6,256,325,476     | \$ 6,533,731,488       |
| 7. Total gain (loss) for the year (Item 5 - Item 6)              | \$ 489,047,340       | \$ (12,193,193)        |
| B. Source of gains and losses                                    |                      |                        |
| 8. Asset gain (loss) for the year                                | \$ 408,562,436       | \$ (207,355,912)       |
| 9. Liability experience gain (loss) for the year                 | \$ 33,247,382        | \$ 107,014,795         |
| 10. Actual COLA (More) Less than Expected                        | \$ 47,237,522        | \$ 20,795,266          |
| 11. Assumption change  | \$ 0                 | \$ 81,499,605          |
| 12. Benefit change   | <u>\$ 0</u>          | <u>\$ (14,146,947)</u> |
| 13. Total  | \$ 489,047,340       | \$ (12,193,193)        |

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

Table 11

| Year<br>Ending<br>June 30 | History of Cash Flow<br>Expenditures |                     |         |                            |         | External<br>Cash Flow<br>for the Year | Market<br>Value of<br>Assets | External Cash<br>Flow as Percent<br>of Market Value |
|---------------------------|--------------------------------------|---------------------|---------|----------------------------|---------|---------------------------------------|------------------------------|---|
|                           | Contributions                        | Benefit<br>Payments | Refunds | Administrative<br>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)  | (2.7)                      | (451.5) | (95.9)                                | 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                                | (478.8)             | (29.5)  | (6.1)                      | (514.4) | (18.2)                                | 8,770.0                      | -0.2%   |
| 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%   |

Amounts in \$ millions

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

2 Column (7) = Columns (2) + Column (6)

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

Table 12

#### Solvency Test

|  | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|--|----------------------|----------------------|
|  | (1)                  | (2)                  |
| 1. Actuarial accrued liability (AAL)               |                      |                      |
| a. Active member contributions                     | \$ 2,456,349,658     | \$ 2,381,795,094     |
| b. Retirees and beneficiaries                      | 9,828,072,718        | 9,285,395,005        |
| c. Active and inactive members (employer financed) | <u>4,686,899,356</u> | <u>4,695,089,104</u> |
| d. Total   | \$ 16,971,321,732    | \$ 16,362,279,203    |
| 2. Actuarial value of assets                       | \$ 10,714,996,256    | \$ 9,828,547,715     |
| 3. Cumulative portion of AAL covered               |                      |                      |
| a. Active member contributions                     | 100%                 | 100%                 |
| b. Retirees and beneficiaries                      | 84%                  | 80%                  |
| c. Active and inactive members (employer financed) | 0%                   | 0%                   |



New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

Table 13

**Historical Retired Participants' Data**

| <u>Year Ending June 30,</u> | <u>Number</u> | <u>Average Monthly</u> |
|-----------------------------|---------------|------------------------|
| (1)                         | (2)           | (3)                    |
| 1984                        | 8,462         | \$ 430                 |
| 1986                        | 10,004        | 512                    |
| 1988                        | 11,375        | 663                    |
| 1990                        | 12,741        | 767                    |
| 1992                        | 14,107        | 846                    |
| 1993                        | 15,001        | 890                    |
| 1994                        | 15,814        | 966                    |
| 1995                        | 16,593        | 976                    |
| 1996                        | 17,381        | 1,011                  |
| 1997                        | 18,317        | 1,055                  |
| 1998                        | 19,244        | 1,104                  |
| 1999                        | 20,109        | 1,139                  |
| 2000                        | 21,186        | 1,228                  |
| 2001                        | 22,191        | 1,274                  |
| 2002                        | 23,052        | 1,315                  |
| 2003                        | 24,085        | 1,376                  |
| 2004                        | 24,947        | 1,420                  |
| 2005                        | 26,100        | 1,466                  |
| 2006                        | 28,539        | 1,472                  |
| 2007                        | 29,969        | 1,523                  |
| 2008                        | 31,192        | 1,566                  |
| 2009                        | 32,496        | 1,607                  |
| 2010                        | 33,747        | 1,628                  |
| 2011                        | 35,457        | 1,669                  |
| 2012                        | 37,336        | 1,714                  |
| 2013                        | 40,310        | 1,767                  |
| 2014                        | 42,246        | 1,790                  |

