ANNUAL REPORT

Securing financial futures

NMERB

since 1957

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

JUNE 30, 2006

ACTUARIAL VALUATION REPORT
FOR THE YEAR JUNE 30, 2006

NEW MEXICO
EDUCATIONAL
RETIREMENT
BOARD

ANNUAL REPORT

Fiscal Year Ended June 30, 2006

Prepared By ERB Staff
Educational Retirement Board
701 Camino de los Marquez
Santa Fe, NM 87105
Phone (505) 827-30
Fax (505) 827-1855

nmerb.org

Mission of the Educational Retirement Board

The New Mexico Educational Retirement Board is a statutory entity that provides secure retirement benefits for our active and retired members from school districts, higher education and educational agencies.

We strive to make our members' retirement experience optimal by:

- Prudently managing the financial assets of the fund;
- Providing prompt, courteous and accurate responses to members' inquiries;
- Counseling members on an individual basis related to retirement issues;
- Educating members about both the financial and personal aspects of retirement;
- Educating members about ways to advocate for improving benefits; and
- Soliciting member input for improving services.

We are consistently building the skills capacities and competencies of our employees in order to provide our members caring and quality service.

TABLE OF CONTENTS

TABLE OF CONTENTS

CONTENTS

STATE OF NEW MEXICO
Educational Retirement Board
701 CAMINO DE LOS MARQUEZ
P.O. Box 26129
SANTA FE, NEW MEXICO 87502-0129
PHONE: (505) 827-8030
FAX: (505) 827-1855

Dr. Evalynne Hunemuller
Director

June 18, 2007

Dear Members, Retirees and Friends:

We are pleased to present the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. This year marked the completion of the 49th year of the New Mexico Educational Retirement Board's, (NMERB), service to the educators of New Mexico. We are proud of our accomplishments in providing excellent retirement benefits, sound financial management and a high degree of service to our members.

The responsibility for both the accuracy of the data and the completeness and fairness of the report rests with the staff of the NMERB. To the best of their knowledge and judgment, this report represents an accurate presentation in all material aspects of the financial and actuarial status of the program.

This year's report continues to show strong positive investment performance. Our portfolio has become more diversified which leads to lower overall volatility and contributes to maximizing returns and minimizing risks. This model is consistent with the NMERB's fundamental investment principles that focus on preserving the long-term value of the fund while producing the resources needed to meet the system's benefit obligations.

It is important to remember that the NMERB's assets are invested for the long term. Our obligation is to produce a very competitive long-term return that meets the system's funding requirements at an acceptable risk level.

The ultimate test of whether a retirement system is financially sound is whether it can meet all of its promised benefits as they come due. The 2006 actuarial report showed that ERB's funding period had climbed far higher than the Governmental Accounting Standards Board, (GASB), recommendation of a 40-year funding period. Thanks to the contribution increase granted by the 2005 New Mexico Legislature and Governor Bill Richardson, the NMERB fund will be in compliance with the GASB standard by 2011. While investments, on average, have met or exceeded goals set by actuarial calculations, contributions to the fund had not been increased since 1992.

During the past year, the Board and Staff of NMERB have made decisions with an eye to the future. Our goals remain to ensure the long-term safety and security of our member's retirement and to work toward maintaining the benefits provided by the NMERB.

Sincerely,

Bruce Malott, CPA
Chairman, New Mexico Educational Retirement Board
June 30, 2006

A Brief History of ERB - Now & Then

Today, the New Mexico Educational Retirement Board is a robust organization of 68,135 active members, 28,050 retirees and a $9 billion portfolio to manage. This association, known as the ERB, manages one of the highest-ranking public pension plans in the country in terms of return on investment. Benefit payroll to retirees averages $44.4 million *a month (July, 2006)*.

The ERB is a state agency, accountable not only to its members and its board, but also to the New Mexico Legislature and governor. The Legislature provides the employer's portion of the monthly contributions (10.15% per annum after July 1, 2006, rising to 13.9% in 2012) to a member's account. It is self-funded, meaning that the operating budget for the association is provided from the return on investment of the fund.

Retirement in New Mexico hasn't always been funded or structured as it is today. What members take for granted now didn't exist in the early 1920s - in fact, no pension plan whatever existed for any public servant.

The first serious efforts to create a pension plan for New Mexican educators took place in 1925 when Gov. Arthur Hannett and the Legislature passed landmark legislation – House Bill 178 -establishing the first pension plan of any kind for public servants. Its exclusions were great, however, because only faculty members at the university level were covered.

A rocky beginning

The 1925 pension plan was fully funded by the Legislature with no contribution required from the employee or university. Strangely, an important feature of the bill was language that made it clear that potential retirees had no right to benefits, and that university boards of regents had the power to grant or deny an applicant benefits without having to offer a reason for refusing any petitioner. Two years later, the Legislature removed the quirks from the retirement legislation for university faculty, funded it, and went on to pass a pension plan for firemen in municipalities of more than 5,000 people. Public school employees, however, were still without a pension plan.

A decades-long ripple effect

Public school funding took a dramatic turn in 1935 with the Legislature's passage of the Emergency School Tax Act which established that financing retirement for public school employees was the state's responsibility rather than primarily a local function. In 1937, there was finally just one retirement plan in effect after the Legislature repealed previous acts relating to retirement. The 1937 Retirement Act would govern teachers' retirement in the state for the next 20 years.

The ERB is launched

The first meeting of the Educational Retirement Board was held in March 1941. Although the board, headed by Superintendent of Public Instruction Grace Corrigan, was not established by law until the legislative session of l945, it operated de facto serving the needs of members during the war years, apparently without problems. Policy wasn't set by the board, but retirements were approved.

The first recorded ERB investment of $106,434 was ordered by state school superintendent Georgia Lusk, who also headed the ERB, in May of 1944. Apparently no one had given thought previously to putting retirement fund dollars to work. This was fairly typical of the unsophisticated approach to the retirement business practiced by the board during these early years.

The ERB engaged an actuary to make a report on the fund's solvency in 1949, but at the board's only meeting in 1950, ERB Director Floyd Santisteven reported that the study had not been accomplished because several of the districts were tardy in their reporting. This easy-come-easy-go attitude seems improbable by today's thinking, especially in light of the strict requirements under which the present-day system functions. The ERB today requires an actuarial study each year, a yearly outside audit of the agency, and close oversight by both the legislative and administrative arms of state government. Amazing to consider that, in 1949, no records of incoming or outgoing moneys were recorded at all, nor were any detailed records kept of the calculations or amounts each pensioner received.

Major changes to the state's retirement act took place during the 1950s following an actuarial study that revealed that funds assets as of June 30, 1950 were $7,941,180, and liabilities were listed at $55,371,799 - a whopping $47,430,427 deficit. The study's findings were clear: employee contributions were essential to the soundness and solvency of the state's retirement plan for education employees. In response, the New Mexico Legislature passed the Educational Retirement Act of 1957, a true retirement plan with policy in place that would put the fund on a firm actuarial footing for the next several decades.

