

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

REGULAR MEETING

December 7, 2018

1. a. ROLL CALL: QUORUM PRESENT

A Regular Meeting of the New Mexico Educational Retirement Board was called to order on this date at 9:00 a.m. in the ERB Board Room, 8500 Menaul Boulevard, Suite A-319, Albuquerque, New Mexico.

Members Present:

Ms. Mary Lou Cameron, Chairwoman
Mr. H. Russell Goff, Vice Chairman
Mr. Larry Magid, Secretary
The Hon. Tim Eichenberg, New Mexico State Treasurer
Mr. David Craig
Dr. Donald W. Duszynski

Members Excused:

None.

Staff Present:

Ms. Jan Goodwin, Executive Director
Mr. Rick Scroggins, Former Deputy Director
Mr. Roderick Ventura, Deputy Director
Mr. Bob Jacksha, Chief Investment Officer
Ms. Susanne Roubidoux, General Counsel
Ms. Liz Lorang, Executive Assistant
Ms. Norma Henderson, Chief Financial Officer
Mr. Lawrence Esquibel, Chief Information Officer
Ms. Karla Leyba, Bureau Chief, Member Services
Ms. Monica Lujan, Director, Member Services

Others Present:

Mr. Ryan Falls, Gabriel Roeder Smith
Ms. Dana Woolfrey, Gabriel Roeder Smith
Mr. Sam Austin, NEPC
Ms. Charmaine Clair for Judith Beatty, Board Recorder
[See sign-in sheet.]

b. Approval of Agenda

Items 12 and 13 (Executive Session and Action from Executive Session) were removed.

Mr. Goff moved approval of the agenda, as amended. Mr. Magid seconded the motion, which passed unanimously.

c. Approval of Minutes – October 19, 2018

Dr. Duszynski moved for approval of the October 19 minutes, as submitted. Mr. Magid seconded the motion, which passed unanimously.

d. Approval of Minutes – November 16, 2018

Mr. Magid moved for approval of the November 16 minutes, as submitted. Mr. Goff seconded the motion, which passed unanimously.

e. Introduction of Guests

Chairwoman Cameron and board members thanked Rick Scroggins for his years of service to the ERB and wished him a happy retirement.

Chairwoman Cameron and board members welcomed Rod Ventura to his new position as Deputy Director, and Susanne Roubidoux to her new position as General Counsel.

2. CONSENT AGENDA

a. Board Travel

Mr. Magid requested approval to attend the April 2019 Pension Bridge conference in San Francisco.

Mr. Magid and Mr. Goff requested approval to attend the NEPC conference January 31-February 2, 2019.

Mr. Eichenberg requested approval to attend the CAPPP program in June 2019.

Mr. Goff moved approval of these requests. Mr. Magid seconded the motion, which passed unanimously.

3. SWEARING IN OF NEW BOARD MEMBER – PLACEHOLDER

None.

4. OPEN MEETINGS ACT RESOLUTION FOR 2019:
SUSANNE ROUBIDOUX, GENERAL COUNSEL

Ms. Roubidoux stated that, under the Open Meetings Act (OMA), public boards and commissions are required to announce annually what they consider to be reasonable notice for their public meetings, and that is typically done through the adoption of an Open Meetings Act resolution. She said there were no changes to this year's resolution from last year's resolution.

Mr. Eichenberg asked how this differs from the state's version. Ms. Roubidoux responded that the only difference is that the OMA itself does not specify what is reasonable notice and leaves that up to boards and commissions. For the ERB, it is eight days, and a survey of other boards and commissions typically shows eight to ten days' notice.

Mr. Eichenberg moved for approval. Mr. Magid seconded the motion, which passed unanimously.

**5. JUNE 30, 2018 ACTUARIAL VALUATION REPORT:
RYAN FALLS, GABRIEL ROEDER SMITH & COMPANY**

GRS actuaries Ryan Falls and Dana Woolfrey made this presentation.

Recent Events:

-- The return on the market value of assets was 7.2 percent, very close to the actuarial return assumption of 7.25 percent. Return on the smoothed value of assets was 7.5 percent, resulting in an actuarial gain of \$26 million in this valuation.

