New Mexico Educational Retirement Board

Funding Policy

Effective November 1, 2013

The New Mexico Educational Retirement Board (NMERB) is responsible for the administration of a defined benefit plan and disability benefits for active and retired employees of New Mexico public schools, institutions of higher learning and educational agencies. NMERB is governed by the New Mexico Constitution, Article XX, Section 22, the Educational Retirement Act, Chapter 22, Article 11 NMSA 1978, and the NMERB Rules, 2.82.1 through 2.82.12.

NMERB's goals in establishing a funding policy are: to fully fund the expected cost of all promised benefits; to be consistent with the governmental budgeting process; to keep the employer's pension contributions relatively stable from year to year, thus keeping the benefits stable from year to year; to satisfy the principle of intergenerational equity, so that the cost of a member's pension is paid in over their working career; and to provide a reasonable margin for adverse experience. Since the NMERB does not have the ability to determine contribution rates and adjust elements of pension benefits this funding policy is limited to determining actuarial elements necessary to accurately develop and display the fund's actuarial status.

<u>Actuarial cost method to determine normal cost:</u>

Individual entry age normal cost

<u>Asset smoothing method:</u>

Five-year smoothing

<u>Corridor:</u>

No corridor.

<u>Amortization method:</u>

Closed 30-year from the June 30, 2012 valuation report.

<u>Amortization period:</u>

ERB's amortization period is set and the effective period is infinite. The Board goal is 30 years from June 30, 2012.

<u>Amortization progression:</u>

Level % of pay.

Funding target:

95% plus or minus 5% by June 30, 2040.

Discount rate/earnings assumption:

7.75%.

Benefit changes:

No benefit increases until plan is fully funded. The plan would need to be 100% funded after any benefit changes.

COLA:

The COLA, defined in statute, is based on the change in the Consumer Price Index. COLA will be reduced until the plan is 100% funded.

Over-funding situations:

No policy. This has not been an issue.

Responding to favorable/unfavorable investment experience:

Long-term investment performance that deviates from the discount rate/earnings assumption can result in under- or over-funded plans. This is reflected in the unfunded liability and becomes part of the amortization payment.

Risk management regarding frequency of actuarial valuation:

Annual.

Process for reviewing and updating actuarial assumptions:

Have actuaries prepare an experience study every two years.

Frequency of actuarial audits:

Every five years beginning with the 2010 valuation. Can be done more frequently if the Board directs.

Governance:

Board reviews actuarial valuation every year and monitors plan administration and contributions. This practice allows for clear communication with the Executive and the Legislature on the status of the fund and any changes or necessary actions for success.

Frequency of 30-year projections:

Board uses 30-year projections in all benefit and contribution rate studies. Beginning with the June 30, 2013 valuation report, a 30-year projection will be included in the report to measure funding progress.

Frequency of actuarial impact analysis:

Any proposed change in benefit is accompanied by an actuarial impact analysis.

Frequency of asset/liability studies:

Every three years.

Frequency of asset allocation studies:

At least every two years.

Version Control Information

Version	**Approved By**	**Date**	**Comment**
1.0	ERB Board	07-19-2012	Approved by Board action – review discount rate/earnings assumption after FY12 Experience Study
1.1	ERB Board	11-01-2013	Approved by Board action – retaining rate/earnings assumption of 7.75%