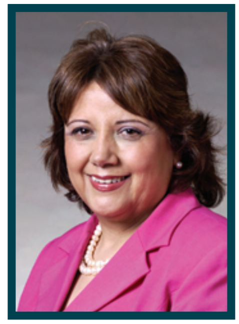
In January 2005, the Legislature's House Education Committee learned that the ERB's current asset-to-liability ratio was about 75 percent and that, if uncorrected, the fund could experience a shortfall over the long term. It should be noted that ERB is able to pay current levels of benefits, without contribution changes from employees, for the next 20-25 years.

In response to a projected shortfall over the long term, ERB has gained the support of the Legislature and Gov. Bill Richardson, resulting in the Legislature's decision to increase the state's contribution 0.75 percent a year for five years, thereby adding short term improvement. A governor-appointed taskforce is examining funding options to ensure long-term growth and stability of the Fund.

NM EDUCATIONAL RETIREMENT BOARD OF TRUSTEES

Bruce Malott,
Chairperson

Term expires
June 10, 2007



Veronica Garcia,
Member

Ex-Officio

Marylou Cameron,
Vice Chairperson

Term expires
July 14, 2009

Delman Shirley,
Member

June 30, 2008

Gary Bland,
Secretary

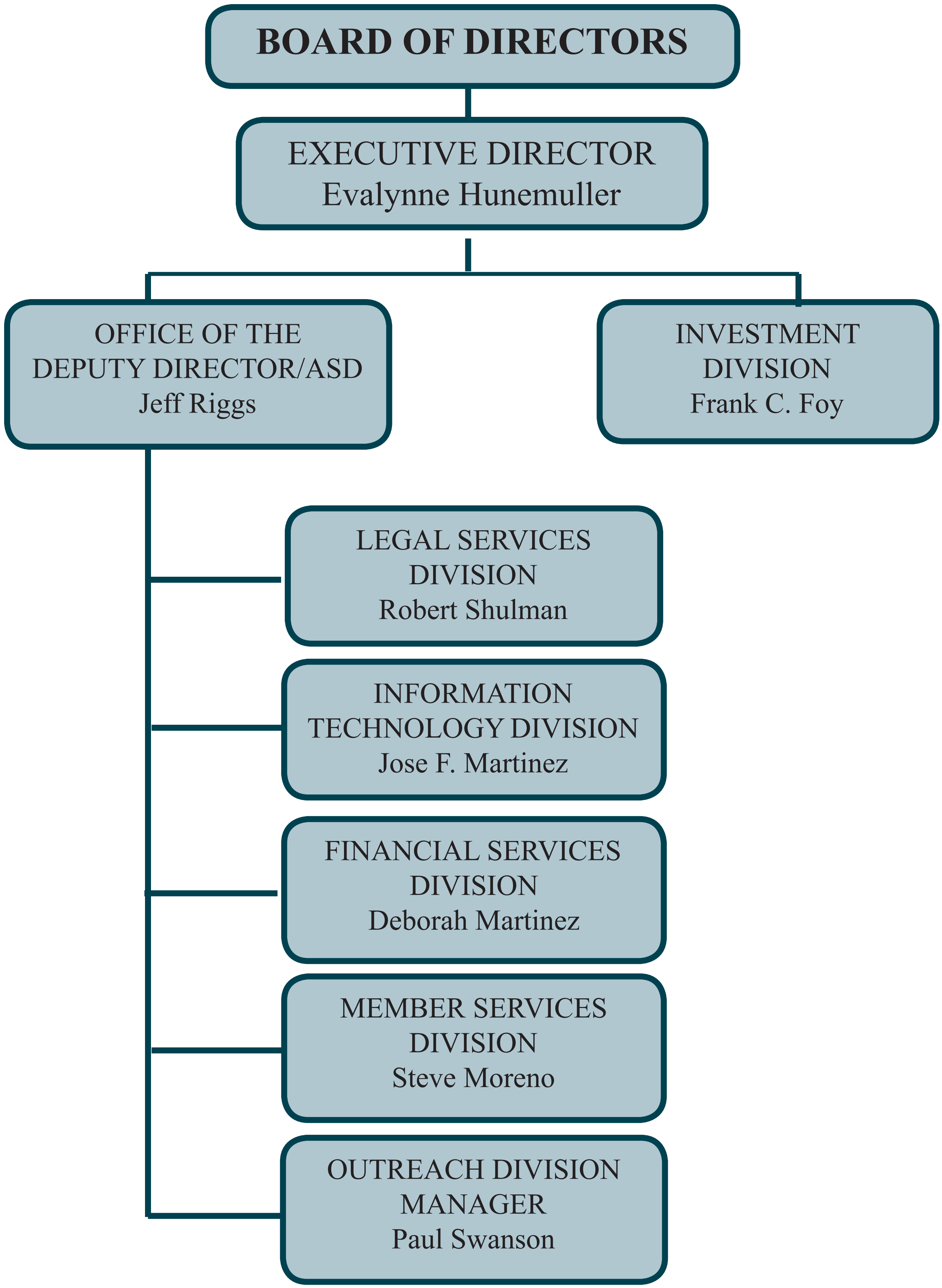
Term expires
June 10, 2007

Dr. Pauline Turner,
Member

June 30, 2008

Douglas Minge Brown
Member

Ex-Officio


BOARD OF DIRECTORS
EXECUTIVE DIRECTOR
Evalynne Hunemuller
OFFICE OF THE
DEPUTY DIRECTOR/ASD
Jeff Riggs
INVESTMENT
DIVISION
Frank C. Foy
LEGAL SERVICES
DIVISION
Robert Shulman
INFORMATION
TECHNOLOGY DIVISION
Jose F. Martinez
FINANCIAL SERVICES
DIVISION
Deborah Martinez
MEMBER SERVICES
DIVISION
Steve Moreno
OUTREACH DIVISION
MANAGER
Paul Swanson

NM Educational Retirement Board Staff

Administration

Dr. Evalynne Hunemuller, Executive Director
Jeff Riggs, Deputy Director

Program Support

Patrice Armstrong, Administrative Services Manager
Debbi Lucero, Administrative Services Coordinator
Shari Lacome, Executive Assistant
Judith Wils, Administrative Assistant
Louisa Padilla, Records/Imaging Clerk
Darlene Gibbs, Imaging Clerk
Mary Olague, Imaging Clerk
Celestino Archuleta, Plant/Systems Operator

Legal Services

Robert Shulman, Attorney
Julie Naidich, Legal Assistant

Information Technology

Jose Martinez, Information Systems Manager
(Vacant), Computer Software Engineer
Jonas, Aylward, Database Administrator
Dale Goar, Computer Systems Analyst
Gregory Trujillo, Computer Support Specialist

Pension Project

Robert Rivera, Project Manager

Investments

Frank Foy, Chief Investment Officer
Rose Struck, Investment Officer
Margie Homko, Investment Officer
Selma Arnold, Financial Analyst
Leanne Larranaga, Financial Analyst

Financial Services

Deborah Martinez, Chief Financial Officer
Vacant, Accountant and Auditor
Lawrence Davis, Accountant Specialist
Vacant, Financial Specialist
Rita Sanchez, Bookkeeper
Veronica Chavez, Bookkeeper
Kathy Varela, Data Processing

Member/Employer Outreach

Paul Swanson, Outreach Manager
Michelle Duran, Financial Advisor
Jinny Doxey, Financial Advisor
Leonor Marrujo, Financial Advisor
Anna Leyba, Customer Service Rep.