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

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

Table 14

#### Distribution of Active Members by Age and by Years of Service As of June 30, 2014

| Attained Age         | Years of Credited Service |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  | Total Count & Avg Comp |           |
|----------------------|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------------|-----------|
|                      | 0                         | 1                | 2                | 3                | 4                | 5-9              | 10-14            | 15-19            | 20-24            | 25-29            | 30-34            | 35 & Over        |                        |           |
|                      | Count & Avg Comp          | Count & Avg Comp | Count & Avg Comp | Count & Avg Comp | Count & Avg Comp | Count & Avg Comp | Count & Avg Comp | Count & Avg Comp | Count & Avg Comp | Count & Avg Comp | Count & Avg Comp | Count & Avg Comp | Count & Avg Comp       |           |
| <b>Under 25</b>      | 500                       | 497              | 194              | 55               | 25               | 9                | -                | -                | -                | -                | -                | -                | -                      | 1,280     |
|                      | \$ 17,635                 | \$ 22,767        | \$ 23,092        | \$ 20,170        | \$ 18,825        | \$ 20,057        | \$ -             | \$ -             | \$ -             | \$ -             | \$ -             | \$ -             | \$ -                   | \$ 20,604 |
| <b>25-29</b>         | 632                       | 1,110            | 867              | 527              | 345              | 554              | 9                | -                | -                | -                | -                | -                | -                      | 4,044     |
|                      | \$ 23,998                 | \$ 29,157        | \$ 29,967        | \$ 31,778        | \$ 34,124        | \$ 33,490        | \$ 24,444        | \$ -             | \$ -             | \$ -             | \$ -             | \$ -             | \$ -                   | \$ 29,873 |
| <b>30-34</b>         | 519                       | 909              | 727              | 570              | 415              | 2,120            | 426              | 5                | -                | -                | -                | -                | -                      | 5,691     |
|                      | \$ 27,003                 | \$ 31,843        | \$ 31,605        | \$ 33,189        | \$ 36,083        | \$ 40,641        | \$ 41,071        | \$ 35,035        | \$ -             | \$ -             | \$ -             | \$ -             | \$ -                   | \$ 35,786 |
| <b>35-39</b>         | 711                       | 913              | 740              | 484              | 393              | 1,977            | 1,560            | 306              | 3                | -                | -                | -                | -                      | 7,087     |
|                      | \$ 23,250                 | \$ 33,835        | \$ 35,088        | \$ 37,883        | \$ 39,161        | \$ 41,297        | \$ 48,534        | \$ 47,901        | \$ 42,303        | \$ -             | \$ -             | \$ -             | \$ -                   | \$ 39,404 |
| <b>40-44</b>         | 388                       | 667              | 556              | 434              | 419              | 2,040            | 1,827            | 1,350            | 243              | 1                | -                | -                | -                      | 7,925     |
|                      | \$ 27,969                 | \$ 32,716        | \$ 34,952        | \$ 35,499        | \$ 39,505        | \$ 40,330        | \$ 47,064        | \$ 52,866        | \$ 49,450        | \$ 59,402        | \$ -             | \$ -             | \$ -                   | \$ 42,368 |
| <b>45-49</b>         | 307                       | 547              | 466              | 391              | 332              | 1,925            | 1,714            | 1,433            | 1,005            | 141              | 4                | -                | -                      | 8,265     |
|                      | \$ 30,178                 | \$ 34,026        | \$ 33,139        | \$ 34,254        | \$ 44,587        | \$ 39,253        | \$ 44,466        | \$ 48,923        | \$ 54,234        | \$ 51,714        | \$ 38,999        | \$ -             | \$ -                   | \$ 42,995 |
| <b>50-54</b>         | 289                       | 548              | 465              | 361              | 314              | 1,904            | 1,799            | 1,649            | 1,306            | 576              | 92               | 3                | -                      | 9,306     |
|                      | \$ 29,609                 | \$ 31,196        | \$ 33,189        | \$ 33,537        | \$ 46,509        | \$ 38,768        | \$ 42,275        | \$ 46,787        | \$ 51,662        | \$ 57,799        | \$ 55,946        | \$ 37,818        | \$ -                   | \$ 43,073 |
| <b>55-59</b>         | 255                       | 399              | 335              | 307              | 299              | 1,619            | 1,730            | 1,610            | 1,343            | 591              | 272              | 79               | -                      | 8,839     |
|                      | \$ 30,517                 | \$ 35,924        | \$ 34,678        | \$ 36,974        | \$ 54,779        | \$ 38,422        | \$ 42,106        | \$ 45,041        | \$ 54,133        | \$ 59,958        | \$ 65,954        | \$ 57,360        | \$ -                   | \$ 45,213 |
| <b>60-64</b>         | 146                       | 239              | 248              | 185              | 187              | 1,235            | 1,215            | 900              | 749              | 497              | 194              | 120              | -                      | 5,915     |
|                      | \$ 30,961                 | \$ 37,747        | \$ 35,495        | \$ 39,694        | \$ 51,039        | \$ 42,479        | \$ 44,799        | \$ 48,717        | \$ 54,365        | \$ 66,016        | \$ 71,289        | \$ 67,586        | \$ -                   | \$ 48,257 |
| <b>65 &amp; Over</b> | 95                        | 169              | 133              | 103              | 111              | 783              | 461              | 332              | 229              | 183              | 100              | 122              | -                      | 2,821     |
|                      | \$ 20,688                 | \$ 29,803        | \$ 34,255        | \$ 32,087        | \$ 35,976        | \$ 45,801        | \$ 44,472        | \$ 49,756        | \$ 57,051        | \$ 74,384        | \$ 87,647        | \$ 98,141        | \$ -                   | \$ 49,672 |
| <b>Total</b>         | 3,842                     | 5,998            | 4,731            | 3,417            | 2,840            | 14,166           | 10,741           | 7,585            | 4,878            | 1,989            | 662              | 324              | -                      | 61,173    |
|                      | \$ 25,370                 | \$ 31,600        | \$ 32,524        | \$ 34,534        | \$ 42,160        | \$ 39,933        | \$ 44,645        | \$ 48,108        | \$ 53,248        | \$ 61,241        | \$ 67,655        | \$ 73,431        | \$ -                   | \$ 41,503 |

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

Table 15

|  | Reconciliation of Members b Status for Year Ending June 30, 2014 |                              |           |                  |                   |               | Grand Total |
|--|--|------------------------------|-----------|------------------|-------------------|---------------|-------------|
|  | Active Members   | Inactive, Nonretired Members |           | Annuitants       |                   |               |             |
|  |  | Vested                       | Nonvested | Service Retirees | Disabled Retirees | Beneficiaries |             |
| Number at beginning of year                  | 61,177   | 8,615                        | 25,482    | 36,614           | 814               | 2,882         | 135,584     |
| Refund paid (non-death)                      | (1,707)  | (443)                        | (1,361)   |                  |                   |               | (3,511)     |
| Refund due                                   | (2,797)  |                              | 2,797     |                  |                   |               | 0           |
| Vested terminations                          | (1,728)  | 1,728                        |           |                  |                   |               | 0           |
| Retirements (nondisabled)                    | (2,155)  | (375)                        | (40)      | 2,570            |                   |               | 0           |
| Disabled retirements                         | (21)   | (12)                         |           |                  | 33                |               | 0           |
| New Alternative Payee resulting from QDRO    |  |                              |           | 49               |                   |               | 49          |
| Death before retirement - refund             | (35)   |                              |           |                  |                   |               | (35)        |
| Death before retirement - annuity            | (12)   |                              |           |                  |                   | 12            | 0           |
| Death of annuitant - survivor benefit due    |  |                              |           | (235)            | (4)               | 239           | 0           |
| Death of annuitant - no further benefits due |  |                              |           | (562)            | (16)              | (153)         | (731)       |
| New hires                                    | 7,204  | 47                           | 1,384     |                  |                   |               | 8,635       |
| Reemployments                                | 1,247  | (455)                        | (785)     | (7)              |                   |               | 0           |
| Adjustments and corrections                  |  | 8                            | (1)       | 9                | 1                 |               | 17          |
| Number at end of year                        | 61,173   | 9,113                        | 27,476    | 38,438           | 828               | 2,980         | 140,008     |

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.
1. 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%.

