

New Mexico Educational Retirement Board

Improving Sustainability

Senate Finance Committee

Senator John Arthur Smith, Chair

Wednesday, January 22, 2020

Jan Goodwin, Executive Director

Mary Lou Cameron, Board Chair

H. Russell Goff, Board Vice Chair



Solvency

- Ability to pay obligations as they become due
- ERB is solvent and can pay benefits for all time horizons and is on the path to 100% funding

Sustainability

- Standard- $\text{Contributions} + \text{Investment income} = \text{Benefits} + \text{Expenses}$
- Actuary- can pay all of the promised benefits without any future modifications to contributions or benefits
- Proposed definition- ability to pay benefits and reach 100% funding within a reasonable length of time

Characteristics of sustainable pension plans (*National Institute on Retirement Security- Lessons from Well-Funded Public Pensions*):

- Pay Annual Required Contribution and maintain stable contribution level over time
- Employees share in the cost of the plan
- Actuarially value benefit improvements and ensure funding source
- Cost of living adjustments are responsible and if automatic, capped at a modest level

Characteristics of sustainable pension plans (*National Institute on Retirement Security- Lessons from Well-Funded Public Pensions*)- continued:

- Anti-spiking measures to ensure actuarial integrity and transparency
- Economic actuarial assumptions can be expected to be achieved over the long term

Conclusion:

ERB has all but one of the characteristics of a sustainable pension plan

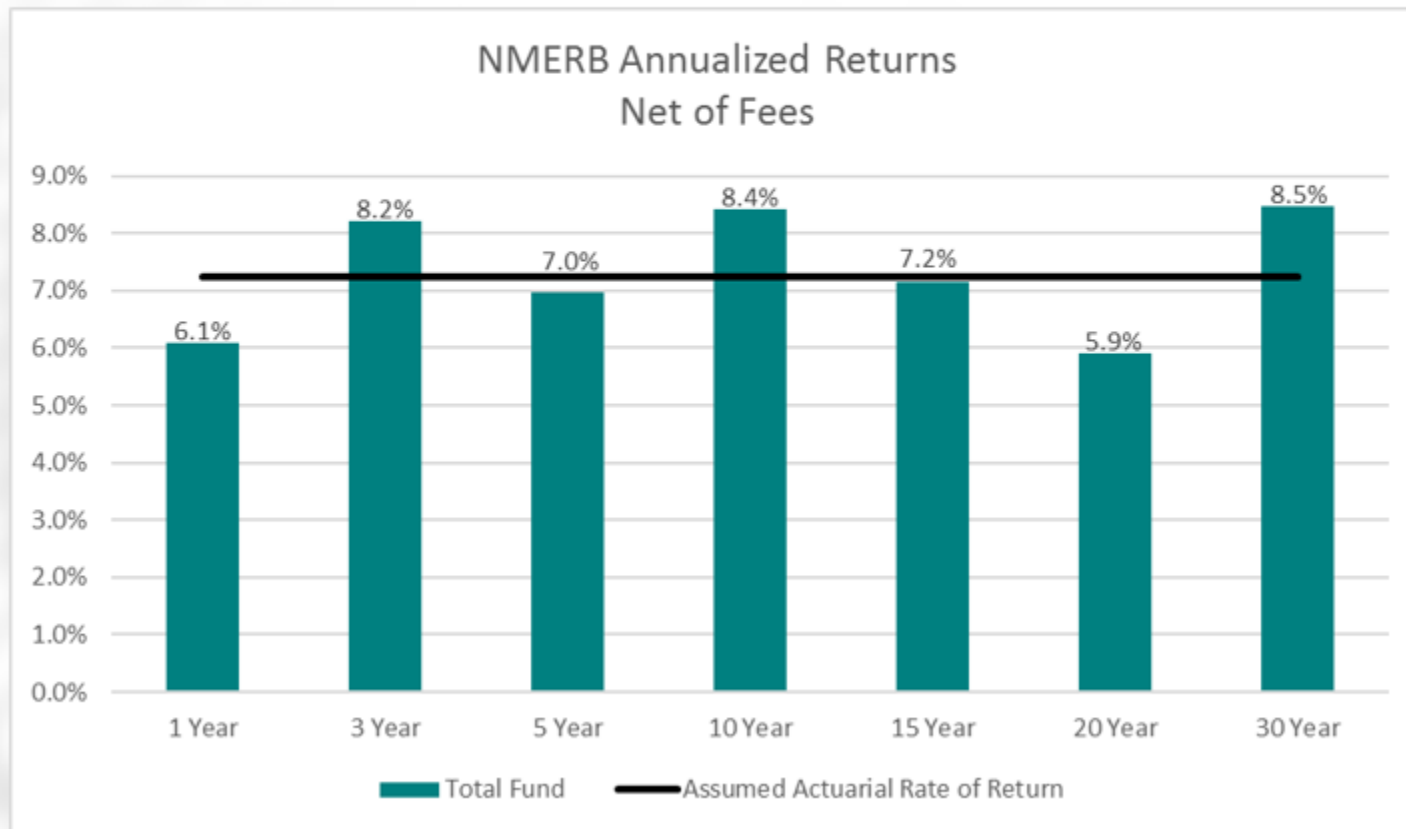
Why 100% Funding is Important

1. It's good public policy!
2. Will improve the state's and employers' credit ratings
3. Contribution rates can be 10% lower
4. COLA reductions for retirees can end
5. Better able to withstand market downturns
6. GASB 68 reporting will be simplified- employers will no longer show deficits