Member Services

Steve Moreno, Member Services Information Technology
Harold Sexton, Financial Advisor
Alice Vargas, Financial Advisor
Jonas, Aylward, Database Administrator
Connie Sanchez, Financial Advisor

Pension/Refund Section

Rose Tapia, Benefit Administrator
Pension Project
Jessica Sisneros, Benefit Specialist
Karla Leyba, Refund Administrator
Nicole Duran, Refund Specialist

Customer Service Section

Kathy Webb, Section Supervisor
George Barela, Customer Service Specialist
Stephanie Vigil, Customer Service Specialist
Raul Duran, Customer Service Rep.
Cordelia Anaya, Customer Service Rep.

Consultants and Professional Services

To assist the Board and administration in carrying out its fiduciary duty regarding the prudent investment of the fund's assets, the Board has hired an actuarial firm and investment consultant.

Garbriel, Roeder, Smith & Co. is the actuarial firm chosen by the Board and is responsible for:

- Certifying the adequacy of the contribution rate used by the System;
- Measuring and reporting the assets and liabilities of the System; and
- Reviewing and analyzing trends in the System's contributions.

New England Pension Consultants is the investment consultant chosen by the Board and is responsible for advising the Board regarding:

- Returns earned by the Fund and by each of its managers relative to both benchmarks and a peer group of public pension funds;
- Analysis of investment style and risk and return of the Fund's investment managers;
- Asset allocation strategies; and
- Selection of external managers.

To assist the Board in carrying out its duty regarding disability benefits, the Board has engaged the services of three physicians as the Medical Review Board.

The Medical Review Board is responsible for:

- Reviewing all disability examination reports; and
- Advising the ERB of the nature and extent of the disability.

The New Mexico Attorney General provides legal counsel to the ERB, and The Groom Law Group of Washington, D.C. provides legal tax counsel.

An independent Certified Public Accountant firm conducts the financial audit of the ERB. Currently, that firm is Deloitte & Touche LLP.

Actuary

Gabriel, Roeder, Smith & Co.
1000 Town Center, Suite 1000
Southfield, Michigan 58075

Auditor

Deloitte & Touche LLP
Chase Tower, Suite 1600
Dallas, Texas 75201-6778

Investment Consultant

New England Pension Consultants
One Main Street
Cambridge, MA 02142

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2006 and 2005

Agency management prepared this Management's Discussion and Analysis ("MD&A") of the financial position of the State of New Mexico Educational Retirement Board ("Board") for the fiscal year ended June 30, 2006 ("FY06"). For more detailed information of the Board's FY06 financial activities, the reader should review the financial statements, including the notes and required supplementary information.

Financial Reporting Requirements

The financial statements include the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets. The financial statements also include notes, which explain the history and purpose of the Board, significant accounting policies, investment details, statutory disclosures and other required supplementary information. These financial statements have been prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board ("GASB").

Financial Highlights

- Net assets held in trust for pension benefits increased $768.2 million or 10.3% in FY06 compared to an increase of $539.6 million or 7.8% in FY05. The increase stemmed from a very strong upturn in the stock markets from October 2005 through April 2006. The domestic markets did trade off slightly during May and part of June 2006, only to rebound strongly the last week of June 2006.

- Investment advisor fees and custodial fees increased $1.6 million or 10.2% in FY06 compared to an increase of $2 million or 15% in FY05. The higher fees were largely the result of having more assets under management, as evidenced by the 10.5% growth discussed below. Additionally, all of the fixed income portfolio that had been managed internally was outsourced to external money managers on March 1, 2006.

- Total cash and cash equivalents increased $128.6 million in FY06 primarily due to the investment portfolios holding a higher balance of cash at fiscal year end. This compared to a $13.9 million decrease in FY05. Total cash and cash equivalents equaled $240 million or 2.7% of investments in FY06 compared to $111.2 million or 1.4% of investments in FY05, which is within the Board's investment policy that limits cash holdings to 5% or less.

- Receivables increased by just over $18 million in FY06 or 21% compared to an increase of $2.7 million or 3.3% in FY05 with the majority of the increase showing in investment broker sales proceeds and contributions (a result of an increase in membership and in contribution rates).

- Investment holdings increased $853 million or 10.5% in FY06 compared to an increase of $493.3 million or 6.5% in FY05 primarily due to the recovery in the domestic and international equity markets.

- Capital assets increased by $828 thousand or 12.5% in FY06 compared to an increase of $1.5 million or 29.5% in FY05 due to a moderate amount of asset purchases, some asset disposals, and additional capitalization of software development costs on the new pension administration system.

- The Board received total appropriations from the trust fund of $9.8 million to implement the Integrated Retirement Information System ("IRIS") Project. The Board successfully implemented the system at the end of March, 2006. The web-enablement phase of the project is scheduled to be completed in fiscal year 2007.

- Accounts payable increased $258 thousand or 5.6% in FY06 compared to an increase of $300 thousand or 8% in FY05 primarily due to an increase in the amount of investment advisor fees due at FY06 year-end.

- Investment purchases payable-brokers increased by $182 million in FY06 compared to a decrease of $11.1 million in FY05 indicating that a greater number of investments were purchased at or near fiscal year end and remained outstanding on June 30, 2006. Securities sales and purchases, are usually based on "trade date + 3 days," meaning that the transaction will settle three business days after it is initiated.

- Securities lending collateral increased $48 million or 5.9% in FY06 compared to a decrease of $44.8 million or 5% in FY05, indicating that a larger portion of the Board's portfolio was being lent at fiscal year end. Securities lending net income increased $880 thousand or 70% in FY06 compared to a decrease of $325.4 thousand or 20% in FY05, due to the increased amount of investments included in the securities lending portion of the Board's portfolio and the higher rate earned on the lent securities.

- Employer and member contributions increased $37.7 million or 10.3% in FY06 compared to an increase of $15.5 million or 4% in FY05 due to an increase in active membership contribution rates and salary increases. Benefit payments to retirees increased $39 million or 8.7% in FY06 compared to an increase of $32.6 million or 7.7% in FY05 due to the increase in the number of retirees and the amount of Cost-of-Living-Adjustments paid to retirees. Refunds and interest to terminated members increased $1.1 million or 4% in FY06 compared to $829.7 thousand or 3.1% in FY05. The Board's total membership increased by 5,428 (4.7%) to 120,318 members in FY06 compared to an increase of 3,415 (3%) to 114,890 members in FY05.