# New Mexico Educational Retirement Board

## 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.

| <u>Fiscal Year Ended</u> | <u>Employer<br/>Contribution<br/>Rate</u> |
|--------------------------|---|
| 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 FYE 2010 through FYE 2013.

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

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

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   |

## Annual Valuation Report – Continued

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.

## Annual Valuation Report – Continued

### 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.



## Annual Valuation Report – Continued

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.

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Summary of Actuarial Methods and Assumptions

#### Summary of Actuarial Methods and Assumptions

*Adopted by the Board of Trustees on April 26, 2013*

##### 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.

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

#### 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 1.25% plus step-rate/promotional as shown:

| <u>Years of Service</u> | <u>Annual Step-Rate/Promotional Component Rates of Increase</u> | <u>Total Annual Rate of Increase</u> |
|-------------------------|---|--------------------------------------|
| 0                       | 8.75%   | 13.00%                               |
| 1                       | 3.00%   | 7.25%                                |
| 2                       | 2.00%   | 6.25%                                |
| 3                       | 1.50%   | 5.75%                                |
| 4                       | 1.25%   | 5.50%                                |
| 5                       | 1.00%   | 5.25%                                |
| 6                       | 0.75%   | 5.00%                                |
| 7                       | 0.50%   | 4.75%                                |
| 8                       | 0.50%   | 4.75%                                |
| 9                       | 0.50%   | 4.75%                                |
| 10 or more              | 0.00%   | 4.25%                                |

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.

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

#### 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

e. To account for future mortality improvement, the tables selected for nondisabled annuitants were chosen so that the assumed mortality rates are smaller than the rates observed in the last experience study, covering experience for FYE 2007 – FY 2012. The ratio of the actual number of deaths occurring during this period to the expected number based on the selected assumptions was

- i. 111% for nondisabled male annuitants
- ii. 107% for nondisabled female annuitants

No mortality improvement assumption was made for disabled retirees or active members.

See sample rates below:

| Age | Deaths per 100 Lives |                 |                |                  |
|-----|----------------------|-----------------|----------------|------------------|
|     | Healthy Males        | Healthy Females | Disabled Males | Disabled Females |
| 40  | .07                  | .04             | 1.76           | 1.58             |
| 45  | .10                  | .07             | 2.08           | 1.87             |
| 50  | .14                  | .10             | 2.42           | 2.18             |
| 55  | .23                  | .18             | 2.83           | 2.55             |
| 60  | .40                  | .35             | 3.29           | 2.96             |
| 65  | .82                  | .64             | 3.76           | 3.38             |
| 70  | 1.40                 | 1.13            | 4.36           | 3.92             |
| 75  | 2.48                 | 1.89            | 5.62           | 5.05             |
| 80  | 4.65                 | 3.16            | 8.84           | 7.95             |
| 85  | 8.54                 | 5.42            | 12.95          | 11.65            |

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

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

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

3. Disability – 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  | .00                                      | .00     |
| 30  | .00                                      | .03     |
| 35  | .06                                      | .07     |
| 40  | .13                                      | .12     |
| 45  | .19                                      | .16     |
| 50  | .24                                      | .19     |
| 55  | .26                                      | .20     |
| 60  | .24                                      | .19     |
| 65  | .18                                      | .16     |

New Mexico Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

4. Retirement - Select and ultimate: shown below (rates applied to members eligible for retirement):

**Retirement Per 100 Members – Members Hired before Jul 1, 2010**

| 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 |

**Retirement Per 100 Members – Members Hired on or after July 1, 2010 and before July 1, 2013**

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

*New Mexico* Educational Retirement Board

ACTUARIAL SECTION

Annual Valuation Report – Continued

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

| Completed<br>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.

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

#### 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.



## New Mexico Educational Retirement Board

### ACTUARIAL SECTION

## 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.),

## New Mexico Educational Retirement Board

### ACTUARIAL SECTION

#### Annual Valuation Report – Continued

- b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
- c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

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

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

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

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

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

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

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

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

**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.

# New Mexico Educational Retirement Board

## ACTUARIAL SECTION

### Annual Valuation Report – Continued

**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, 2014

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

For fiscal year 2014, NMERB's investment portfolio (Fund) posted a net of fee return of 14.5%, producing annual investment gains of approximately \$1.44 billion. The result for the year exceeds the Fund's actuarially required annual return assumption of 7.75% by a healthy margin.

In a very good year for equity markets, the Fund's investment performance ranked in the bottom 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. However, the portfolio return outperformed the Fund's policy index return of 0.6%. Given the large returns from public equity market 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 outstanding results. The S&P 500 index returned 24.6% for the fiscal year. Foreign stocks also did well. The Europe, Australasia and Far East (EAFE) index for developed foreign equity markets returned 23.6%, while the MSCI Emerging Markets Equity index returned 14.3%. In the fixed income sector, returns were also positive. The Barclays Capital Aggregate index representing the U.S. investment grade bond market posted a return of 4.4%. In the high yield bond space, the Bank of America/Merrill Lynch BB-B constrained High Yield index returned 11.3%. 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 quite positive, 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, our results, net of fees, are as follows:

|   |       |
|---|-------|
| 3 years:  | 9.0%  |
| 5 years:  | 12.6% |
| 10 years:   | 7.3%  |
| Since performance reporting inception in July 1983: | 9.4%  |

## 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>

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](http://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, 2014. 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. The REITs (real estate investment trusts) portfolio 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.

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](http://www.nmerb.org/asset_allocation.html). The Investment Committee and NMERB staff regularly monitor the position of the Fund relative to the target allocations, periodically rebalancing among classes to maintain prescribed relationships. The Investment Committee reviews NMERB's investment policies annually with respect to target allocation guidelines. NMERB's Investment Policy Statement is available on NMERB's website at [http://wwwnmerb.org/investment\\_policies.html](http://wwwnmerb.org/investment_policies.html).

The following schedule shows the current asset allocation policy adopted on June 13, 2014 as well as the prior allocation policy targets.