NMERB Fund Performance as of September 30, 2019

Total Fund Performance Summary at September 30, 2019:

<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>30 Year</u>
6.1%	8.2%	7.0%	8.4%	7.2%	5.9%	8.5%



Total Fund Performance Summary at November 30, 2019:

<u>Oct-19</u>	<u>Nov-19</u>	<u>FYTD</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>
1.4%	0.7%	3.3%	9.6%	9.1%	7.0%	8.3%

November 30, 2019 Asset Value: \$13.6 Billion

Total Fund Asset Allocation vs. Policy Targets as of 9/30/19

	Current Mkt Value	Current Allocation	Policy Target ¹	Difference	Policy Range	Within Range
Equity	\$4,037,381,297	30.3%	31.0%	-0.7%	15% - 55%	Yes
U.S. Equity	\$2,213,244,009	16.6%	17.0%	-0.4%	8% - 30%	Yes
U.S. Large Cap Equity	\$1,913,488,505	14.3%	14.0%	0.3%	7% - 25%	Yes
U.S. Small/Mid Cap Equity	\$299,755,504	2.2%	3.0%	-0.8%	0% - 5%	Yes
Non-U.S. Equity	\$1,824,137,287	13.7%	14.0%	-0.3%	5% - 25%	Yes
Non-U.S. Developed Mkts	\$633,022,818	4.7%	5.0%	-0.3%	0% - 10%	Yes
Non-U.S. Emerging Mkts	\$1,191,114,469	8.9%	9.0%	-0.1%	2% - 15%	Yes
Fixed Income	\$3,427,503,798	25.7%	24.0%	1.7%	10% - 58%	Yes
Core Fixed Income	\$794,841,351	6.0%	6.0%	0.0%	0% - 20%	Yes
Opportunistic Credit	\$2,401,041,923	18.0%	16.0%	2.0%	0% - 30%	Yes
Emerging Mkts Debt	\$231,620,524	1.7%	2.0%	-0.3%	0% - 8%	Yes
Alternatives	\$5,730,155,024	42.9%	44.0%	-1.1%	10% - 65%	Yes
Absolute Return	\$384,938	0.0%	0.0%	0.0%	0% - 10%	Yes
Diversifying Assets	\$1,577,145,950	11.8%	12.0%	-0.2%		
Global Asset Allocation	\$491,788,919	3.7%	2.0%	1.7%	0% - 6%	Yes
Risk Parity	\$742,778,169	5.6%	3.0%	2.6%	0% - 6%	Yes
Other Diversifying Assets	\$342,578,863	2.6%	7.0%	-4.4%	0% - 12%	Yes
Real Estate	\$939,678,409	7.0%	8.0%	-1.0%	0% - 15%	Yes
REITs	\$311,661,515	2.3%	2.0%	0.3%		
Private Real Estate	\$628,016,894	4.7%	6.0%	-1.3%		
Private Equity	\$2,109,085,429	15.8%	15.0%	0.8%	0% - 24%	Yes
Inflation-Linked Assets	\$1,103,860,298	8.3%	9.0%	-0.7%	0% - 16%	Yes
Cash	\$150,805,031	1.1%	1.0%	0.1%	-20% - 15%	Yes
Total	\$13,345,900,639	100.0%	100.0%	0.0%		

¹Long-Term Policy Target approved by the Board in August 2019.

Note: Allocations shown here include cash held in separately managed portfolios.

Totals may not add to 100% due to rounding. Total Plan includes Legacy Assets portfolio totaling \$55,490.

Investment fund performance statistics as reported by NEPC, LLC for the period ending September 30, 2019



MEXICO
EDUCATIONAL
RETIREMENT
BOARD

This year:

Modest, but continued positive worldwide growth

Next 3 to 5 years:

Varies by asset class-

Bonds 2-4%

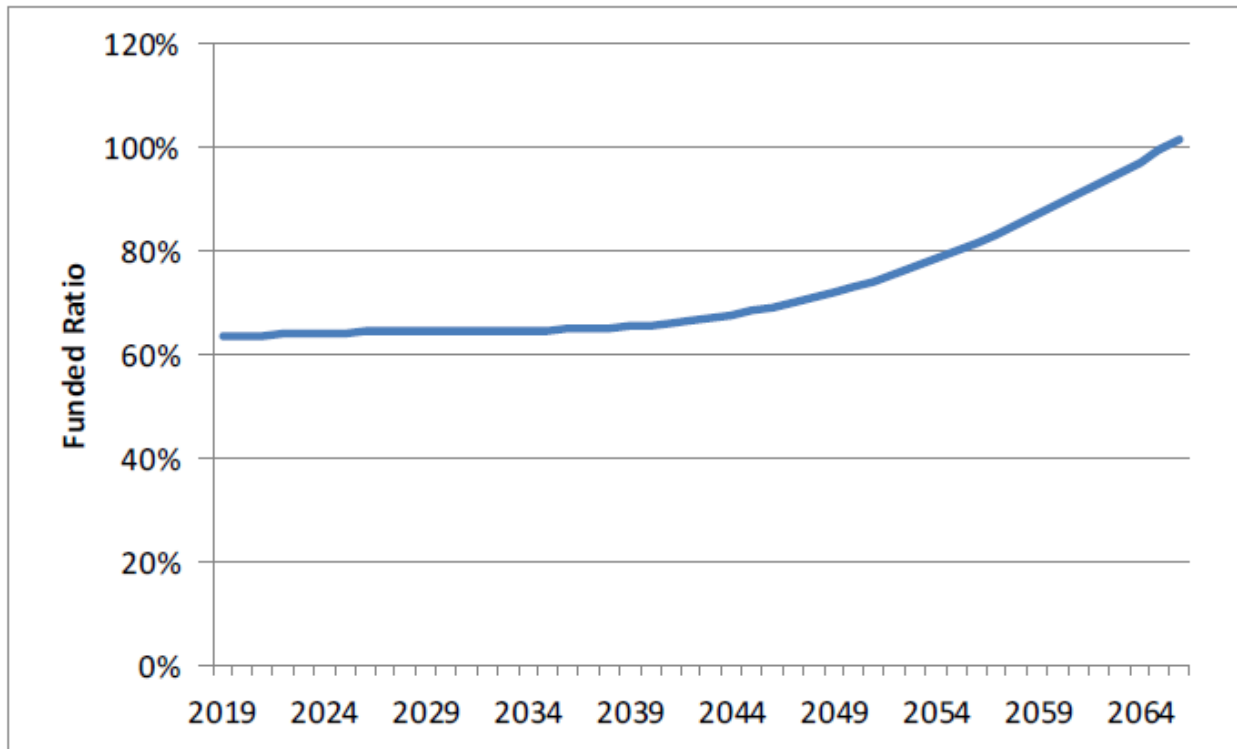
Private equity 9-11%

1. Tiered Multipliers
2. Increase of Employer Contributions (.25% increase only)
3. Anti-spiking (Applies to annual salary after July 1, 2019)
4. Revise Return-to-Work provisions (contributions for those working less than .25 FTE applies after July 1, 2020)
5. Require PERA retirees who work for ERB employers to pay contributions (police officers currently working for LAUs are grandfathered in)
6. Reduce pension benefits for new members who retire before age 58
7. Substitute teachers who work more than .25 FTE will pay contributions (not effective until July 1, 2020)
8. Threshold for higher employee contributions raised from \$20,000 to \$24,000 (7.9% or 10.7%).

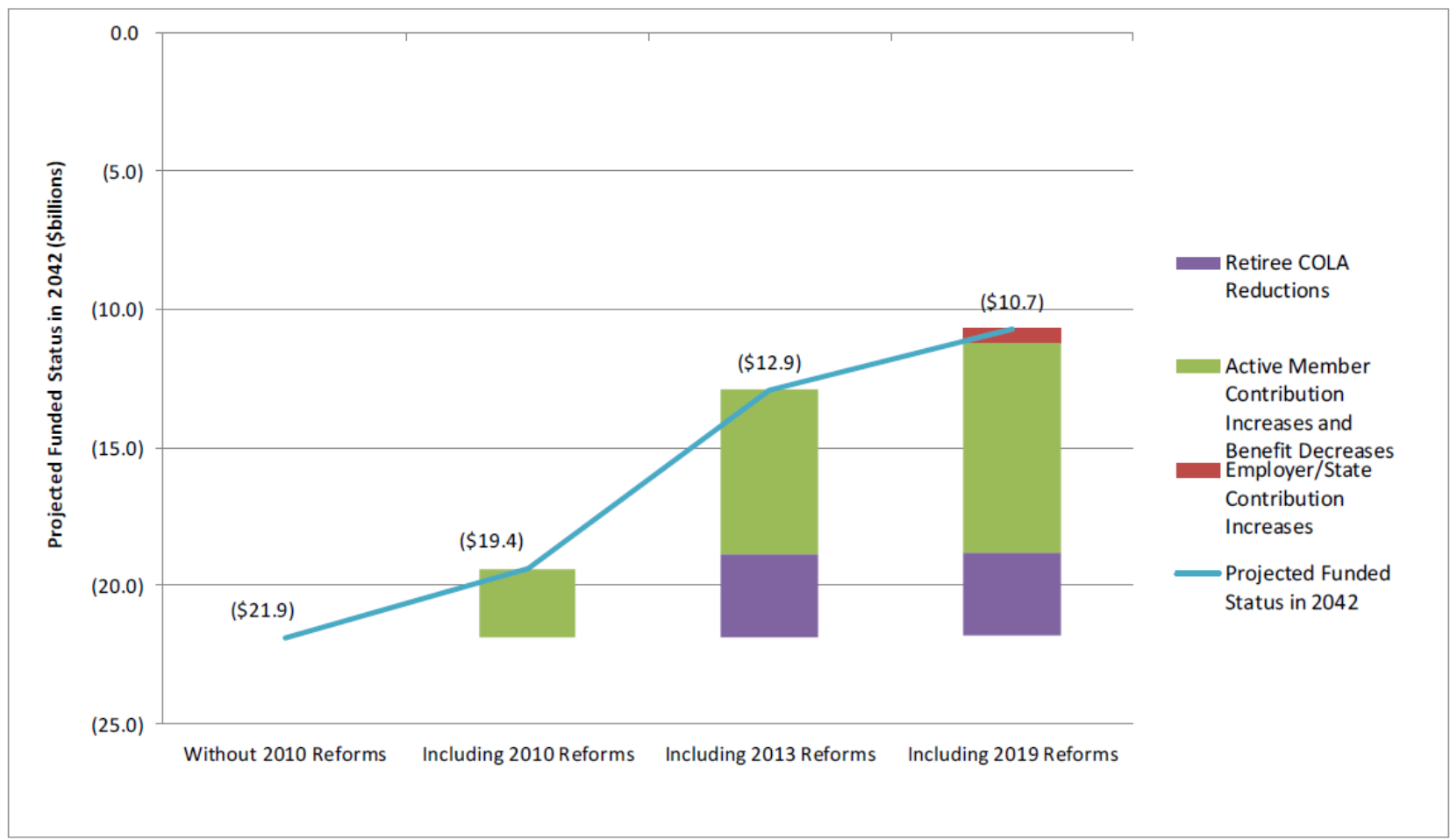
June 30, 2019 actuarial valuation:

Funded ratio	62.9%
Assets	\$13.5 billion
UAAL	\$7.9 billion
Funding period	47 years

New Mexico ERB Projected Funded Ratios Based on the Actuarial Valuation as of June 30, 2019



Burden of Prior Changes



The Cost of Delayed Action

Funding Period (Years)	Interest Cost	Employer Rate Needed	Annual \$ Needed
47	\$30.3 billion	14.15%	\$0
35	\$18.4 billion	15.85%	\$66
30	\$14.4 billion	17.08%	\$111
25	\$11.1 billion	18.84%	\$171
20	\$8.2 billion	21.57%	\$259
15	\$5.7 billion	26.20%	\$403
10	\$3.6 billion	35.48%	\$681
5	\$1.8 billion	63.25%	\$1,500

Options to Improve Sustainability

<u>Method</u>	<u>Impact</u>	<u>Has ERB Done this?</u>
One-time payment	Immediate and positive	No, but is in LFC rec
Employer contribution increase	Positive over time	Yes, less than requested
Employee contribution increase	Positive over time	Yes
Risk-sharing COLA	Positive over time	Yes
Reduction in benefits for new members	Positive over time	Yes, 2020, 2013 and 2019
Reduction in benefits for current retirees	Positive over time	Yes, 2013 COLA reduction
Reduction in benefits for current retirees	Immediate and positive	No
Increase vesting period	Slightly positive over time	No
Pension Obligation Bond	Immediate and positive	No
Statutory requirement to pay ADC/ARC	Very positive over time	No

Proposal based on NMERB Board Action on October 18, 2019:

On July 1, 2020, fifty million dollars (\$50,000,000) plus an amount equivalent to 1% of the annual salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of June 30, 2019 plus the salary increases to members and participants in fiscal year 2020 in the General Appropriation Act of 2019 shall be transferred from the general fund to the educational retirement fund.

On July 1, 2021, an amount equivalent to 2% of the annual salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of June 30, 2021 shall be transferred from the general fund to the educational retirement fund.

On July 1, 2022, fifty million dollars (\$50,000,000) plus an amount equivalent to 3% of the salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of June 30, 2022 shall be transferred from the general fund to the educational retirement fund.

On July 1, 2023 and subsequent years until the educational retirement fund reaches 100% funded status, an amount equivalent to 3% of the salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of the last day for the immediate prior fiscal year shall be transferred from the general fund to the educational retirement fund.

Based on FY21's projected payroll of \$3,285 million, a 1% increase in the employer cost would be \$32,885,883 in FY21. This amount includes the proposed salary increases.

The projected fiscal impacts are:

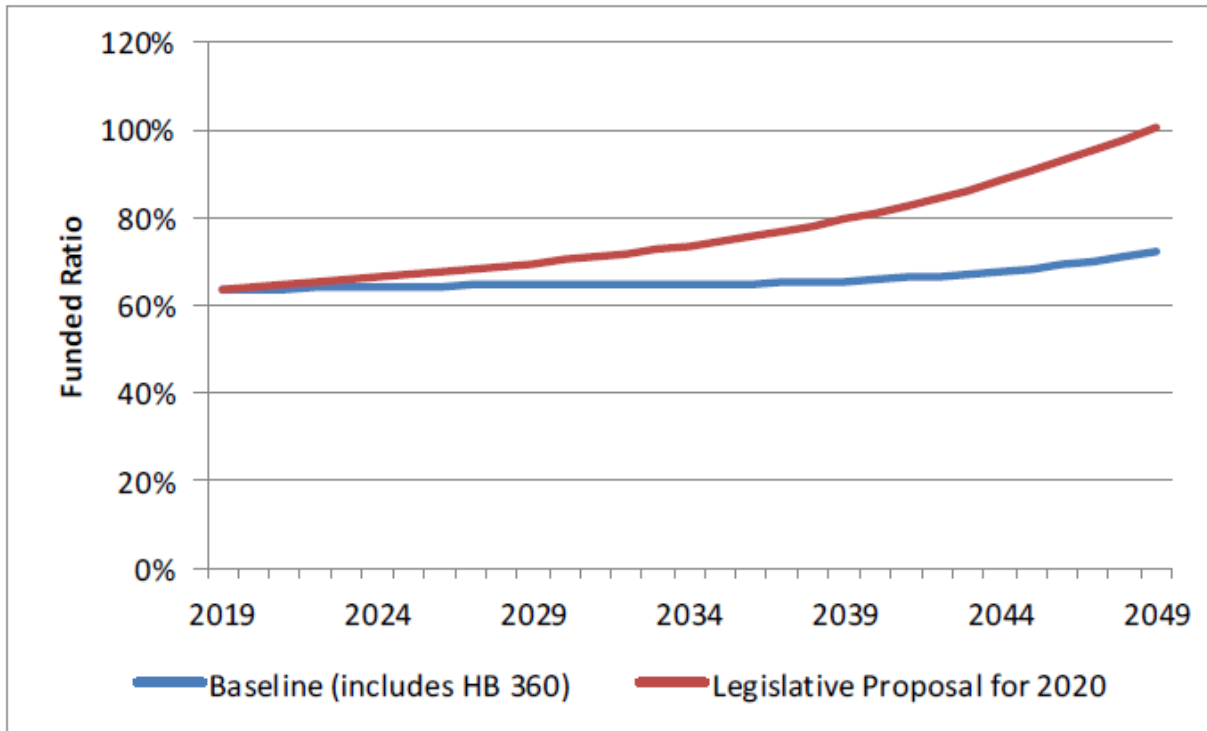
FY21 \$82.9 million (\$50 million + \$32.9 million)

FY22 \$65.8 million

FY23 \$148.7 million (\$50 million + \$98.7 million)