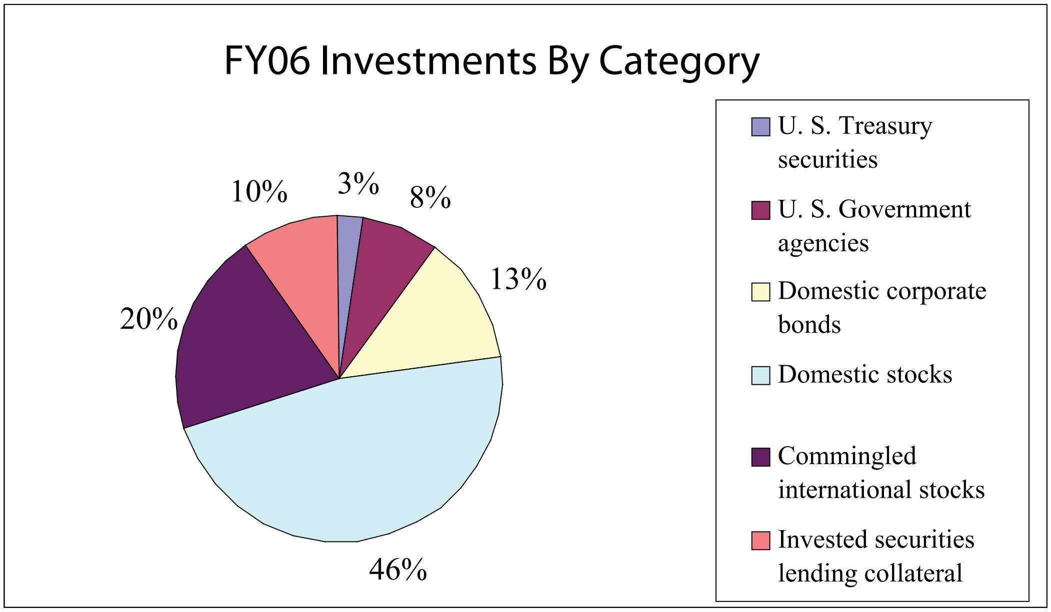
Condensed Financial Information

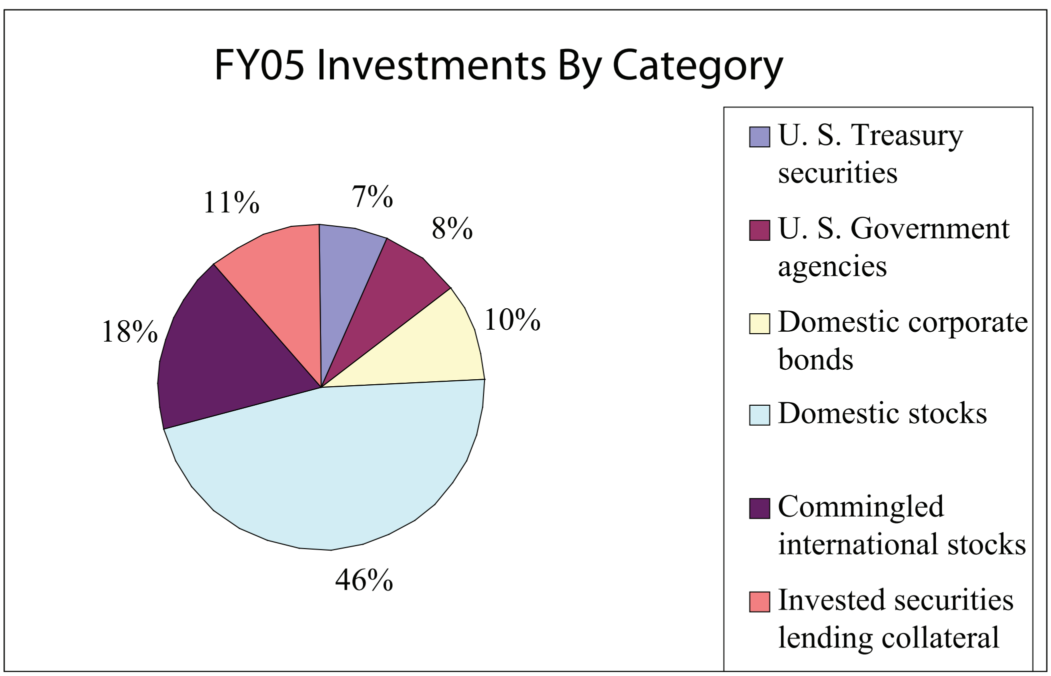
Statement of Plan Net Assets

	FY06	FY05
Cash and short-term investments	$ 239,704,558	$ 111,155,579
Receivables	102,640,807	84,592,176
Investments—at fair value	8,939,432,545	8,086,187,732
Capital assets (net of accum. depr.)	7,428,225	6,600,613
Total assets	9,289,206,135	8,288,536,100
Current liabilities	1,069,756,684	837,256,172
Long-term liabilities (comp. absences)	159,477	141,642
Total liabilities	1,069,916,161	837,397,814
Net assets held in trust for pension benefits	$ 8,219,289,974	$ 7,451,138,286

Statement of Changes in Plan Net Assets

	FY06	FY05	FY04
Contributions	$ 404,700,114	$ 366,971,744	$ 351,443,580
Investment income less investment expenses	171,139,469	169,319,168	129,714,794
Net appreciation in the fair value of investments	716,078,283	486,788,294	794,213,571
Other income	3,866,927	4,032,754	4,200,818
Total additions	1,295,784,793	1,027,111,960	1,279,572,763
Benefit payments	494,096,614	454,983,452	422,418,366
Refunds	28,305,856	27,214,675	26,385,013
Administrative expenses	5,230,635	5,320,667	2,583,048
Total deductions	527,633,105	487,518,794	451,386,427
Increase in net assets	768,151,688	539,593,166	828,186,336
Net assets held in trust for pension benefits: Beginning of year	7,451,138,286	6,911,545,120	6,083,358,784
End of year	$ 8,219,289,976	$ 7,451,138,286	$ 6,911,545,120


FY06 Investments By Category
10%
3%
8%
13%
20%
46%
U. S. Treasury securities
U. S. Government agencies
Domestic corporate bonds
Domestic stocks
Commingled international stocks
Invested securities lending collateral


FY05 Investments By Category
11%
7%
8%
10%
18%
46%
U. S. Treasury securities
U. S. Government agencies
Domestic corporate bonds
Domestic stocks
Commingled international stocks
Invested securities lending collateral

Budgetary Highlights

A major portion of the Board's contractual services are based on market performance and the budget is established to absorb all expenses that may be incurred during the period. These initial budget estimates are adjusted throughout the year based on market performance to arrive at a final budget. In 2006 The Boards initial budget increased by $3.1 million from $23.5 million to $26.6 million compared to an increase in 2005 of $1.6 million from $21.1 million to $22.7 million. As the corpus of the fund increases, more assets are under management which, combined with better performance, results in increased income and associated fees. The Board had savings over budgeted amounts totaling $3.6 million in the three expense categories during the 2006 fiscal year compared to a savings of $5.8 million in 2005. Savings generally result from less than expected income and expenses.

Capital Assets

The Net Investment in Capital Assets at June 30, 2006 and 2005, is as follows:

Description	Cost	Accumulated Depreciation	Book Value
2006:			
Non-depreciable Assets:			
Land	$ 248,172	$	$ 248,172
Capital assets in progress	5,507,158		5,507,158
Depreciable Assets:			
Depreciable land improvements	1,875	(1,688)	187
Building and building improvements	2,151,067	(846,467)	1,304,600
Furniture and equipment	1,369,735	(1,001,627)	368,108
Total	$ 9,278,007	$ (1,849,782)	$ 7,428,225
2005:			
Non-depreciable Assets			
Land	$ 248,172	$ -	$ 248,172
Capital assets in progress	4,665,048		4,665,048
Depreciable Assets			
Depreciable land improvements	1,875	(1,500)	375
Building and building improveme	2,079,182	(751,213)	1,327,969
Furniture and equipment	1,306,205	(947,156)	359,049
Total	$ 8,300,482	$ (1,699,869)	$ 6,600,613

The major portion of the increase in Capital Assets in FY06 was due to expenses related to the new pension administration system. These costs totaled $842 thousand in FY06.