#### Comparative Schedule of Target Investment Allocations

| Asset Class         |                               | Target Allocation  |                       |
|---------------------|-------------------------------|--------------------|-----------------------|
|                     |                               | After<br>6/13/2014 | Prior to<br>6/13/2014 |
| <b>Equities</b>     | 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>            |
| <b>Fixed Income</b> | Opportunistic credit          | 20%                | 20%                   |
|                     | Core bonds                    | 6%                 | 7%                    |
|                     | Emerging market debt          | 2%                 | 2%                    |
|                     | Total fixed income            | <u>28%</u>         | <u>29%</u>            |
| <b>Alternatives</b> | 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>            |
| <b>Cash</b>         |                               | 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 12.9% per annum gross of fees, outperforming the policy index by 1.6%, and the Plan's actuarial assumed rate of 7.75%. The fiscal year 2014 return was 14.6%, gross of fees. All asset classes were within NMERB's target allocation ranges as of June 30, 2014. The investment portfolio increased by \$1.116 billion over fiscal year 2013. The following table provides a summary of total fund performance, gross of fees, across earning horizons NMERB tracks.

#### Fund Performance Summary at June 30, 2014

| 1 Year | 3 Year | 5 Year | 10 Year | 15 Year | 20 Year | 25 Year | 30 Year |
|--------|--------|--------|---------|---------|---------|---------|---------|
| 14.6%  | 9.1%   | 12.9%  | 7.5%    | 5.6%    | 8.2%    | 8.9%    | 10.0%   |

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, 2014 and 2013.

#### Investment Portfolio Summary

|                            | 2014                     | 2013                     |
|----------------------------|--------------------------|--------------------------|
| Cash and equivalents       | \$ 275,904,706           | \$ 746,623,052           |
| Investments, at fair value | 11,026,291,924           | 9,439,289,300            |
| Total                      | <u>\$ 11,302,196,630</u> | <u>\$ 10,185,912,352</u> |

#### Schedule of Investments by Asset Class

| Investments, at fair value           | 2014                     | % of Total     | 2013                    | % of Total     |
|--------------------------------------|--------------------------|----------------|-------------------------|----------------|
| Non-U.S. government bonds            | \$ 134,285,504           | 1.22%          | \$ 109,518,808          | 1.16%          |
| Non-U.S. corporate bonds             | 253,934,520              | 2.30%          | 245,228,240             | 2.60%          |
| Private real estate                  | 270,577,050              | 2.45%          | 199,274,198             | 2.11%          |
| Hedge fund of funds                  | 631,121,208              | 5.72%          | 463,853,968             | 4.91%          |
| U.S. treasury securities             | 470,995,039              | 4.27%          | 572,532,940             | 6.07%          |
| Asset and mortgage backed securities | 713,450,132              | 6.47%          | 714,757,627             | 7.57%          |
| Mutual funds                         | 384,411,683              | 3.49%          | -                       | -              |
| Domestic corporate bonds             | 803,363,210              | 7.29%          | 757,378,340             | 8.02%          |
| Limited partnership units            | 1,022,968,379            | 9.28%          | -                       | -              |
| Other investments                    | 610,140,178              | 5.53%          | 1,746,517,797           | 18.50%         |
| Private equity                       | 850,638,968              | 7.71%          | 670,818,353             | 7.11%          |
| International stocks                 | 1,985,766,369            | 18.01%         | 1,134,562,079           | 12.02%         |
| Domestic stocks                      | 2,894,639,685            | 26.25%         | 2,824,846,950           | 29.93%         |
| Total investments                    | <u>\$ 11,026,291,924</u> | <u>100.00%</u> | <u>\$ 9,439,289,300</u> | <u>100.00%</u> |

# New Mexico Educational Retirement Board

## INVESTMENT SECTION

### Summary of Largest Investment Holdings

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

#### Schedule of Fund's Ten Largest Stock Holdings

| Company Name                | 2014             |                       |
|-----------------------------|------------------|-----------------------|
|                             | Number of Shares | Fair Value            |
| Apple Inc.                  | 798,266          | \$ 74,182,859         |
| Microsoft Corp              | 993,447          | 41,426,740            |
| Exxon Mobil Corp            | 571,280          | 57,516,470            |
| Johnson & Johnson           | 374,543          | 39,184,689            |
| General Electric Co         | 1,323,107        | 35,062,336            |
| Wells Fargo & Co            | 634,466          | 33,347,533            |
| J. P. Morgan Chase & Co     | 501,050          | 28,870,501            |
| Berkshire Hathway Inc. CL B | 238,307          | 30,160,134            |
| Procter & Gamble Company    | 358,218          | 28,152,353            |
|                             | 251,456          | 32,827,581            |
| Total                       | <u>6,044,140</u> | <u>\$ 400,731,195</u> |

#### Schedule of Ten Largest Fixed Income Holdings

| Security Name                      | Rate    | Due        | CUSIP No. | Fair Value            |
|------------------------------------|---------|------------|-----------|-----------------------|
| U. S. TREASURY N/B                 | 6.250%  | 11/30/2017 | 912828UA6 | \$ 30,876,775         |
| U. S. TREASURY N/B                 | 2.000%  | 5/31/2021  | 912828WN6 | 28,831,626            |
| U. S. TREASURY N/B                 | 3.625%  | 2/15/2044  | 912810RE0 | 15,039,828            |
| U. S. TREASURY N/B                 | 0.750%  | 12/31/2017 | 912828UE8 | 12,817,912            |
| U. S. TREASURY N/B                 | 1.500%  | 2/29/2020  | 912828B33 | 12,479,954            |
| U. S. TREASURY N/B                 | 1.250%  | 1/31/2022  | 912828WD8 | 11,309,038            |
| FEDERATIVE REPUBLIC OF BRAZIL BOND | 10.000% | 1/1/2017   | B1VRLR0A  | 9,199,708             |
| U. S. TREASURY N/B                 | 1.000%  | 8/31/2016  | 912828RF9 | 7,997,717             |
| U. S. TREASURY N/B                 | 0.375%  | 1/15/2016  | 912828UG3 | 7,313,984             |
| U. S. TREASURY N/B                 | 1.625%  | 4/30/2019  | 912828UG3 | 7,283,479             |
| Total                              |         |            |           | <u>\$ 143,150,021</u> |

Note: Ten Largest Fixed Income Holdings based on the Fund's separately managed portfolios.

