

MINUTES OF THE

NEW MEXICO EDUCATIONAL RETIREMENT BOARD RETREAT

July 10, 2018

1. CALL TO ORDER: QUORUM PRESENT

A Retreat Meeting of the New Mexico Educational Retirement Board was called to order on this date at 9:00 a.m. in the Educational Retirement Board Conference Room, 6201 Uptown Boulevard, N.E., Ste. 203, 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, Deputy Director
Mr. Bob Jacksha, CIO
Mr. Roderick Ventura, General Counsel
Ms. Susanne Roubidoux, Deputy General Counsel
Ms. Norma Henderson, CFO
Ms. Monica Lujan, Member Services Director
Ms. Lealia Nelson, Outreach Coordinator
Ms. Liz Lorang, Executive Assistant

Others Present:

Mr. Joseph Simon, LESC
Ms. Andrea Ochoa, LESC
Mr. Connor Jorgensen, LFC
Ms. Patricia J. Turner, Contract Attorney
Ms. Judith Beatty, Recorder
[See sign-in sheet.]

b. Approval of Agenda

Dr. Duszynski moved for approval of the agenda, as published. Mr. Goff seconded the motion, which passed unanimously.

c. Introduction of Guests

Chairwoman Cameron welcomed staff and guests.

Mr. Simon introduced Andrea Ochoa, who has joined the LESC as an analyst.

2. ACTUARIAL PRESENTATION: RYAN FALLS, GABRIEL ROEDER SMITH

Mr. Falls stated that this is the second part of his presentation on actuarial soundness and sustainability at the board's annual retreat in April. That presentation focused on the plan's current status and encouraged taking a hard look at the plan design, contributions being received, goals for the retirement system, and starting a conversation about necessary changes to enhance the retirement system and make it more sustainable.

-- Based on the current set of assumptions, ERB will be able to pay off its unfunded actuarial accrued liability (UAAL), but the things working against that are the size of the UAAL at this time. The ERB has a lot of work to do to come up with a strategy to pay it down.

-- There is negative amortization, which means the contributions aren't even covering the interest accumulating on the UAAL. If there are more difficult market cycles, like those experienced ten years ago, there is nothing to accelerate the ERB's ability to pull itself out of that hole because there are no triggers or levers to adjust the contribution rate when the fund needs more money or needs to decrease benefits.

-- The funding period for the plan is currently at 61 years, which is right on the verge of starting on the path toward insolvency. Just one year with zero net investment returns in the next three years would mean the plan would have an expected depletion date.

-- Someone hired 50 years ago is getting almost two times their contribution in the system back in planned benefits, while someone hired today is getting a 30 percent premium on their contributions.

-- ERB is projected to be fully funded in 61 years based on most recent valuation results, while the stated objective in the board's funding policy is to be fully funded in 25 years-ago.

Mr. Falls discussed the following options for consideration, which would only impact future benefits and contributions and would only improve the path going forward:

- Increase employer contributions by 3.00% to 16.9%. An increase of 1% would reduce funding period to 48 years; 2%, 40 years; 3%, 35 years.
- COLA holidays. Deferring the COLA for 5 years would reduce the funding period to 48 years, and for 10 years, it drops to 41 years.
- Tiered benefit multiplier for new members under two options, with maximum accrual rate at 2.35% per year, but setting multiplier at either 1.35% or 1.00% for first 10 years and increasing by 1% every ten years thereafter.

Dr. Duszynski asked what other innovative things have states done that might be considered in addition to the three options offered today by GRS; in other words, instead of reinventing the wheel, what has worked before.

Ms. Goodwin responded that one option is to have a mandatory actuarially determined contribution rate, where employer/employee contributions go up whenever there is a shortfall in investment performance. The New Mexico legislature has been historically very leery of a floating contribution rate, however, preferring to have certainty, although the ERB has had some conversations with legislative staff about this and have gotten some positive comments.

Ms. Goodwin said other places have increased the vesting period. Although it sounds good, it typically has a negative impact on the pension fund because short-term employees are much more likely to refund their contributions when they terminate employment. PERA, which did this in 2013, has seen a dramatic impact on their refunds.

Ms. Goodwin noted that another option is pension obligation bonds, which is a quick infusion of money into the plan, and was discussed at the April board retreat by Keith Brainard. She said she is having conversations with legislators about potential dedicated sources of money for the plan.

Ms. Goodwin stated that many places are also looking at the same solutions the ERB is.

Mr. Falls added that other states have cut back on the benefits for current active members, although this is subject to legal challenge.

Mr. Falls stressed that immediately moving into a defined contribution (DC) plan is not an option, as a portion of the contributions of any future new active is helping to pay down the UAAL.

Mr. Falls also stated that the COLA is 15-20 percent of the overall cost of the plan, so it is very expensive. He noted that retirees on Social Security already have cost of living coverage on a portion of the benefit. Rhode Island, which is one of the most extreme cases of benefit reform, pushed out the date of retirement of every active member, increased contributions, and decreased active member benefits.

At Mr. Magid's request, Mr. Falls said he would develop a lump sum funding scenario.

Responding to Mr. Craig, Mr. Ventura said the last time the ERB changed the COLA, the New Mexico Supreme Court decided (*Bartlett v. Cameron*) that a COLA was not technically a part of the pension benefit, so the ERB could make a change to the COLA without affecting one's constitutional right to the pension benefit. The Court said that one's right in the pension benefit is affected when it vests and when it matures. Vestings is at five years ~~in~~, so it is possible to make a change to a new member before the five years is up. The Court did not decide what "matures" means, however, although it has been opined to mean when someone completes their retirement application. Nonetheless, the ERB would lose in a case where it tried to change the benefits of a retiree.