Request for Information

This financial report is designed to provide various interested parties with a general overview of financial position and activities of the Board for the fiscal years ended June 30, 2006 and 2005. If you have questions regarding this financial report or need additional information, please contact Debbie Martinez, Chief Financial Officer, at P.O. Box 26129, Santa Fe, NM 87502.

STATEMENTS OF PLAN NET ASSETS AS OF JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
CASH AND SHORT-TERM INVESTMENTS	$ 239,704,558	$ 111,155,579
RECEIVABLES:		
Contributions	55,641,277	48,047,249
Investment sales proceeds—brokers	19,075,687	11,614,106
Interest and dividends	27,881,569	24,930,349
Other	42,274	472
Total receivables	102,640,807	84,592,176
INVESTMENTS—At fair value:		
U.S. treasury securities	232,306,719	617,732,732
U.S. government agency securities	692,326,028	587,125,052
Non government backed CMOs	34,892,286	
Domestic corporate bonds	1,132,490,442	686,748,201
Domestic stocks	4,160,891,776	3,815,512,041
Commingled international stocks	1,815,409,966	1,556,996,425
Other investments	884,808	
Invested securities lending collateral	870,230,520	822,073,281
Total investments	8,939,432,545	8,086,187,732
CAPITAL ASSETS:		
At cost, net of accumulated depreciation of $1,849,782 and $1,699,869, respectively	1,921,067	1,935,565
Construction in progress	5,507,158	4,665,048
Total capital assets	7,428,225	6,600,613
Total assets	$ 9,289,206,135	$ 8,288,536,100
LIABILITIES		
ACCOUNTS PAYABLE	$ 4,850,722	$ 4,592,510
ACCRUED PAYROLL AND EMPLOYEE BENEFITS	-	102,562
ACCRUED COMPENSATED ABSENCES	159,477	141,642
DUE TO INDIVIDUAL SCHOOL DISTRICTS	125,975	
DUE TO OTHER STATE AGENCIES	882,926	179,975
REFUNDS PAYABLE	2,652,017	1,960,150
INVESTMENT PURCHASES PAYABLE—Brokers	190,300,628	8,131,044
FUNDS HELD FOR OTHERS	713,896	216,650
SECURITIES LENDING COLLATERAL	870,230,520	822,073,281
Total liabilities	1,069,916,161	837,397,814
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 8,219,289,974	$ 7,451,138,286

See notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
ADDITIONS:		
Contributions:		
Employer	$ 226,479,332	$ 197,872,532
Member	178,220,782	169,099,212
Total contributions	404,700,114	366,971,744
Investment income—from investing activities:		
Net appreciation in fair value of investments	716,078,282	486,788,294
Interest income	106,550,532	102,484,971
Dividend income	79,518,059	81,064,967
Total investing activity income	902,146,873	670,338,232
Investing activity expenses:		
Investment advisor fees	(16,740,390)	(15,170,802)
Custody fees	(333,715)	(324,454)
Total investing activity expenses	(17,074,105)	(15,495,256)
Net income from investing activities	885,072,768	654,842,976
From securities lending activities:		
Securities lending income	45,166,939	20,022,084
Securities lending expenses:		
Borrower rebates	(42,739,022)	(18,445,831)
Agent fees	(282,934)	(311,767)
Total securities lending expenses	(43,021,956)	(18,757,598)
Net income from securities lending activities	2,144,983	1,264,486
Total net investment income	887,217,751	656,107,462
Miscellaneous income:		
Penalties	39,054	4,152
Interest on restoration of service	3,827,873	4,028,602
Total miscellaneous income	3,866,927	4,032,754
Total additions	1,295,784,792	1,027,111,960
DEDUCTIONS:		
Refunds to terminated members	24,062,559	23,444,332
Interest on refunds	4,243,297	3,770,343
Administrative expenses	5,230,635	5,320,667
Age and service benefit payments	487,912,505	449,036,895
Disability benefit payments	6,184,110	5,946,557
Total deductions	527,633,106	487,518,794
NET INCREASE	768,151,688	539,593,166
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	7,451,138,286	6,911,545,120
End of year	$ 8,219,289,974	$ 7,451,138,286

See notes to financial statements.

1. Educational Retirement Board

Plan Description—The State of New Mexico Educational Retirement Board ("Board") was created by the Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer and have the responsibility for operating the Educational Employees' Retirement Plan (the Plan). The Plan is a cost-sharing, multiple-employer plan established and administered by the Board to provide retirement, disability, and death benefits for all certified teachers and other employees of the State of New Mexico (the "State") educational institutions, junior colleges, and technical-vocational institutions.

Contributing employers to the Plan include the following:

Public schools	89
Universities and colleges	15
Charter schools	48
Special schools	5
State agencies	10
	167

Reporting Entity—The Board is an agency of the State. The Plan administered by the Board is considered part of the State financial reporting entity and is a pension trust fund of the State.

The Board has developed criteria to determine whether other state agencies, boards, or commissions, which benefit the members of the Board, should be included within its financial reporting entity as component units. The criteria include, but are not limited to, whether the Board exercises oversight responsibility, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters, scope of public service, and special financing relationships. Based on these criteria, management of the Board has determined that there are no component units that should be included in its financial reporting entity.

Participation—Membership in the Plan is a condition of employment. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan.

Faculty and professionals initially employed after July 1, 1991, with one out of the 16 institutions of higher education or one of the eight community colleges after July 1, 1999, may elect to participate in the Plan or an Alternate Retirement Plan ("ARP") administered by ERB. The election must be made within 90 days of employment and is irrevocable.

The Board serves 167 employers in the State and has an active and inactive membership of 120,318 and 114,890 in 2006 and 2005, respectively.

Status and number of all participants at June 30, 2006 and 2005, consisted of the following:

	2006	2005
(1) Retirees and beneficiaries of deceased retirees currently receiving benefits	28,539	26,100
(2) Inactive members	29,950	25,428
(3) Current active members	61,829	63,362

Benefit Provisions—The retirement benefit is determined by a formula. The formula includes three component parts: the member's final average salary ("FAS"), the number of years of service credit, and the 0.0235 constant factor. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

A brief summary of Plan coverage provisions follows:

A member is eligible to retire when one of the following events occurs:

- The member's age and earned service credit add up to the sum of 75 or more

- The member's age is 65 or more with at least five years of earned service credit

- The member has service credit totaling 25 years or more.

(1) A further requirement to be eligible to retire is that a member must have at least one year of employment after July 1, 1957, and at least five years of contributory employment. Eligible members who have one year of employment after July 1, 1957, but less than the required five years of contributory employment, may contribute to the fund for each year needed. The cost of such contributions is 15.2% of the average salary of the last five years for each year of contributory employment needed plus 3% compounded interest from July 1, 1957, to the date of payment.

(2) *Forms of Payment*—The benefit is paid as a monthly life annuity with a guarantee that if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

(3) *Normal Benefit*—There are no reductions to the monthly benefit and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of contributions less benefits paid.