# New Mexico Educational Retirement Board

## INVESTMENT SECTION

### Investment Expenses

#### Schedule of Management Fees and Commissions 2014

|                             | <u>Investment<br/>Fees</u> | <u>Commissions</u>  |
|-----------------------------|----------------------------|---------------------|
| Investment manager expenses |                            |                     |
| Domestic equities           | 2,237,924                  | 645,296             |
| Domestic fixed income       | 5,313,069                  | 25,566              |
| International equities      | 10,119,247                 | 711,756             |
| International fixed income  | 410,413                    | 3,176               |
| Subtotal                    | <u>18,080,653</u>          | <u>\$ 1,385,794</u> |
| Custodial fees              | 589,397                    |                     |
| Investment Consulting Fees  | <u>1,614,677</u>           |                     |
|                             | <u>\$ 20,284,727</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 2014 financial statements, note disclosures, and supplementary information. This information has not been audited by our independent auditor. All non-accounting 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) |            |            |           |           |           |             |           |           |           |           |
|  | 2014       | 2013       | 2012      | 2011      | 2010      | 2009        | 2008      | 2007      | 2006      | 2005      |
| <b>Additions</b>   |            |            |           |           |           |             |           |           |           |           |
| Contributions  |            |            |           |           |           |             |           |           |           |           |
| Employer   | 357,430    | 294,973    | 248,894   | 304,310   | 313,276   | 323,685     | 290,846   | 255,853   | 226,479   | 197,873   |
| Member   | 271,514    | 248,785    | 289,852   | 247,408   | 250,667   | 212,014     | 201,916   | 189,391   | 178,221   | 169,099   |
| Employer ARP   | 5,032      | 4,685      | 4,952     | 4,057     | 4,253     | 4,727       | 4,469     | 4,076     | 3,950     | 4,029     |
| Total Contributions  | 633,976    | 548,443    | 543,697   | 555,776   | 568,195   | 540,426     | 497,231   | 449,320   | 408,650   | 371,000   |
| Investment Income  |            |            |           |           |           |             |           |           |           |           |
| Interest, dividends,<br>other  | 180,493    | 196,838    | 175,422   | 187,486   | 188,063   | 219,893     | 299,985   | 207,952   | 235,102   | 183,550   |
| Investment expenses  | (13,720)   | (15,421)   | (11,035)  | (35,436)  | (31,892)  | (31,019)    | (78,675)  | (20,836)  | (60,096)  | (15,495)  |
| Net change asset value   | 1,277,460  | 837,193    | (565)     | 1,396,479 | 1,095,258 | (1,724,902) | (785,485) | 1,177,440 | 716,078   | 488,057   |
| Net investment income  | 1,444,233  | 1,018,610  | 163,822   | 1,548,529 | 1,251,429 | (1,536,028) | (564,175) | 1,364,556 | 891,085   | 656,112   |
| Total additions  | 2,078,209  | 1,567,053  | 707,520   | 2,104,305 | 1,819,625 | (995,602)   | (66,943)  | 1,813,876 | 1,299,734 | 1,027,112 |
| <b>Deductions</b>  |            |            |           |           |           |             |           |           |           |           |
| Benefit payments, refunds  | 907,214    | 853,329    | 795,136   | 736,858   | 685,012   | 647,392     | 608,251   | 567,669   | 522,402   | 449,037   |
| Administrative expense   | 16,618     | 10,986     | 11,986    | 11,407    | 11,488    | 8,672       | 6,089     | 5,625     | 5,231     | 5,321     |
| Other  | -          | -          | -         | -         | -         | -           | -         | -         | -         | 33,160    |
| Total deductions   | 923,832    | 864,315    | 807,121   | 748,265   | 696,500   | 656,064     | 614,339   | 573,294   | 527,633   | 487,518   |
| Net increase in net position   | 1,154,377  | 702,738    | (99,602)  | 1,356,040 | 1,123,124 | (1,651,666) | (681,283) | 1,240,582 | 772,101   | 539,594   |
| <b>Net position restricted for pensions</b>  |            |            |           |           |           |             |           |           |           |           |
| Beginning of the year  | 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 | 6,911,545 |
| End of the year  | 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 | 7,451,140 |

**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 -<br>Final Budget v<br>Actual<br>Favorable<br>(Unfavorable) | Actual Expenses                                |                         |             |                   | Variance -<br>Final Budget v<br>Actual<br>Favorable<br>(Unfavorable) |
|------|--------------------|--------------|------------------------------|--|--|-------------------------|-------------|-------------------|--|
|      | Original<br>Budget | Final Budget | Actual<br>Budgetary<br>Basis |  | Personal<br>Services &<br>Employee<br>Bneefits | Contractual<br>Services | Other Costs | Total<br>Expenses |  |
| 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   |
| 2005 | \$21,138,607       | 22,752,860   | 22,752,860                   | \$ -   | \$ 2,826,151                                   | 12,463,355              | 1,656,074   | 16,945,580        | \$ 5,807,280   |

**New Mexico Educational Retirement Board**

**STATISTICS SECTION**

**Financial Trends - Continued**

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

| <b>Fiscal Year Ending</b> | <b>Actuarially Determined Contribution</b> | <b>Annual Required Contribution</b> | <b>Actual Contribution</b> | <b>Contribution Deficiency (Excess)</b> | <b>Imputed Covered Payroll</b> | <b>Actual Contribution % of Covered Payroll</b> |
|---------------------------|--|-------------------------------------|----------------------------|---|--------------------------------|---|
| 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               | 9.33%   |
| 2011                      |  | \$377,884,749                       | \$308,367,952              | \$ 69,516,797                           | \$ 2,791,839,227               | 11.05%  |
| 2010                      |  | \$357,220,043                       | \$313,276,296              | \$ 43,943,747                           | \$ 2,835,080,484               | 11.05%  |
| 2009                      |  | \$375,430,722                       | \$323,685,497              | \$ 51,745,225                           | \$ 2,737,842,584               | 11.82%  |
| 2008                      |  | \$368,196,682                       | \$290,846,065              | \$ 77,350,617                           | \$ 2,627,312,222               | 11.07%  |
| 2007                      |  | \$364,128,448                       | \$255,853,194              | \$ 108,275,254                          | \$ 2,480,566,067               | 10.31%  |
| 2006                      |  | \$299,967,996                       | \$226,479,332              | \$ 73,488,664                           | \$ 2,219,411,615               | 10.20%  |
| 2005                      |  | \$243,237,303                       | \$197,872,532              | \$ 45,364,771                           | \$ 2,209,133,721               | 8.96%   |

