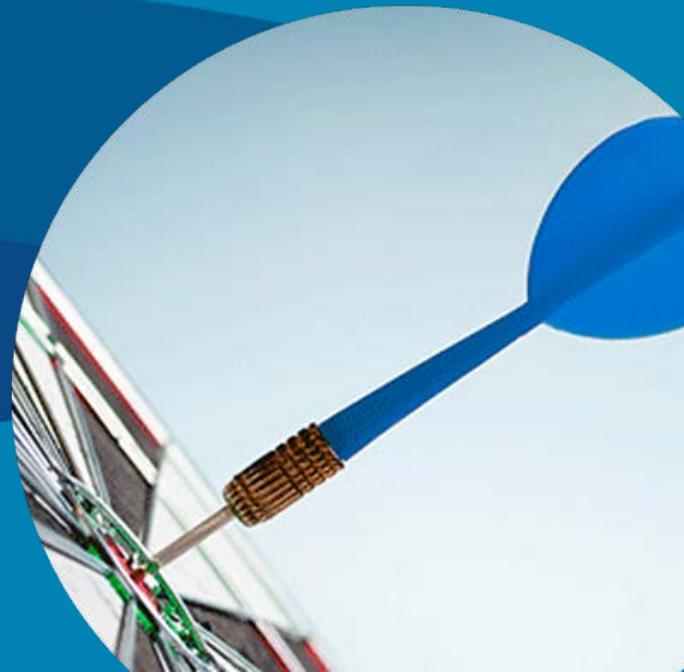


New Mexico Educational Retirement Board Actuarial Valuation Results as of June 30, 2019

Presented to Board of Trustees by
Ryan Falls and Dana Woolfrey on
December 6, 2019



Recent Events

- House Bill 360

- Increased employee contribution threshold from \$20,000 to \$24,000
- Employer contributions 13.90% -> 14.15%
- ARP contributions 3.00% -> 3.25%
- Anti-spiking measures
- Return to work contribution expansion
- Tiered multiplier for new hires

Years of Service	Benefit Percentage Earned
1-10	1.35%
11-20	2.35%
21-30	3.35%
31+	2.40%

- Changes are largely prospective

- Minor impacts to liability and funded ratio
- Impact can be observed in funding projections

FY 2019 Plan Experience

- Funding projections illustrate impact of HB360
 - In 2018, funding period was 70 years
 - Impact of HB360 shortened this period to 47 years
- Final version of reforms included smaller employer contribution increases than anticipated
 - If employer contributions would have increased to 16.90%, funding period would be 31 years