-- In terms of COLA experience, CPI increase for the year was 2 percent. Once the 80 percent factor is applied for most of the retirees, it was a 1.6 percent increase. The valuation assumption is 1.9 percent per year. Experience gains totaled \$115 million. This included \$25 million gain due to actual COLA being less than assumed; \$26 million in asset gains; and \$64 million in other liability gains. The biggest component was that member salaries were 2.6 percent less than expected.

-- Unfunded liability grew slightly in spite of gains, up from \$7.4 billion to \$7.5 million, but that was less than expected. In the plan's current funding situation, GRS expects the unfunded liability to grow for several years, but it is relying on a payroll that will also grow and outpace the UAAL growth and eventually start to pay it down.

-- Payroll was flat at \$2.6 billion last year and \$2.6 billion this year.

-- Funded ratio was 62.9 percent last year and 63.5 percent this year.

-- UAAL was \$7.4 billion last year and \$7.5 billion this year.

-- Funding period (closed group valuation) was \$124.6 years last year and infinite this year.

-- Funding period (open group valuation) was 61 years last year and 70 years this year.

-- Fair market value of assets increased from \$12,509 million to \$12,970 million.

-- Total distributions (benefit payments, refunds and administrative expenses) totaled \$1,117 million. Therefore, net external cash flow was -\$439 million, or -3.4 percent of market value of assets at end of year. This is typical for a mature DB plan where investment earnings are expected to finance a large portion of benefit payments.

-- Total contributions of \$679 million compared to \$692 million last year. Member contributions are 10.7 percent of pay and employer contributions are 13.9 percent of pay. Of the employer contribution, 3 percent is going to pay the normal cost of benefits, but almost 11 percent of their contribution is going to pay down the \$7.5 billion UAAL.

-- The 30-year funding policy contribution is 18.69 percent, reducing the shortfall from 6.88 percent in the 2012 funding policy to 4.79 percent with this most recent action.

In discussing proposed revisions to ASOPs (Actuarial Standards of Practice) by the Actuarial Standards Board, Mr. Falls said one proposed revision (expected to go into effect in about three years) is the Investment Risk Defeasement Measure (IRDM). He said GRS would have to disclose in its funding valuation report a liability that is calculated using current bond rates to discount the liability. He commented that it is a budgetary tool for GRS but provides no real functional value for the ERB.

Mr. Craig stated that he does a lot of modeling at the Public Education Department and has not seen support for a 3 percent salary gain, and the legislative branch and executive branch have not seen support for 3 percent gains in total teacher salaries per year, compounding year over year. Part of the reason the teacher shortage hasn't reached a crisis level is because the overall student population is declining in the younger grades, so the supply is down, as is the demand. He said a lot of school districts are using substitutes for some of the vacancies that they're seeing, which is a short term fix, but all of that compounds to a total payroll salary that will be far less than 3 percent in the near term in the last three years or in the near term going forward.

Mr. Falls responded that all of GRS's assumptions start with baseline inflation. Inflation is currently at 2.5 percent, so in aggregate they are expecting slightly more than the CPI as far as payroll growth goes. In a year where actual inflation is zero, then they theoretically only expect the payroll to go up by 1/2 percent.

Ms. Woolfrey added that a very concerning part of what Mr. Craig said was the potential for population constriction, because all of their models assume a level population growth going forward.

With respect to the ASOP, Mr. Craig suggested that GRS reexamine the model based upon real total payroll salaries.

Mr. Magid moved acceptance of the June 30, 2018 Actuarial Valuation Report, as presented. Mr. Goff seconded the motion, which passed unanimously.

6. INVESTMENT REPORTS: BOB JACKSHA, CIO

a. Total Portfolio Report for Q3 2018

NEPC advisor Sam Austin presented this report, with the following highlights:

- Over the past five years, the fund returned 7.9 percent per annum.
- Over the past three years, the fund returned 9.6 percent per annum.
- For the year ending 9-30-18, the fund experienced a net investment gain of \$943.5 million, which includes a net investment gain of \$301.3 million during the quarter. Assets increased from \$12.6 billion 12 months ago to \$13.1 billion on 9-30-18, with \$465 million

in net distributions during the year. The fund returned 7.5 percent, underperforming the policy index by 48 basis points.