**State of New Mexico Educational Retirement Board**

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

| <b>Deduction Type</b> | <b>2014</b>    | <b>2013</b>    | <b>2012</b>    | <b>2011</b>    | <b>2010</b>    | <b>2009</b>    | <b>2008</b>    | <b>2007</b>    | <b>2006</b>    | <b>2005</b>    |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Retirement Benefits   | 859,575        | 803,253        | 746,494        | 694,153        | 648,962        | 610,664        | 572,192        | 533,924        | 487,913        | 454,983        |
| Disability Benefits   | 8,716          | 8,412          | 8,061          | 7,618          | 7,271          | 7,041          | 6,539          | 6,220          | 6,184          | 27,215         |
| Separation Refunds    | 34,562         | 35,883         | 34,520         | 29,287         | 24,574         | 24,052         | 23,730         | 23,335         | 24,063         | 23,444         |
| Interest on Refunds   | 4,361          | 5,781          | 6,061          | 5,800          | 4,206          | 5,635          | 5,745          | 4,190          | 4,243          | 3,770          |
| <b>Total</b>          | <b>907,214</b> | <b>853,329</b> | <b>795,136</b> | <b>736,858</b> | <b>685,012</b> | <b>647,392</b> | <b>608,206</b> | <b>567,669</b> | <b>522,402</b> | <b>509,412</b> |

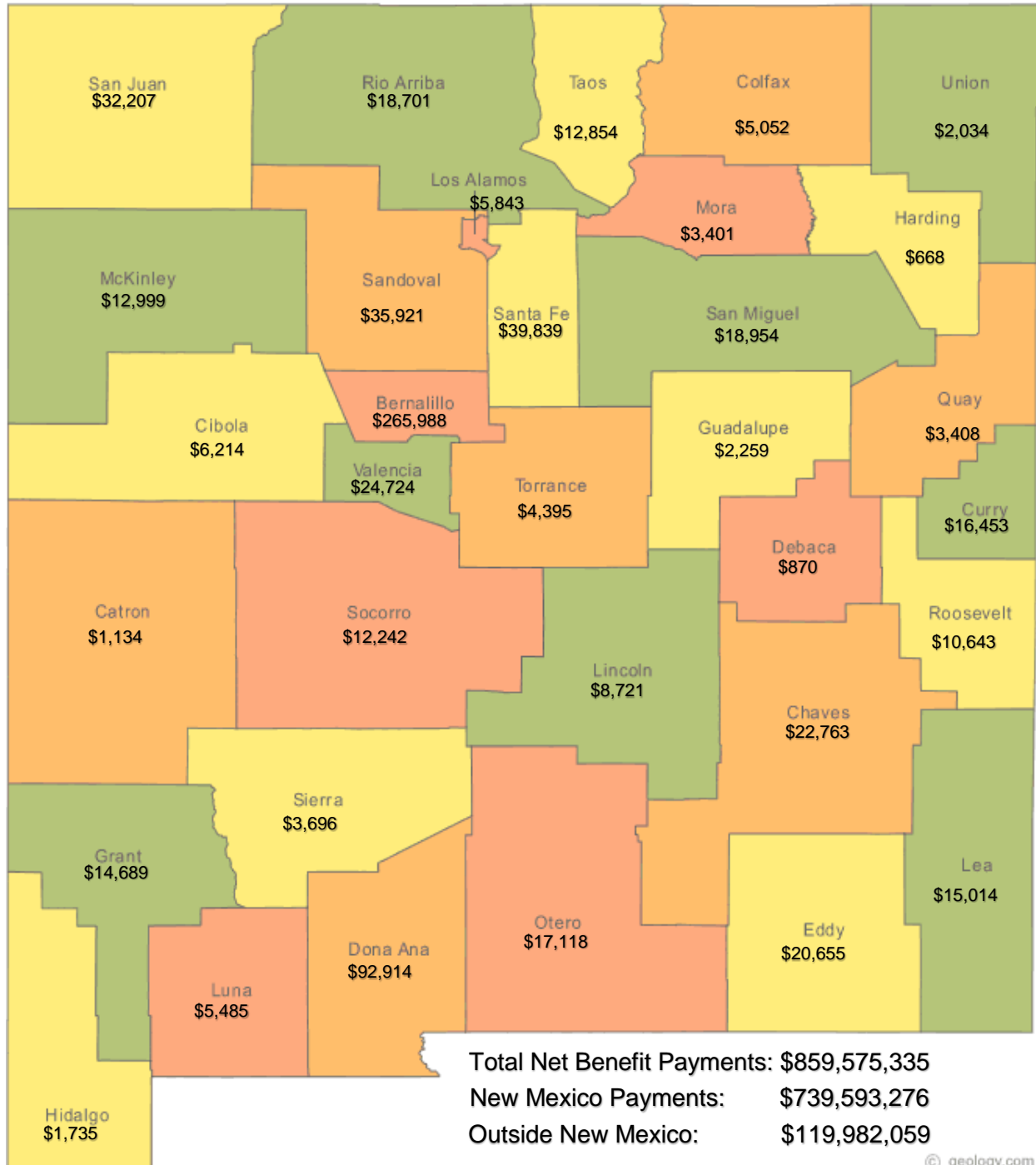
**Note:** These figures have been compiled on an accrual basis from financial statement data. The following table represents net benefits paid to annuitants.

# New Mexico Educational Retirement Board

## STATISTICS SECTION

### Financial Trends - Continued

#### 2014 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%  |
| <b>No Separate Wage Categories Prior to July 1, 2009</b> |                                     |          |          |                                     |          |          |
| 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 2014 over the prior year by 3.3%, despite stability in the Active working member category. The largest increases were seen in service retirees and inactive vested and nonvested members, increasing by 4.9% and 7.3%, respectively. NMERB is charged with providing secure retirement benefits for New Mexico's educational employees. This includes employees at schools providing kindergarten through 12<sup>th</sup> grade instruction, colleges and universities, special state schools, and educational programs at state agencies.