FY 2019 Plan Experience

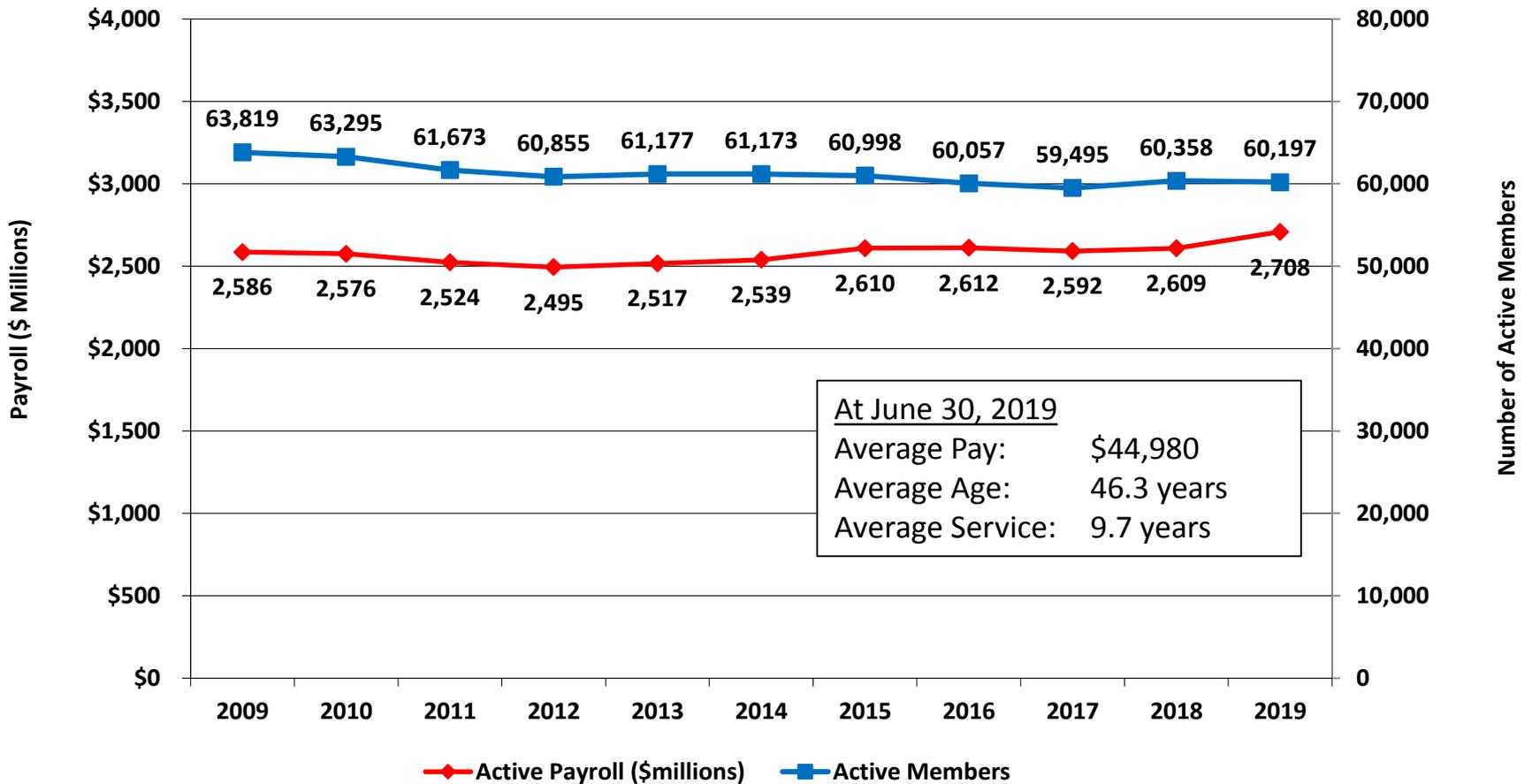
- Unfunded Actuarial Accrued Liability (UAAL) increased
 - \$7.5 Billion UAAL 2018
 - \$7.7 Billion *Expected* UAAL 2019
 - \$7.9 Billion Actual UAAL 2019
 - \$192 million liability Loss
 - primarily from salary increases greater than expected
 - \$84 million loss on Actuarial (smoothed) Value of Assets
 - Recognition of FY 2016 losses

Key Valuation Results

	June 30, 2019	June 30, 2018
Valuation Payroll	\$2.7 billion	\$2.6 billion
Actuarial Funded Ratio	62.9%	63.5%
Unfunded Actuarial Accrued Liability (UAAL)	\$7.9 billion	\$7.5 billion
Normal Cost Rate	13.68%	13.68%
Funding Period Closed Group Valuation	Infinite	Infinite
Funding Period Open Group Projection*	47 years	70 years

* Reflects: (1) lower normal cost for future members, (2) future COLAs less than 1.9%, (3) current market value of assets.