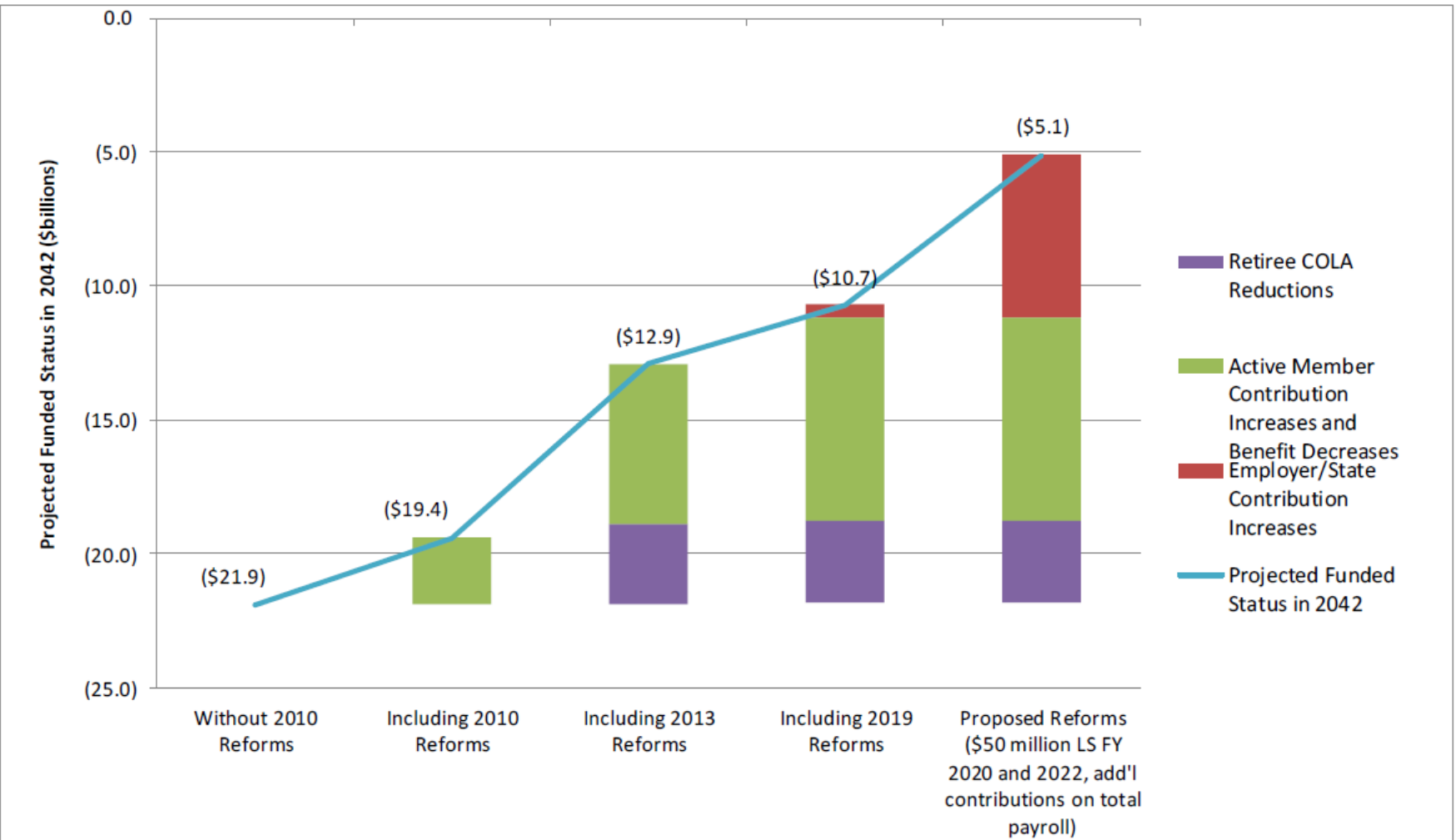
FY24 and future years \$98.7 million

New Mexico ERB Projected Funded Ratios, Baseline and with Legislative Proposal



The projected funded ratio labeled “Baseline (includes HB 360)” is based on the actuarial valuation as of June 30, 2019.