(4) *Optional Forms of Payment*—There are two optional forms of payment available: Option B or Option C. The benefit reduction with an Option B or C form of payment depends on the age of the member and the age of the beneficiary at the time of retirement. The form of payment election and the beneficiary designated to receive a survivor's benefit are irrevocable. Details of Options B and C follow:

Option B—The normal monthly benefit is reduced to provide for a one hundred percent (100%) survivor's benefit. The reduced benefit is payable during the life of the member with the provision that upon death, the same benefit is paid to the beneficiary for his or her lifetime. The named beneficiary may not be changed after the effective date of retirement. If the beneficiary predeceases the member, the member's benefit is adjusted by adding the amount by which the benefit was reduced at retirement due to the election of Option B.

Option C—The normal monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member with the provision that upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. The named beneficiary may not be changed after the effective date of retirement. If the beneficiary predeceases the member, the member's benefit is adjusted by adding the amount by which the benefit was reduced at retirement due to the election of Option C.

(5) *Cost of Living Adjustment*—Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment ("COLA") in their benefit each July 1, beginning in the year the member attains or would have attained age 65. The adjustment is equal to one-half the change in the Consumer Price Index ("CPI"), except that the COLA shall not exceed 4%, nor be less than 2% unless the change in CPI is less than 2%, in which case the COLA would equal the change in CPI. Members retired prior to July 1, 1984, are also entitled to an increase of the lesser of 3% or the increase in CPI for years prior to the attainment of age 65. Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

(6) *Disability Retirement*:

Eligibility—A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by the Board.

Monthly Benefit—The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times years of service projected to age 60.

Form of Payment—The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are available.

(7) *Deferred Retirement*—A member with five or more years of earned service credit on deferred status may retire when eligible under the Rule of 75 or when the member attains age 65.

(8) The Educational Retirement Act, Section 22-11-1 to 22-11-53, NMSA 1978, assigns the authority to establish and amend benefit provisions to the Board.

Refund of Contributions—Members may withdraw their contributions only when they terminate covered employment in the State and certification of termination has been provided by their former employers. Interest paid to members when they withdraw their contributions following termination of employment is at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, nor those on deposit for less than one year.

2. Summary of Significant Accounting Policies

Basis of Accounting—The Board's financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. The General Appropriation Act establishes the modified accrual basis of accounting for governmental funds as the budgetary basis for the State of New Mexico. Prior year encumbrances are not carried forward for single year appropriations. Employer and member contributions are recognized as revenue in the period in which the member's services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Budgets and Budgetary Accounting—Formal budgetary integration is used as a management control device by the Board in administering the Plan.

Only administrative expenses and a small portion of interest income are budgeted while significant revenues and non-administrative expenses are not. Budgetary comparisons for the Plan are presented in the schedule of revenues and expenses—budget and actual (GAAP basis).

The Accountability in Government Act, Chapter 15, Laws of 1999, provides a general process for implementation of performance-based budgeting over a four-year period. The Board was included in performance-based budgeting for the first time in FY 2002. The Board developed performance measures, which were approved by the State Budget Division "SBD" and the Legislative Finance Committee ("LFC") and included in the General Appropriations Act. The Board is required to periodically report to SBD and LFC on these performance measures.

The original budget was amended during the fiscal year. All budget adjustments were approved by SBD and LFC in accordance with State laws and regulations.

The Board follows these procedures in establishing the annual budget:

(1) By August 31, the Board prepares a Budget Appropriation Request to be presented to the next legislature. The Request includes proposed expenses and the means of financing them.

(2) On September 1, the Budget Appropriation Request is submitted to the Department of Finance and Administration ("DFA") and the LFC.

(3) The DFA makes recommendations and adjustments to the Board's Budget Appropriation Request, which becomes the Governor's proposal to the Legislature.

(4) The LFC holds hearings on the Budget Appropriation Request. Recommendations and

adjustments are made prior to presenting the Budget Appropriation Request to the Legislature.

(5) Both DFA's and LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget.

(6) On May 1, the Board submits its Annual Operating Budget to DFA and LFC based on the final appropriation from the Legislature.

(7) Budgetary control is exercised at the appropriation unit level (revenue source and expenditure category), and any changes between budget categories must be approved by DFA and LFC.

Investments—Investments are stated at fair value. If available, quoted market prices are used to value investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

There are certain market risks, credit risks, foreign exchange currency risks, or events that may subject the Plan's investment portfolio to economic changes occurring in certain industries, sectors, or geographies.

Net investment income includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, securities lending income, and investment expense, which includes management and custodial fees, securities lending expense, and all other significant investment-related costs.

Capital Assets—Capital assets represent the cost of assets, net of accumulated depreciation, used for the administration of the Plan. Capital assets include the Board's administration building located in Santa Fe, New Mexico. The Board's capitalization policy, based on the requirements from the DFA, is to include all assets costing $5,000 and greater. All additions are capitalized at historical cost as of the date of acquisition, and depreciation is calculated on a straight-line basis over the asset's estimated useful life with no salvage value.

Estimated useful lives are as follows:

Building and building improvements	25 years
Depreciable land improvements	10 years
Furniture and equipment	10 years
Data processing equipment (including software)	5 years

Funds Held for Others—Payments from members pursuant to agreements to purchase service credits are recorded as funds held for others until the purchase agreements have been completed. Upon receipt of all payments necessary to complete the purchase agreement, the funds held for others are transferred to the member's individual contribution account (for the contribution component) and income accounts (for the interest component(s)).

Refunds Payable—Refunds payable represents amounts due to terminated members who have submitted a claim for refund but who have not been paid on or before the end of the fiscal year.

3. Cash Deposits

The Board is required by statute to remit any money received for or on behalf of the Plan into its own account at the New Mexico State Treasury. Excess money at the end of the day in the Board's account at the New Mexico State Treasury is pooled and invested by the Office of the New Mexico State Treasurer in overnight repurchase agreements. All repurchase agreements are collateralized by the U.S. Treasury securities held by the New Mexico State Treasurer's custodian bank.

In addition to the overnight investment at the New Mexico State Treasury, the Board invests in the Short Term Investment Fund "STIF". Each internal and external investment manager has a component in the STIF. The STIF is used to facilitate more efficient trade procedures with the Board's external money managers. Net cash balances in each internal and external investment manager's portfolios are swept into the STIF at the end of each day. Overnight investments of $239,704,558 and $111,121,340 for 2006 and 2005, respectively, are considered cash equivalents and are reported as part of the cash balance in the statement of plan net assets.

Custodial Credit Risk—Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Board will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board does not have a deposit policy for custodial credit risk.

As of June 30, 2006, balances of cash that were exposed to custodial credit risk were zero. All cash is invested in a mutual fund consisting of 100% U.S. Treasury Securities.

4. Investments

The Board is authorized to invest or reinvest the fund in accordance with the Uniform Prudent Investor Act (45-7-601 NMSA 1978).

The Uniform Prudent Investor Act does the following:

A. Sets a higher standard of care and prudence for investments, above and beyond the previous standard and guiding principles of law.

B. Applies to the trust as a whole, rather than individual investments.

C. Requires investment strategy to be based on suitable risk and reward strategies.

D. Requires diversification unless the trustees reasonably determine it is not in the best interest of the fund/trustees.