The board reviewed charts reflecting average years in retirement for new retirees versus all retirees, with expected retiree lifetime and life expectancy ranges at retirement.

3. SUSTAINABILITY DISCUSSION: JAN GOODWIN, EXECUTIVE DIRECTOR

a. NMERB Guiding Principles

Ms. Goodwin asked board members to review the NMERB Statement of Beliefs and Guiding Principles. This document was reviewed by the board at the April Retreat, and was before the board today for additional review and to discuss parts of the document that were left blank. She said the hope was to ratify the final version of the document at the August board meeting.

There was consensus on the following:

Plan Design

6. Age ~~XX~~ 60 is the ~~appropriate~~ recommended minimum age for retirement.
7. A XX-year work history with NMERB employers is required for an adequate level of retirement income from all sources. [Staff will draft suggested language for review at the August board meeting, including substituting “required” with “recommended.”]

Funding

1. The Plan and its benefits must be sustainable and on a path to 100% funding ~~within XX years~~ by June 30, 2042.

Ms. Goodwin stated that the following Item, under Funding, contradicts the conversation earlier about having a floating contribution rate. She said she thought it would be nice to have a floating contribution rate with reasonable caps. At Chairwoman Cameron’s request, she agreed to work on language for review at the August meeting.

3. Contributions from the employers and the members should be stable and predictable.

Mr. Falls commented that the following item, under Investments, can be a chicken-and-egg situation. If the ERB can achieve a risk adjusted rate of return while also meeting the actuarial target, that’s wonderful, but as far as investment policy, setting the asset allocation to achieve the assumed rate of return could be viewed as chasing a return. Ms. Goodwin said staff would work on this language for the August meeting.

1. The performance goal for the Fund is to achieve a risk adjusted rate of return over time, equal to or exceeding the actuarial target.

b. Next Steps

Ms. Goodwin reported that the ERB had its first stakeholder group meeting yesterday, which was very well attended. The different members of the group will meet with their members or employees to get guidance on what they would like to see the proposal look like. The group will meet again on August 13 and September 6 with a goal of having a legislative proposal to the board for the October board meeting, with the goal of presenting it to IPOC in November and the legislature in January.

Ms. Goodwin commented that there was some question among stakeholders about why there was the need for 100 percent funding. She said among the reasons why are no more COLA reductions, lower member and employer contribution rates, no more GASB_68 reporting, and it is just good public policy. She said it is important for the board to say that one of its goals is to reach 100 percent funding.

4. **EXECUTIVE SESSION: 11:25 a.m.**

- a. **Litigation – American Federation of State, County and Municipal Employees Council 18 et al v. State of New Mexico. (Session closed pursuant to NMSA 1978, Section 10-15-1(H)(7))**
- b. **Limited Personnel Matters (session closed pursuant to NMSA 1978, Section 10-15-1(H)(2): Compensation of Executive Director, Deputy Director and General Counsel and agency practices in regards to compensation.**

Chairwoman Cameron moved that the board go into executive session pursuant to Section 10-15-1(H)(7) of the Open Meetings Act for purposes of discussing pending litigation and 10-15-1(H)(2) for purposes of discussing limited personnel matters. Mr. Eichenberg seconded the motion, with the addition of possible pending litigation under (b).

The amendment was accepted as friendly.

The motion, as amended, passed on the following roll call vote:

For: Chairwoman Cameron; Vice Chair Goff; Secretary Magid; Mr. Eichenberg; Mr. Craig; Dr. Duszynski.

Against: None.

[The board was in executive session until 12:40 p.m.]

Chairwoman Cameron moved to come out of executive session. The only matters discussed during the executive session were American Federation of State, County and Municipal Employees Council 18 et al v. State of New Mexico; pending litigation; and limited personnel matters, as set forth in the agenda. Dr. Duszynski seconded the motion, which passed on the following roll call vote:

For: Chairwoman Cameron; Vice Chair Goff; Secretary Magid; Mr. Eichenberg; Mr. Craig; Dr. Duszynski.

Against: None.

5. **ACTION FROM EXECUTIVE SESSION**

a. **Mr. Eichenberg moved to approve the proposed settlement agreement in the matter of American Federation of State, County and Municipal Employees Council 18 et al v. State of New Mexico, as presented. Mr. Magid seconded the motion, which passed unanimously.**


b. Chairwoman Cameron read the following statement: The sense of the board is to accept the denial by DFA for raises for Executive Director, Deputy Director, General Counsel, and Chief Investment Officer.

Mr. Eichenberg moved that this be done officially because the board has maintained throughout this process that it would not engage in litigation to seek approval of these raises. Mr. Craig seconded the motion, which passed unanimously.

Vice Chair Goff stated that the board's focus will now be to continue to develop a sustainability plan.

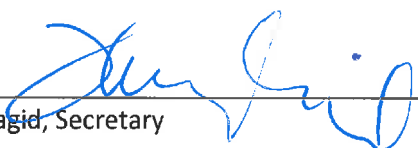
6. ADJOURN

Its business completed, the Educational Retirement Board adjourned the meeting at 12:45 p.m.



Mary Lou Cameron, Chairwoman

ATTEST:



Larry Magid, Secretary