Burden of Prior and Proposed Changes

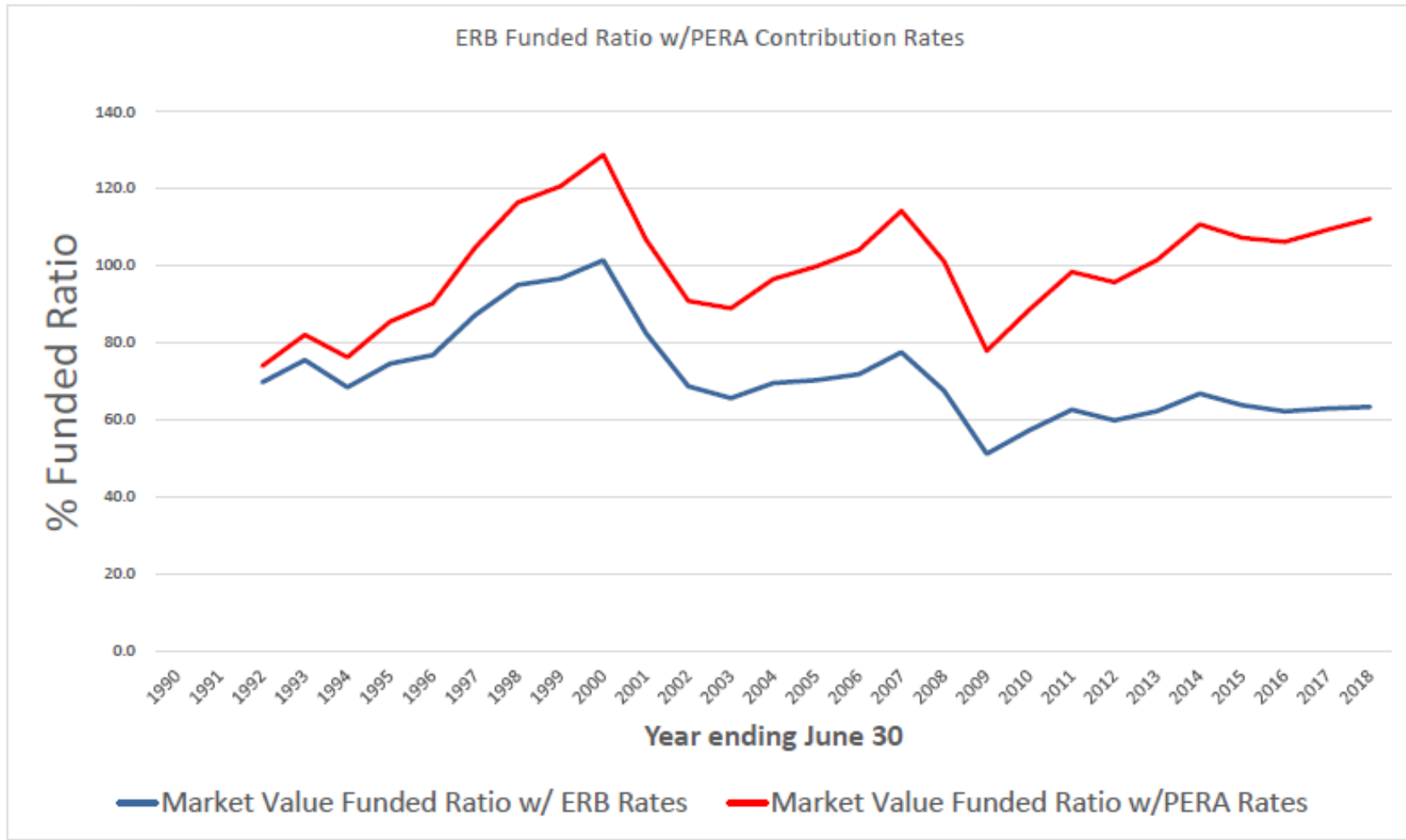


Reference Materials

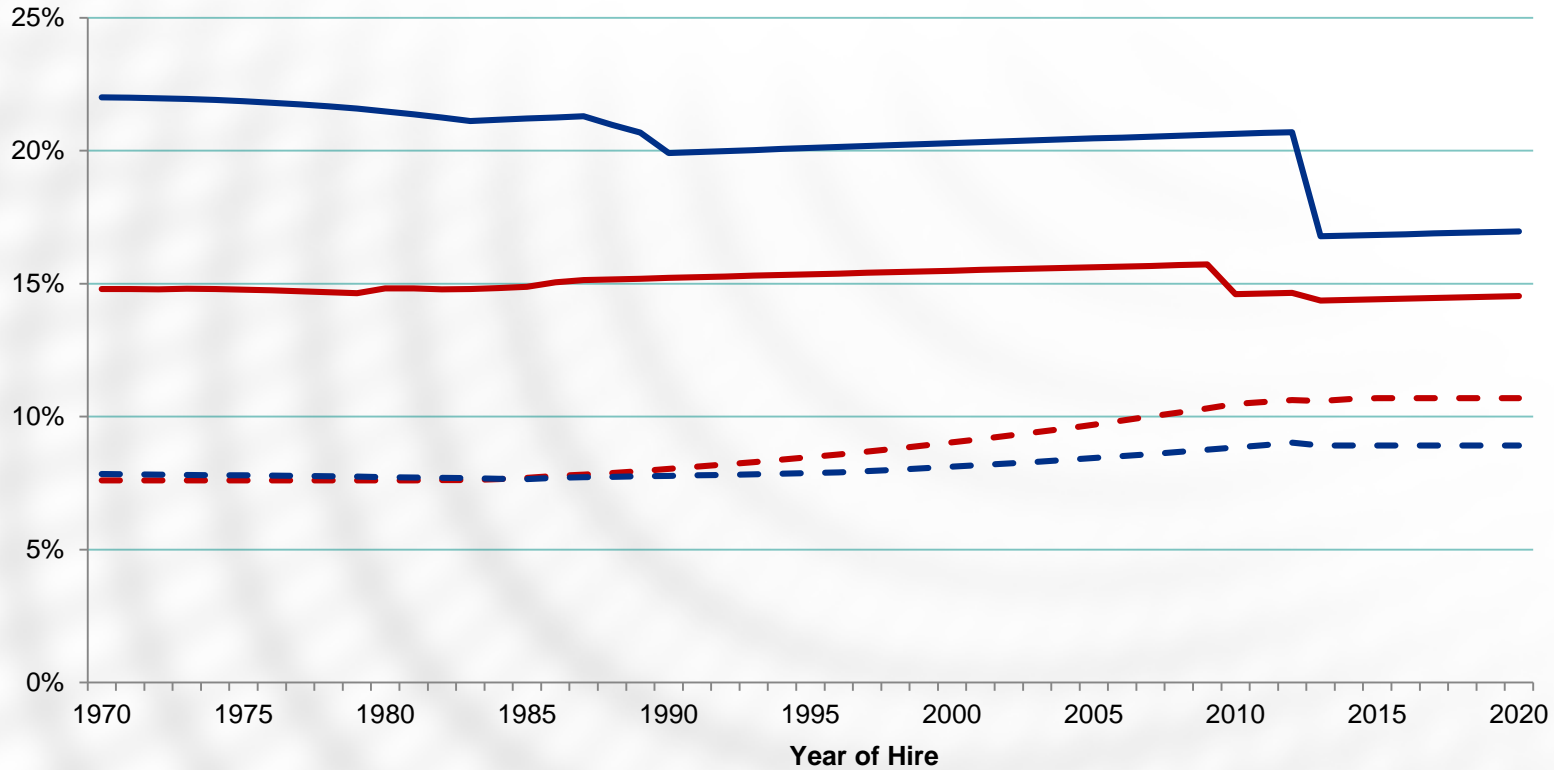
Contribution Rate History

ERB and PERA Contribution Rate History									
(PERA = non public safety state employees)									
Fiscal Year	Wage Category	Employee Rate		Schools/ Colleges	State Agencies	TOTAL		% of Total Contribution Employee Pays	
		NMERB	PERA	NMERB	PERA	NMERB	PERA	NMERB	PERA
1953			5.00%		5.00%		10.00%		50.00%
1958		3.00%	5.00%	4.00%	5.00%	7.00%	10.00%	42.86%	50.00%
1973		4.00%	5.00%	6.50%	6.00%	10.50%	11.00%	38.10%	45.45%
1982		6.80%	7.85%	6.80%	7.85%	13.60%	15.70%	50.00%	50.00%
1986		7.60%	3.83%	7.60%	11.84%	15.20%	15.67%	50.00%	24.44%
1987		7.60%	6.18%	7.60%	13.83%	15.20%	20.01%	50.00%	30.88%
1995		7.60%	7.42%	8.65%	16.59%	16.25%	24.01%	46.77%	30.90%
2006		7.675%	7.42%	9.40%	16.59%	17.08%	24.01%	44.95%	30.90%
2007		7.75%	7.42%	10.15%	16.59%	17.90%	24.01%	43.30%	30.90%
2008		7.825%	7.42%	10.90%	16.59%	18.73%	24.01%	41.79%	30.90%
2009		7.90%	7.42%	11.65%	16.59%	19.55%	24.01%	40.41%	30.90%
2010 - 2011	\$20K or less	7.90%	7.42%	12.40%	16.59%	20.30%	24.01%	38.92%	30.90%
	Over \$20K	9.40%	8.92%	10.90%	15.09%	20.30%	24.01%	46.31%	37.15%
2012	\$20K or less	7.90%	7.42%	12.40%	16.09%	20.30%	23.51%	38.92%	31.56%
	Over \$20K	11.15%	10.67%	9.15%	13.34%	20.30%	24.01%	54.93%	44.44%
2013	\$20K or less	7.90%	7.42%	12.40%	16.59%	20.30%	24.01%	38.92%	30.90%
	Over \$20K	9.40%	8.92%	10.90%	15.09%	20.30%	24.01%	46.31%	37.15%
2014	\$20K or less	7.90%	7.42%	13.15%	16.59%	21.05%	24.01%	37.53%	30.90%
	Over \$20K	10.10%	8.92%	13.15%	16.59%	23.25%	25.51%	43.44%	34.97%
2015 to present	\$20K or less	7.90%	8.92%	13.90%	16.99%	21.80%	25.91%	36.24%	34.43%
	Over \$20K	10.70%	8.92%	13.90%	16.99%	24.60%	25.91%	43.50%	34.43%
2020 to present	\$20K or less	7.90%	8.92%	14.15%	17.24%	22.05%	26.16%	35.83%	34.10%
	Over \$20K	10.70%	8.92%	14.15%	17.24%	24.85%	26.16%	43.06%	34.10%

Impact of Employer Contributions



Present Value of Benefits and Contributions (% of Lifetime Pay)



--- ERB Contributions — ERB Benefits - - PERA Contributions — PERA Benefits

Total Lifetime Compensation is \$630,000 to \$930,000 Lower for NMERB Members

Sample Employees Who Start at Age 25, Work 25 Years, and Have a 30 Year Retirement

Employee Started in:	Difference in Total Take-Home Pay	Difference in Total Pension Benefit	Total Difference After a Lifetime of Work
1980	\$6,469	\$924,022	\$930,491
1985	\$9,204	\$647,004	\$656,208
1990	\$7,531	\$623,109	\$630,640

ERB Retirement Eligibility: Tier Structure

Tier 1: ERB Membership Prior to July 1, 2010

- * “25 and Out” – Earned service credits + allowed service credits = 25 or more years. There is no minimum age required.