In discussing the market environment, Mr. Austin said what the ERB has done in positioning the portfolio to prepare itself for downturns in the equity market has been excellent. It has built stability into its returns by having a lower allocation to U.S. equities than most public pension plans, and higher allocation to diversifying assets, alternative assets and fixed income.

b. Investment Committee Report

Mr. Jacksha reported on yesterday's Investment Committee meeting:

-- Increased its \$35 million investment in BP Natural Gas Partners II by another \$15 million, as the previous fund has been returning cash back at a faster pace than expected. In order to maintain the allocation in Natural Resources, the ERB is putting more money in the new fund.

-- Approved a \$50 million investment in Basin, an oil and gas production company that buys non-operating interests.

-- Reviewed the Real Estate Natural Resources report and Private Equity reports for the quarter.

c. Other Investment Reports

None.

7. ALTERNATIVE RETIREMENT PLAN: LARRY MAGID, COMMITTEE CHAIR

a. ARP Committee Report

Mr. Magid reported that the committee, which met yesterday, continued its focus on outreach to members who have the majority of their retirement allocation in cash equivalents. The plan includes reaching out to all of those members with direct mail, email and through newsletters to try to bring them up to speed on what this plan could do for them if their monies were properly allocated.

8. UPDATE ON NMERB ACTIVITY AT INVESTMENTS & PENSIONS OVERSIGHT COMMITTEE: ROD VENTURA, DEPUTY DIRECTOR AND JAN GOODWIN EXECUTIVE DIRECTOR

Ms. Goodwin said she and Mr. Ventura, along with Chairwoman Cameron, presented the board's legislative proposal to the Investments & Pensions Oversight Committee on Monday. On a vote of 7-2, the board's proposal was endorsed, and Senator Stuart Ingle has agreed to be the sponsor. Senator Jacob Candelaria will be one of the bill's cosponsors.

Ms. Goodwin said they were also asked to present the proposal to the Revenue Stabilization & Tax Policy Committee on Monday, December 17.

Chairwoman Cameron commented that there were a lot of good questions asked, with good support and understanding. She said she thought Ms. Goodwin and Mr. Ventura's presentation was excellent. She said Mr. Eichenberg and Mr. Goff were also present.

Ms. Goodwin said that, since then, they have also met with the Governor-elect's transition team to explain the proposal.

9. DISABILITY RETIREMENTS: RICK SCROGGINS, DEPUTY DIRECTOR

Mr. Scroggins stated that Karla Leyba would be presenting this report at future meetings of the board.

Mr. Scroggins reported on October's activity. Seven new claims are being processed, four periodic claims are being processed, one COLA is in process and one COLA was approved.

Mr. Goff moved for approval. Mr. Magid seconded the motion, which passed unanimously.

10. AGE & SERVICE RETIREMENTS: MONICA LUJAN, DIRECTOR OF MEMBER SERVICES

Ms. Lujan reported that there were three disability retirements under the age of 60, one disability retirement over the age of 60, 18 reciprocity retirements and 253 normal retirements, for a total of 275 retirements processed for the two-month period of October and November 2018.

Dr. Duszynski moved for approval. Mr. Magid seconded the motion, which passed unanimously.

11. DIRECTOR'S REPORT: JAN GOODWIN, EXECUTIVE DIRECTOR

a. Retirement Health Care Update

Ms. Goodwin stated that the NMRHCA just completed its open enrollment effort, allowing people to switch among the different plans.

b. Agency Activities

Ms. Goodwin stated that the report on agency activities since the last board meeting could be found in the board book.

c. Other

Ms. Goodwin said the ERB continues its outreach in its legislative effort. Last Friday, she and Mr. Ventura met with House Speaker Egolf's Chief of Staff to brief her on the package, and outreach continues with various prominent legislators to do one-on-one briefings.


12. NEXT MEETING: FRIDAY, FEBRUARY 15, 2019 – SANTA FE

13. **ADJOURN**

Its business completed, the Educational Retirement Board adjourned the meeting at 10:40 a.m.



Mary Lou Cameron, Chairwoman

ATTEST:


Larry Magid, Secretary