E. Greater diversification would provide greater protection of assets in a market turndown.

Investments of the Board as of June 30, 2006 and 2005, were as follows:

Investment Description	2006	2005
Investments:		
(held by Board's agent in Board's name)		
U.S. government agency securities (not on securities loan)	$ 381,564,985	$ 591,414,576
Domestic corporate bonds (not on securities loan)	1,107,136,217	632,832,767
Domestic stocks (not on securities loan)	3,662,393,583	3,689,527,254
Total	5,151,094,785	4,913,774,597
Investments—commingled international funds	1,815,409,966	1,556,996,425
Investments held by broker/dealers under securities loans with cash collateral:		
U.S. government and agencies securities	577,960,047	613,443,208
Domestic corporate bonds	25,354,225	53,915,434
Domestic stocks	499,383,002	125,984,787
Securities lending cash collateral investments	870,230,520	822,073,281
Total	$ 8,939,432,545	$ 8,086,187,732

Custodial Credit Risk—Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Board's investment policy limits holding of securities by counterparties to those involved with securities lending. There were no investments subject to custodial credit risk as of June 30, 2006.

In the event of the failure of the counterparty to deliver back the borrowed securities, the Board will sell the collateral securities and offset any gains or losses with the counterparty.

Foreign Currency Risk—Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Board employs several external managers who purchase equity securities denominated in several foreign currencies. Exposure to foreign currencies is a component, at times significant, of the returns generated by investment in foreign equities. Further, due to the relative weakness of the U.S. dollar in recent years, it has provided a significant positive return component to this mandate. Finally, the benchmarks employed by The Board for our foreign equity investments are also fully exposed to foreign currency fluctuations.

	Market Value (Included in Investments)	
Currency	Equity	Deposits
Argentinian Peso	$ 478,047	$ -
Australian Dollar	58,784,850	-
Brazilian Real	23,762,705	75,958
British Pound Sterling	312,415,347	24,002
Canadian Dollar	29,357,057	-
Chile	1,557,284	8,463
Chinese Renminbi	15,300,351	26,715
Danish Krone	4,451,279	-
Egypt	830,655	34,051
Euro	524,459,066	20,031
Hong Kong Dollar	42,105,772	26,962
Hungarian Forint	2,854,588	-
Indian Rupee	9,655,541	398,021
Indonesian Rupiah	2,517,443	-
Israeli Shekels	5,542,990	-
Japanese Yen	416,512,469	278,077
Malaysian Ringgit	368,518	-
Mexican Nueva Peso	8,103,453	-
Norwegian Krone	12,269,712	-
Peru	204,514	-
Philippine Peso	809,296	-
Russia	6,001,312	-
Singapore Dollar	9,183,519	-
South African Rand	26,331,388	80,005
South Korean Won	32,790,213	(268,462)
Swedish Krona	25,520,756	-
Swiss Franc	131,418,010	(21,972)
Taiwan Dollar (New)	26,215,306	1,664,013
Thailand Baht	6,513,934	-
Turkish Lira (New)	4,464,656	-
Total Foreign Exposure	$ 1,740,780,029	$ 2,345,863

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policies of the Board require that non-cash interest paying securities in the high yield bond portfolios may not exceed 5% of the market value of the portfolio and that investments in cash may represent no more than 5% of each individual fund. Credit risk is managed through diversification and by operating within defined parameters versus a benchmark index.

Excluding those investments issued by or explicitly guaranteed by the U.S. government, which are not considered to have credit risk, the Board's credit quality distribution for investments with credit risk exposure as of June 30, 2006, is summarized below. The investments were rated and categorized according to Standard & Poor's rating standards.

Summary of Investment by Rating - Credit Risk

Investment Type	Rating	Fair Market Value
Asset Backed Securities		
	AAA	61,003,465
	A	1,570,041
	Not Rated	1,101,071
Commercial Mortgage Backed		
	AAA	64,896,573
	Not Rated	6,113,454
Corporate Bonds		
	AAA	5,719,247
	AA	71,600,805
	A	118,309,389
	BBB	157,088,330
	BB	127,625,358
	B	211,432,088
	CCC	35,693,370
	Not Rated	341,347,278
Government Agencies/PEFCO		
	AAA	140,799,019
	A	2,861,589
Government Bonds	AAA	182,218,081
	BBB	3,619,300
	Not Rated	10,158,454
Index Linked Government Bonds		
	AAA	69,493,345
Non Government Backed c.m.o.'s		
	AAA	33,999,064
	Not Rated	893,221
Short Term Investment Funds		
	Not Rated	199,825,414
TOTAL		1,847,367,956

The Board earns failed interest on monies held at the custodial agent bank overnight when a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date. When this occurs, the Board's money is invested overnight in a "STIF".

Concentration Risk—Concentration risk is identified by amount and issuer of the investment in any one issuer that represent 2% or more of plan net assets. The Board's Investment policies stipulate that investments in the securities of any one corporation may not exceed 2% of the market value of the total fund. As of June 30, 2006, the Board was not exposed to any concentration risk.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board does not have a policy for interest rate risk management. However, interest rate risk is managed through duration, by operating within defined risk parameters versus a benchmark index.

As of June 30, 2006, the Board's exposure to interest rate risk is summarized as:

	Duration in Years
U.S. Treasury Securities	3.47
U.S. Government Agency Obligations	1.61
Corporate Obligations	3.58
Corporate Asset and Mortgage Backed Securities	3.31
Short-Term Investment	0.25
Overall	4.64

The Board uses the weighted average method to determine the duration of its investments.

Derivative Investing—Derivatives are generally defined as contracts or securities whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. In accordance with investment policy and fiduciary principles, the Plan invests in mortgage-backed securities, including certain agency Collateralized Mortgage Obligations ("CMO"). The plan invests in CMOs, which are based on cash flows from interest payments on underlying mortgages; therefore, they are sensitive to pre-payments by mortgagees that may result from a decline in interest rates. CMO selections are chosen from a conservative segment that offers low volatility. CMO securities are included in aggregate with other U. S. Government and Agency securities in the disclosure of custodial risk above. The Plan had no government CMO securities at June 30, 2006 and $155 million in 2005.

5. Securities Lending

The Board or its designated agent may enter into contracts for the temporary exchange of securities for the use by brokers/dealers, banks, and other recognized institutional investors, for periods not to exceed one year, for a specified fee or consideration. Securities lent include fixed income securities and domestic equities. No such contract shall be entered into unless the contract is fully secured by a collateralized, irrevocable letter of credit running to the Board; cash; or equivalent collateral of at least 102% of the market value of the securities plus accrued interest temporarily exchanged. This collateral shall be delivered to the state fiscal agent or its designee contemporaneously with the transfer of funds or delivery of the securities. Such contract may authorize the Board to invest cash collateral in instruments or securities that are authorized fund investments and may authorize payment of a fee from the Plan or from income generated by the investment of cash collateral to the borrower of securities providing cash as collateral. The Board may apportion income derived from the investment of cash collateral to pay its agent in securities lending transactions.

At year-end, the Board has no credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amount the borrowers owe the Board. The contract with the Board's agent requires it to indemnify the Board fully if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Board for income distributions by the securities' issuers while the securities are on loan. The Board has not experienced any losses due to credit or market risk on securities lending activities since the implementation of this program.