Membership – Actives



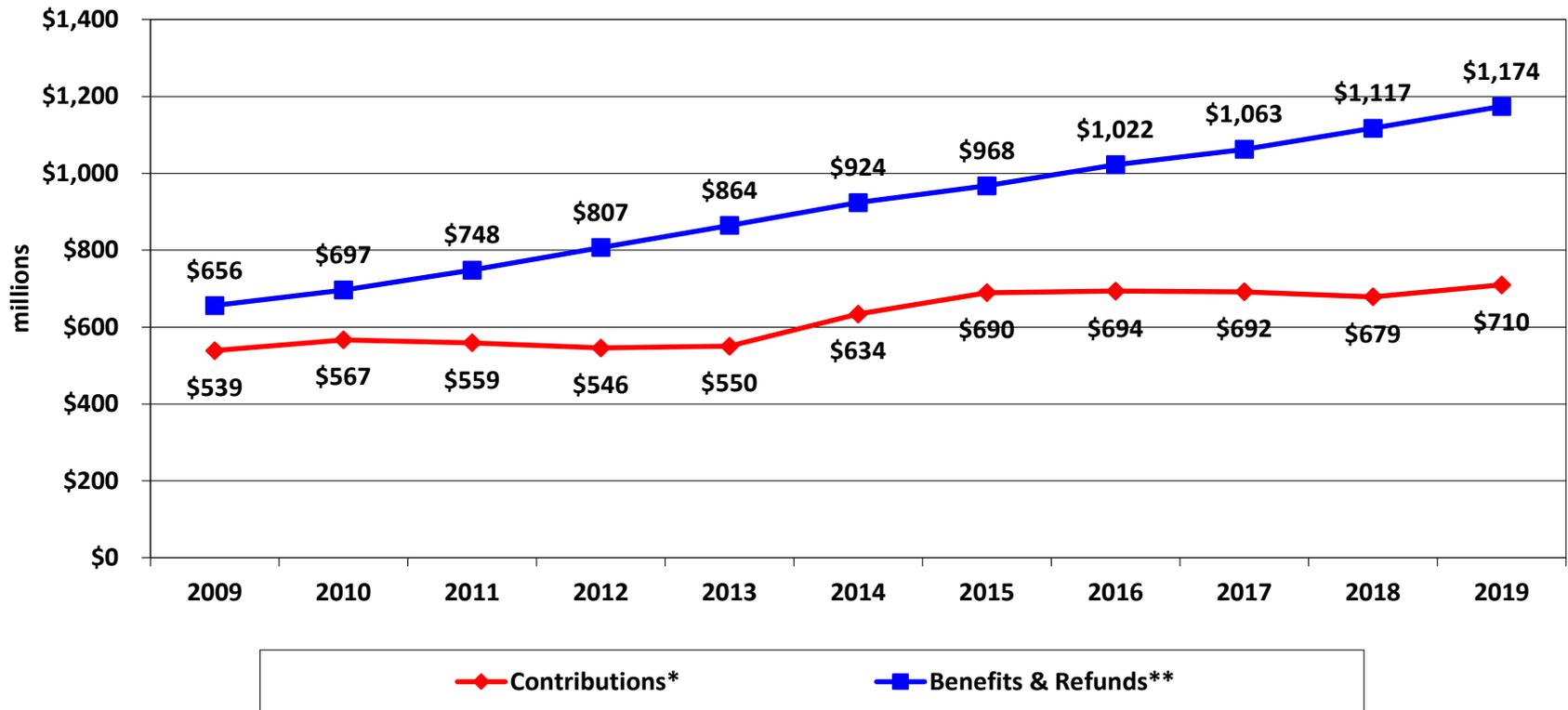
Assets

- Fair market value increased from \$12,970 million to \$13,545 million as of June 30, 2019
- Contributions
 - Member contributions = \$303 million, including service purchases
 - Currently 10.70% of pay
 - Employer contributions = \$401 million
 - 13.90% of pay for FY2019
 - Includes \$12 million in RTW contributions
 - ARP contribution = \$6 million (3% of ARP payroll for FY2019)
- Total contributions of \$710 million, compared to \$679 million last year

Assets

- Total distributions—benefit payments, refunds and administrative expenses—totaled \$1,174 million
- Therefore, net external cash flow was -\$464 million, or -3.4% of market value of assets at end of year
 - Typical for a mature DB plan where investment earnings are expected to finance a large portion of benefit payments
 - Not projected to go below -5%
- Return of approximately 8.1% in FY 2019 (net of administrative and investment expenses)
 - 6.7% for last five years
 - 9.6% for last 10 years
 - 7.0% for last 15 years
 - 5.6% for last 20 years