- * “Rule of 75” – Your age + earned service credits = 75 or more. Under the Rule of 75, allowed service credits are used to calculate retirement benefit but do not count toward eligibility. There are permanent and significant reductions if you are under age 60, and even more if you are under age 55.
- “65 and 5” – If you are at least 65 years old and have at least five years of earned service credit, you are eligible for retirement.

Tier 2: ERB Membership Beginning on or after July 1, 2010, but prior to July 1, 2013

- * “30 and Out” – Earned service credits + allowed service credits = 30 or more years. There is no minimum age required.
- * “Rule of 80” – Your age + earned service credits = 80 or more. As with the Rule of 75, allowed service credits are used to calculate retirement benefit but do not count toward eligibility. There are permanent and significant reductions if you are under age 65, and even more if you are under age 60.
- * “67 and 5” – If you are at least 67 years old and have at least five years of earned service credit, you are eligible for retirement.

Tier 3: ERB Membership Beginning on or after July 1, 2013

- * Same retirement eligibilities as for Tier 2. If member receives pension benefit before age 55 with 30 and Out retirement eligibility, benefit will be actuarially reduced.
- Cost of Living Adjustment (COLA) begins at age 67 or on July 1 of the year following member’s effective retirement date, whichever is later.

Tier 4: ERB Membership Beginning on or after July 1, 2019

- Same retirement eligibilities as for Tier 3.
- Tiered multiplier: 1.35 for years 0-10; 2.35 for years 10.25-20; 3.35 for years 20.25-30; and 2.4 for years in excess of 30



ERB Retirement Eligibility – Benefit Structure

ERB Benefit Structure

- * Final average salary (FAS) x service credit x .0235 = annual benefit
- * Cost Of Living Adjustment (COLA) available on July 1 of the year in which you reach age 65 or on July 1 of the year following member's effective retirement date, whichever is later for Tier 1 and Tier 2 members. For Tier 3 members, COLA begins at age 67 or on July 1 of the year following member's effective retirement date, whichever is later. The amount depends on the annual change in the Consumer Price Index (CPI). The average COLA over time has been 2%. COLA was reduced as part of the 2013 sustainability bill until ERB is 100% funded.
- * Five year vesting period
- No minimum retirement age (with exception of reductions in Rule of 75 and Rule of 80)

Examples of retirement percentage rates for Tiers 1-3:

25 years x .0235 = 58.75%

30 years x .0235 = 70.5%

35 years x .0235 = 82.25%

Examples of retirement percentage rates for Tier 4:

10 years=10 x .0135=13.5%

20 years= (10x 0.135) + (10 x .0235)=37%

30 years= (10x 0.135) + (10 x .0235) + (10 x .0335)= 70.5%

35 years= (10x 0.135) + (10 x .0235) + (10 x .0335) + (5 x .024)= 82.5%

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