The fiscal year 2014 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.

| <b>State of New Mexico Educational Retirement Board</b>                  |                |                |                |                |                |                |                |                |                |                |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Members by Membership Status and Type of Benefit - Last Ten Years</b> |                |                |                |                |                |                |                |                |                |                |
| <b>Status</b>  | <b>2014</b>    | <b>2013</b>    | <b>2012</b>    | <b>2011</b>    | <b>2010</b>    | <b>2009</b>    | <b>2008</b>    | <b>2007</b>    | <b>2006</b>    | <b>2005</b>    |
| Active -Working  | 61,173         | 61,177         | 60,855         | 61,673         | 63,295         | 63,819         | 63,698         | 62,687         | 61,829         | 63,362         |
| Service Retirees   | 38,438         | 36,614         | 33,741         | 31,974         | 30,377         | 29,234         | 28,064         | 26,955         | 25,648         | 23,397         |
| Beneficiaries  | 2,980          | 2,882          | 2,809          | 2,709          | 2,611          | 2,517          | 2,409          | 2,311          | 2,212          | 2,044          |
| Disability   | 828            | 814            | 786            | 774            | 759            | 745            | 719            | 703            | 679            | 659            |
| Inactive, vested   | 9,113          | 8,615          | 9,648          | 9,333          | 9,054          | 8,459          | 8,408          | 8,298          | 8,369          | 6,340          |
| Inactive-nonvested   | 27,476         | 25,482         | 24,384         | 23,678         | 22,782         | 22,115         | 21,574         | 21,644         | 21,581         | 19,008         |
| <b>Total</b>   | <b>140,008</b> | <b>135,584</b> | <b>132,223</b> | <b>130,141</b> | <b>128,878</b> | <b>126,889</b> | <b>124,872</b> | <b>122,598</b> | <b>120,318</b> | <b>114,810</b> |

# 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, 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 |             | June 30, 2005 |             |
|--------------------------------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|
| Albuquerque Public Schools           | 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%         | 11,629        | 19%         |
| University of New Mexico             | 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%         | 6,807         | 11%         |
| New Mexico State University          | 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%          | 4,510         | 7%          |
| Las Cruces Public Schools            | 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%          | 3,201         | 5%          |
| Gallup McKinley County Schools       | 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%          | 2,082         | 3%          |
| Rio Rancho Public Schools            | 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%          | 1,354         | 2%          |
| Gadsden Independent School           | 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%          | 1,851         | 3%          |
| Central New Mexico Community College | 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%          | 1,665         | 3%          |
| Santa Fe Public Schools              | 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%          | 1,611         | 3%          |
| Farmington Public Schools            | 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%          | 1,194         | 2%          |
| All other active employees           | 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%         | 26,760        | 42%         |
| <b>Total</b>                         | <b>61,173</b> | <b>100%</b> | <b>61,177</b> | <b>100%</b> | <b>60,855</b> | <b>100%</b> | <b>63,297</b> | <b>100%</b> | <b>63,295</b> | <b>100%</b> | <b>63,822</b> | <b>100%</b> | <b>63,698</b> | <b>100%</b> | <b>62,687</b> | <b>100%</b> | <b>61,829</b> | <b>100%</b> | <b>62,664</b> | <b>100%</b> |

# New Mexico Educational Retirement Board

## STATISTICS SECTION

### Demographic and Economic Information - Continued

#### Years of Credited Service and Average Annual Compensation for Active Members

|                         | <u>0</u>                    | <u>1</u>                    | <u>2</u>                    | <u>3</u>                    | <u>4</u>                    | <u>5 to 9</u>               | <u>10 to 14</u>             | <u>15 to 19</u>             | <u>20 o 24</u>              | <u>25 to 29</u>             | <u>30 to 34</u>             | <u>36 &amp; Over</u>        |                            |
|-------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|
| <b>Member Age</b>       | <b>Count &amp; Avg Comp</b> | <b>Count &amp; Avg Comp</b> | <b>Count &amp; Avg Comp</b> | <b>Count &amp; Avg Comp</b> | <b>Count &amp; Avg Comp</b> | <b>Count &amp; Avg Comp</b> | <b>Count &amp; Avg Comp</b> | <b>Count &amp; Avg Comp</b> | <b>Count &amp; Avg Comp</b> | <b>Count &amp; Avg Comp</b> | <b>Count &amp; Avg Comp</b> | <b>Count &amp; Avg Comp</b> | <b>Total by Member Age</b> |
| <b>Under 25</b>         | 500<br>\$ 17,635            | 497<br>\$ 22,767            | 194<br>\$ 23,092            | 55<br>\$ 20,170             | 25<br>\$ 18,825             | 9<br>\$ 20,057              | -<br>-                      | -<br>-                      | -<br>-                      | -<br>-                      | -<br>-                      | -<br>-                      | 1,280<br>\$ 20,604         |
| <b>25 to 29</b>         | 632<br>\$ 23,998            | 1,110<br>\$ 29,157          | 867<br>\$ 29,967            | 527<br>\$ 31,778            | 345<br>\$ 34,124            | 554<br>\$ 33,490            | 9<br>\$ 24,444              | -<br>-                      | -<br>-                      | -<br>-                      | -<br>-                      | -<br>-                      | 4,044<br>\$ 29,873         |
| <b>30to 34</b>          | 519<br>\$ 27,003            | 909<br>\$ 34,843            | 727<br>\$ 31,605            | 570<br>\$ 33,139            | 415<br>\$ 36,083            | 2,120<br>\$ 40,641          | 426<br>\$ 41,071            | 5<br>\$ 35,035              | -<br>-                      | -<br>-                      | -<br>-                      | -<br>-                      | 5,691<br>\$ 35,786         |
| <b>35 o 39</b>          | 711<br>\$ 23,250            | 913<br>\$ 33,835            | 740<br>\$ 35,088            | 484<br>\$ 37,883            | 393<br>\$ 39,161            | 1,977<br>\$ 41,297          | 1,560<br>\$ 48,534          | 306<br>\$ 47,901            | 3<br>\$ 42,303              | -<br>-                      | -<br>-                      | -<br>-                      | 7,087<br>\$ 39,404         |
| <b>40 to 44</b>         | 388<br>\$ 27,969            | 667<br>\$ 32,716            | 556<br>\$ 34,952            | 434<br>\$ 35,499            | 419<br>\$ 39,505            | 2,040<br>\$ 40,330          | 1,827<br>\$ 47,064          | 1,350<br>\$ 52,866          | 243<br>\$ 49,450            | 1<br>\$ 59,402              | -<br>-                      | -<br>-                      | 7,925<br>\$ 42,368         |
| <b>45 to 49</b>         | 307<br>\$ 30,178            | 547<br>\$ 34,026            | 466<br>\$ 33,139            | 391<br>\$ 34,254            | 332<br>\$ 44,587            | 1,925<br>\$ 39,253          | 1,714<br>\$ 44,466          | 1,433<br>\$ 48,923          | 1,005<br>\$ 54,234          | 141<br>\$ 51,714            | 4<br>\$ 38,999              | -<br>-                      | 8,265<br>\$ 42,995         |
| <b>50 to 54</b>         | 289<br>\$ 29,609            | 548<br>\$ 31,196            | 465<br>\$ 33,189            | 361<br>\$ 33,537            | 314<br>\$ 46,509            | 1,904<br>\$ 3,878           | 1,799<br>\$ 42,275          | 1,649<br>\$ 46,787          | 1,306<br>\$ 51,662          | 576<br>\$ 57,799            | 92<br>\$ 55,946             | 3<br>\$ 37,818              | 9,306<br>\$ 39,404         |
| <b>55 to 59</b>         | 255<br>\$ 30,517            | 399<br>\$ 35,924            | 335<br>\$ 34,678            | 307<br>\$ 36,974            | 299<br>\$ 54,779            | 1,619<br>\$ 38,422          | 1,730<br>\$ 42,106          | 1,610<br>\$ 45,041          | 1,343<br>\$ 54,133          | 591<br>\$ 59,958            | 272<br>\$ 65,954            | 79<br>\$ 57,360             | 8,839<br>\$ 39,404         |
| <b>60 to 64</b>         | 146<br>\$ 30,961            | 239<br>\$ 37,747            | 248<br>\$ 35,495            | 185<br>\$ 39,694            | 187<br>\$ 51,039            | 1,235<br>\$ 42,479          | 1,215<br>\$ 44,799          | 900<br>\$ 48,717            | 749<br>\$ 54,365            | 497<br>\$ 66,016            | 194<br>\$ 71,289            | 120<br>\$ 67,586            | 5,915<br>\$ 39,404         |
| <b>65 &amp; Over</b>    | 95.0<br>\$ 20,688           | 169.0<br>\$ 29,803          | 133.0<br>\$ 34,255          | 103.0<br>\$ 32,087          | 111.0<br>\$ 35,976          | 783.0<br>\$ 45,801          | 461.0<br>\$ 44,472          | 332.0<br>\$ 49,756          | 229.0<br>\$ 57,051          | 183.0<br>\$ 74,384          | 100.0<br>\$ 87,647          | 122.0<br>\$ 98,141          | 2,821<br>\$ 39,404         |
| <b>Total</b>            |                             |                             |                             |                             |                             |                             |                             |                             |                             |                             |                             |                             |                            |
| <b>Years of Service</b> | 3,842<br>\$ 25,370          | 5,998<br>\$ 31,600          | 4,731<br>\$ 32,524          | 3,417<br>\$ 34,534          | 2,840<br>\$ 42,160          | 14,166<br>\$ 39,933         | 10,741<br>\$ 44,645         | 7,585<br>\$ 48,108          | 4,878<br>\$ 53,248          | 1,989<br>\$ 61,241          | 662<br>\$ 67,655            | 324<br>\$ 73,431            | 61,173<br>\$ 41,503        |