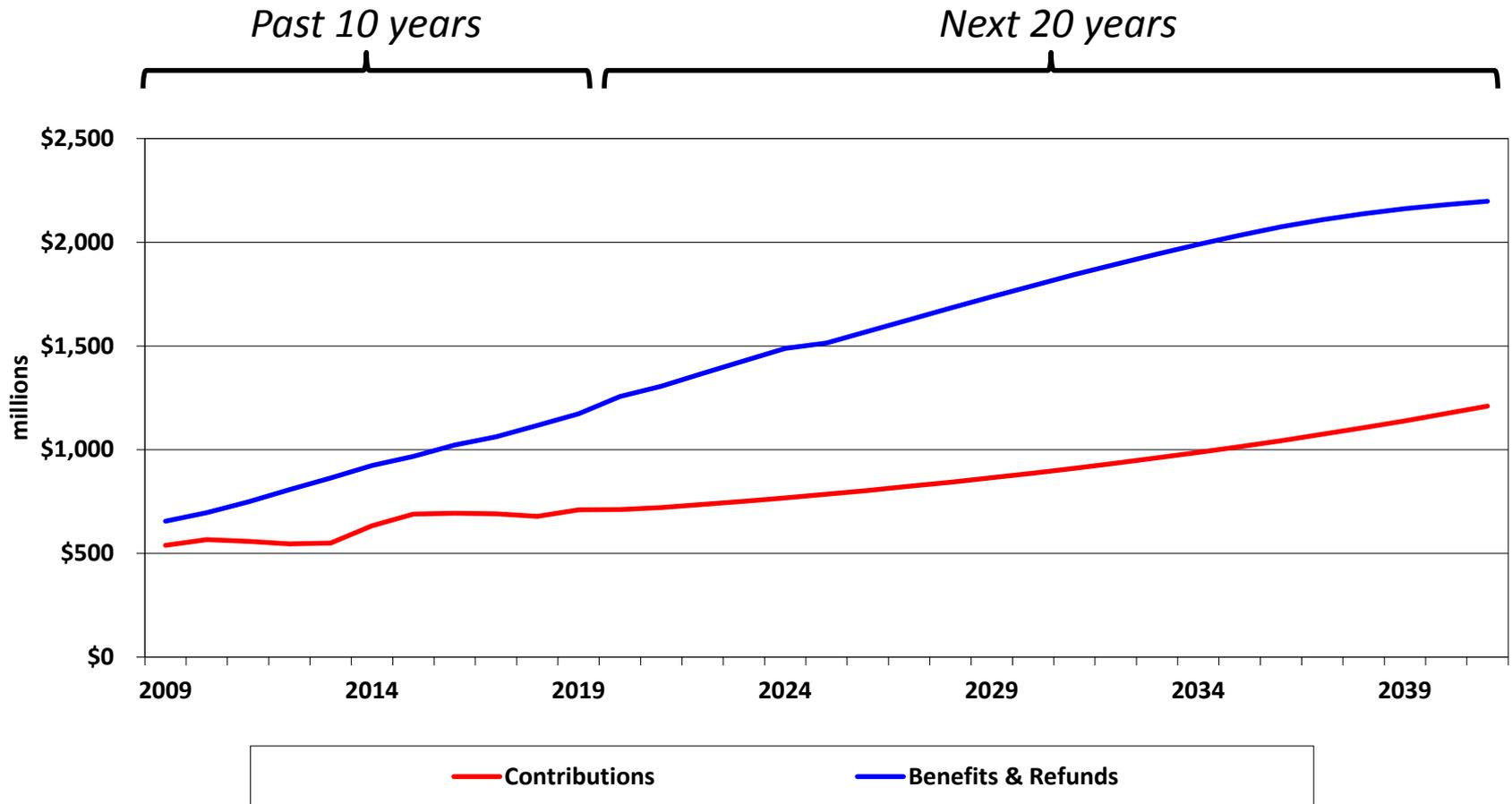
Contributions vs. Benefits – Actual



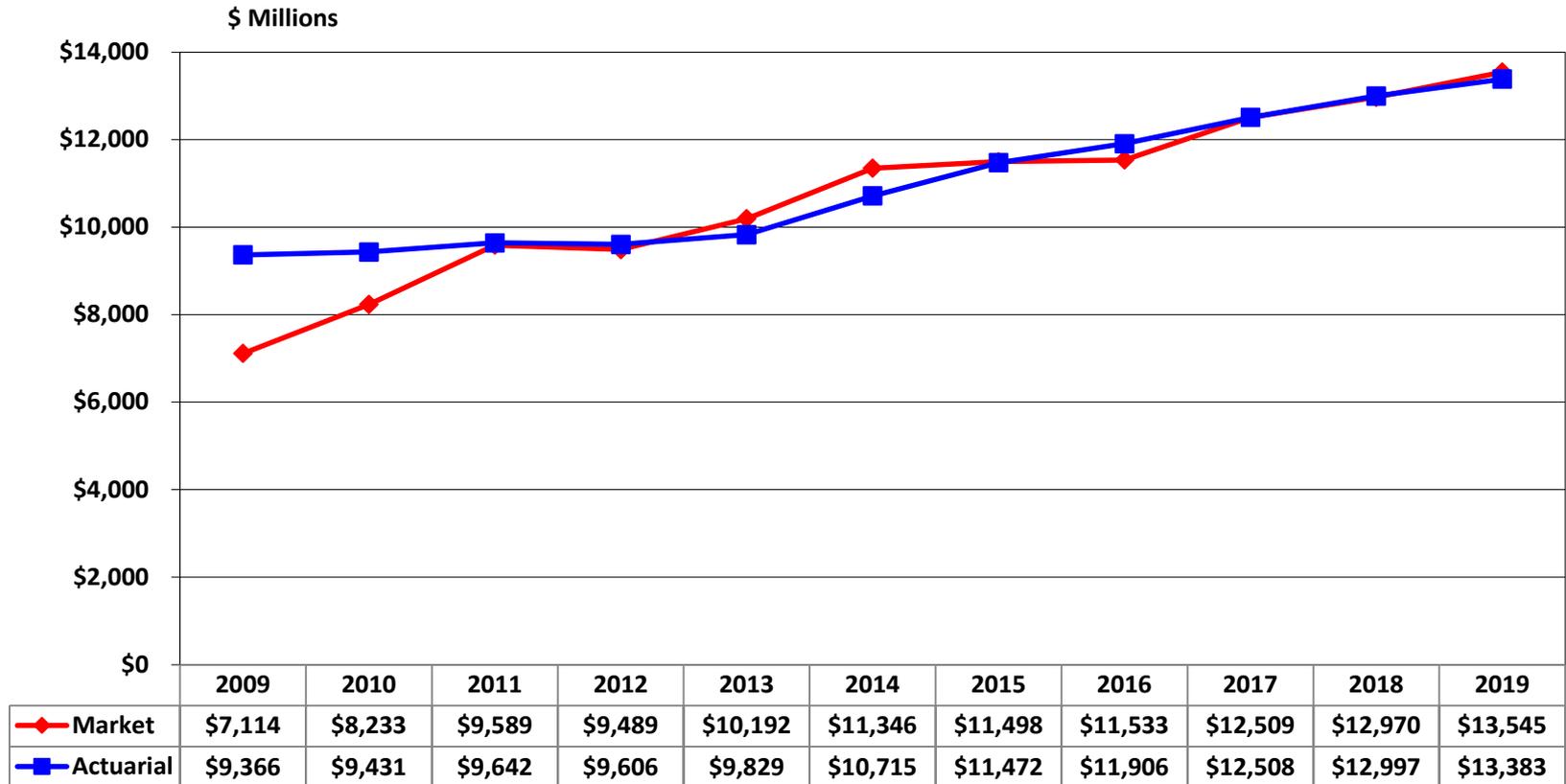
* Includes member contributions, employer contributions, and service purchases