# New Mexico Educational Retirement Board

## STATISTICS SECTION

### Demographic and Economic Information

#### 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 |
| The Learning Center                  | Charter School | 02314    | 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 |
| Ralph J Bunch Academy                | Charter School | 02355    | 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 |

# New Mexico Educational Retirement Board

## STATISTICS SECTION

### Demographic and Economic Information

#### Participating New Mexico Employers by County Continued

| Employer Name                        | Category                | Employer |            |
|--------------------------------------|-------------------------|----------|------------|
|                                      |                         | Code     | County     |
| Media Arts Collaborative Charter Sch | Charter School          | 02365    | Bernalillo |
| The New Americas                     | Charter School          | 02366    | Bernalillo |
| 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 |
| 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 |
| 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      |
| Grady Municipal Schools              | Public School           | 05013    | Curry      |

# New Mexico Educational Retirement Board

## STATISTICS SECTION

### Demographic and Economic Information

#### Participating New Mexico Employers by County Continued

| 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  |
| 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       |
| Capitan Municipal Schools        | Public School           | 26077    | Lincoln   |
| Carrizozo Municipal Schools      | Public School           | 26078    | Lincoln   |

# New Mexico Educational Retirement Board

## STATISTICS SECTION

### Demographic and Economic Information - Continued

#### Participating New Mexico Employers by County

| Employer Name                        | Category                | Employer |            |
|--------------------------------------|-------------------------|----------|------------|
|                                      |                         | Code     | County     |
| 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  |
| Mosaic Academy Charter               | Charter School          | 16356    | San Juan   |
| Carinos Charter School               | Charter School          | 16357    | San Juan   |



# New Mexico Educational Retirement Board

## STATISTICS SECTION

### Demographic and Economic Information - Continued

#### Participating New Mexico Employers by County

| Employer Name                           | Category                | Employer |            |
|---|-------------------------|----------|------------|
|   |                         | Code     | County     |
| 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   |
| 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   |
| Southwest Reg Ed Coop #10               | State Agency            | 21150    | Sierra     |
| Truth or Consequences Municipal Schools | Public School           | 21063    | Sierra     |
| Cottonwood Valley Charter Schools       | Charter School          | 25319    | Socorro    |
| Magdalena Municipal Schools             | Public School           | 25075    | Socorro    |

# New Mexico Educational Retirement Board

## STATISTICS SECTION

### Demographic and Economic Information - Continued

#### Participating New Mexico Employers by County

| <b>Employer Name</b>                | <b>Category</b>       | <b>Employer Code</b> | <b>County</b> |
|-------------------------------------|-----------------------|----------------------|---------------|
| Socorro Consolidated Schools        | Public School         | 25076                | Socorro       |
| NM Institute of Mining & Technology | Special State Schools | 25106                | Socorro       |
| 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

## 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.

### **DGP – 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.

## New Mexico Educational Retirement Board

### 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.

## New Mexico Educational Retirement Board

### 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,

## **Santa Fe Office**

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

## **Albuquerque Office**

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

[www.nmerb.org](http://www.nmerb.org)

---

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.**