** Includes administrative expenses

Contributions vs. Benefits – Projected



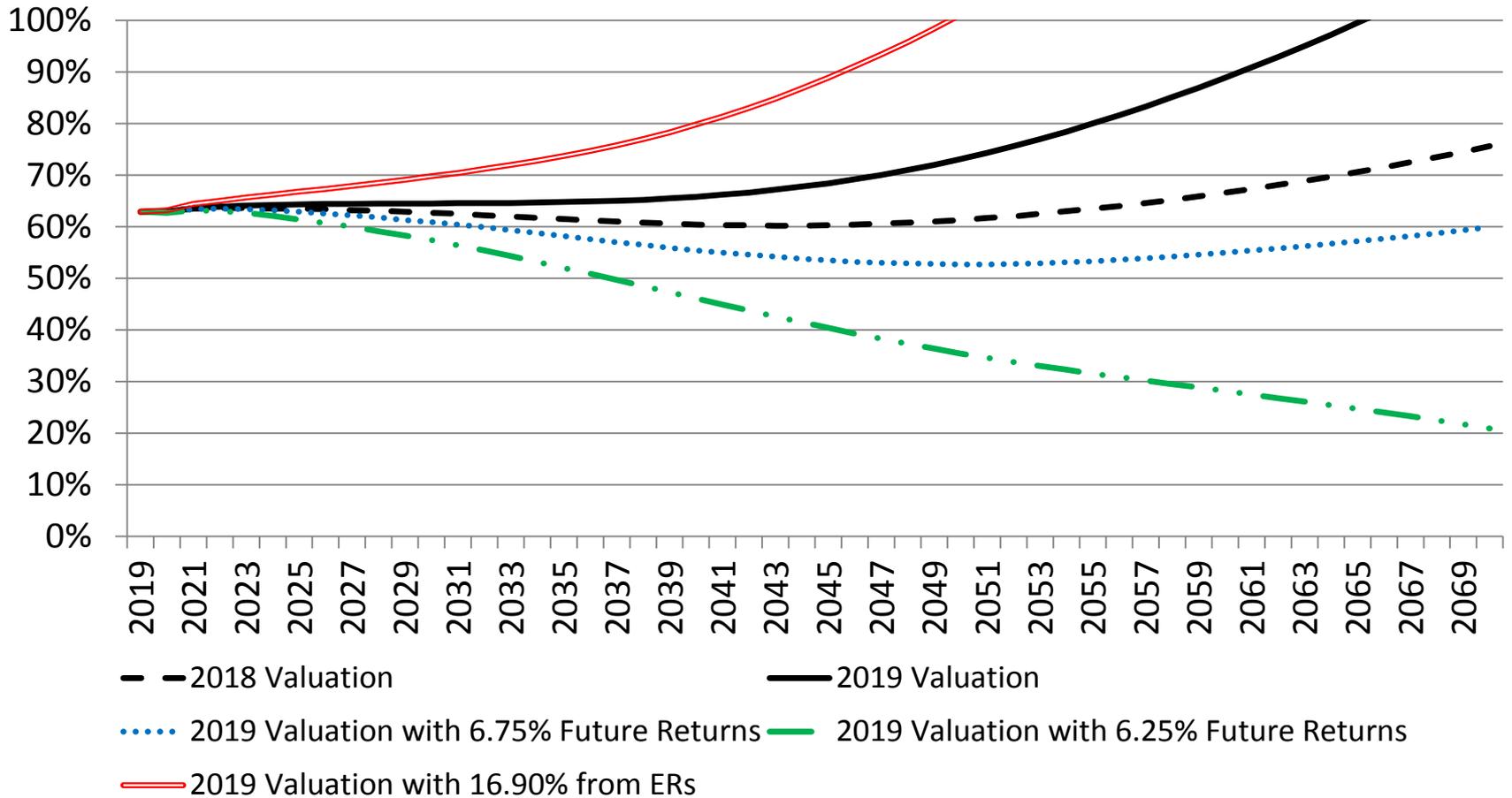
Actuarial and Market Values of Assets



Funding Policy

- In November 2018, Board updated the funding policy
 - Established a goal of eliminating the UAAL by June 30, 2049
 - 30 years from June 30, 2019
 - Previous goal was to eliminate the UAAL by June 30, 2042
- Updated Funding Policy Contribution is 19.01%
 - 30-year amortization (30 years from 2019), plus employer normal cost
 - Shortfall (19.01% - 14.15%) of 4.86%

Projection – Funded Ratios



Actuarial Projection Results

- Funding period and UAAL projections based on the following assumptions:
 - Future market earnings, net of administrative and investment-related expenses, will equal 7.25% per year
 - Phases in deferred asset gains/losses
 - No benefit changes or other demographic gains/losses
 - No change in number of active members
 - Accumulates savings from expected COLAs lower than 1.9%
 - Active members who leave employment will be replaced by new entrants each year
 - Starting pay for each cohort of replacement hires increases 3.00% each year
 - Employer and member contributions will remain a constant percentage of payroll

Next Steps

- Commencing an actuarial experience study following the completion of this valuation
- Additional modifications to ERB are necessary to improve sustainability
 - Reforms during last legislative session were helpful
 - Still outside of Board's funding policy goals
 - Strong recommendation for adaptive funding policy and benefit provisions
 - Improve sustainability
 - Reduce likelihood of revisiting reforms

Disclaimers

- This presentation is intended to be used in conjunction with the final draft of the actuarial valuation report issued on November 5, 2019. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.