The board received net securities lending income totaling $2,144,983 and $1,264,486 for the fiscal years ended June 30, 2006 and 2005, respectively. The collateral information as of June 30, 2006, is summarized below.

Securities Lent	UNDERLYING SECURITIES	CASH COLLATERAL RECEIVED/ SECURITIES COLLATERAL VALUE*	CASH COLLATERAL INVESTMENT VALUE*
2006:			
Lent for cash collateral:			
U.S. government and agency securities	$ 577,960,048	$ 588,170,444	$
U.S. equities	499,383,002	512,573,370	
U.S. corporate obligations with variable rates	25,354,225	25,726,360	489,235,054
Convertible and global bonds:			
Asset-backed securities with variable rates			149,500,000
Repurchase agreements			231,495,466
	$ 1,102,697,275	$ 1,126,470,174	$ 870,230,520

Securities Lent	UNDERLYING SECURITIES	CASH COLLATERAL RECEIVED/ SECURITIES COLLATERAL VALUE*	CASH COLLATERAL INVESTMENT VALUE*
2005:			
Lent for cash collateral:			
U.S. government and agency securities	$ 613,443,208	$ 623,588,595	$
U.S. equities	125,984,787	131,251,200	
U.S. corporate obligations with variable rates	53,915,433	55,045,800	283,142,924
Convertible and global bonds:	11,908,365	12,107,610	
Asset-backed securities with variable rates			39,935,176
Repurchase agreements			498,995,181
	$ 805,251,793	$ 821,993,205	$ 822,073,281

*Reported at fair value

The Board is permitted to loan securities under 1) open loans which are generally overnight loans, and 2) term loans with specified expected termination dates. Cash collateral is invested in traditional money market instruments. The policy is to match the maturities of investments made with the cash collateral to the maturities of the loan agreements. The Board cannot pledge or sell collateral securities received unless the borrower defaults and, therefore, the Board does not establish an asset and a corresponding liability in the balance sheet for the collateral value of securities received. There were no significant violations of legal or contractual provisions and no borrower or lending agent default losses.

6. Capital Assets

Capital assets relate to all assets of the Board that are used in operations and have useful lives extending beyond a single reporting period. Capital assets in progress represent costs associated with the Integrated Retirement Information System ("IRIS") Project. Although these costs have been capitalized, depreciation expense will not be calculated until the final phase of the project is completed during FY 2007. These costs totaled $842 thousand in FY06 compared with $717 thousand in FY05.

Depreciation expense was $233,168 and $204,183 for 2006 and 2005, respectively.

Capital asset activity for the years ended June 30, 2006 and 2005, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
2006:				
Non-depreciable Assets:				
Land	$ 248,172	$ -	$ -	$ 248,172
Capital assets in progress	4,665,048	842,110		5,507,158
Depreciable Assets:				
Depreciable land improvements	1,875			1,875
Building and building improvements	2,079,182	71,885		2,151,067
Furniture and equipment	1,306,205	146,786	83,255	1,369,735
Total	8,300,482	1,060,781	83,255	9,278,007
Accumulated depreciation:				
Depreciable land improvements	1,500	188		1,688
Building and building improvements	751,213	95,254		846,467
Furniture and equipment	947,156	137,727	83,255	1,001,628
Total	1,699,869	233,168	83,255	1,849,782
Capital assets—net	$ 6,600,613	$ 827,613	$ -	$ 7,428,225

	Beginning Balance	Additions	Deletions	Ending Balance
2005:				
Non-depreciable Assets:				
Land	$ 248,172	$ -	$ -	$ 248,172
Capital assets in progress	3,947,773	717,275		4,665,048
Depreciable Assets:				
Depreciable land improvements	1,875			1,875
Building and building improvements	1,176,723	902,459		2,079,182
Furniture and equipment	1,271,422	90,777	55,994	1,306,205
Total	6,645,965	1,710,511	55,994	8,300,482
Accumulated depreciation:				
Depreciable land improvements	1,312	188		1,500
Building and building improvements	693,746	57,467		751,213
Furniture and equipment	856,622	146,528	55,994	947,156
Total	1,551,680	204,183	55,994	1,699,869
Capital assets—net	$ 5,094,285	$ 1,506,328	$ -	$ 6,600,613

7. Due to Individual School Districts

This account represents the amount due to various participating public employers for overremittances of employer contributions during the fiscal years ended June 30, 2006 and 2005. Overremittances can be applied to future reporting periods or refunded, at the option of the administrative unit, in the next fiscal year.

8. Accrued Compensated Absences

Qualified employees are entitled to accumulate vacation leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon the length of service and employee's hire date. A maximum of 30 working days (equivalent to 240 hours) of such accumulated vacation leave can be carried forward into the beginning of the next calendar year. Any excess accumulated vacation leave is forfeited.

When employees terminate employment with the State, they are compensated for accumulated vacation leave as of the termination date up to a maximum of 240 hours. All balances up to 240 hours for each employee have been recorded at their current pay rate as of June 30, 2006 and 2005.

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave an employee can accumulate. Once per fiscal year, in either January or July, employees may elect to be paid for accrued sick leave in excess of 600 hours but less than 720 hours at 50% of their current hourly rate.

In the case of retiring employees, they may be paid for accrued sick leave in excess of 600 hours but less than 1,000 hours at 50% of their current hourly rate. All sick leave balances in excess of 600 hours but less than 720 hours for each employee have been recorded as a liability at 50% of their current hourly rate.

The following table provides a summary for the fiscal years ended June 30, 2006 and 2005, of the change in accrued compensated absences:

	2006	2005
Balance payable — beginning of fiscal year	$ 141,642	$ 127,767
Additions	111,719	132,099
Deletions	(93,884)	(118,224)
Balance payable— end of fiscal year	$ 159,477	$ 141,642
Amount due within one year	**$ 154,693**	**$ 137,393**

Funds used to liquidate this liability will come from the Plan.

9. Leases

The Board leases mailing equipment, office space and storage space under operating leases. Operating leases do not give rise to property rights or leases obligations; therefore, the amounts of the Board's lease agreements are not reflected on the statements of plan net assets.

Leases are subject to future appropriations and are cancelable by the Board at the end of each fiscal year with 30 days written notice to the lessor. The following table as of June 30, 2006, summarizes the Board's future minimum lease payments:

Years Ending June 30	
2007	$ 52,760
2008	65,423
2009	66,005
Total	$ 184,188

Lease expense was $52,274 and $53,241 for the fiscal years ended June 30, 2006 and 2005, respectively.

10. Retirement Plans

Employees of the Board who do not possess a teaching or administrative certificate have the option of participating in the Plan or the Public Employees Retirement Plan. Some employees of the Board have elected to participate in the Educational Employees' Retirement Plan through the Educational Retirement Act ("ERA") while others have elected to participate in the Public Employees Retirement Plan (the PERA Plan") through the Public Employees Retirement Act ("PERA") of the State.

Plan Description—ERA—This plan is a cost-sharing, multiple-employer defined benefit plan established and administered by the Board to provide retirement, disability benefits, survivor benefits, and COLAs for all certified teachers and other employees of State public schools, higher education institutions, junior colleges, and technical-vocational institutions.

Plan Description—PERA—The PERA Plan is a cost-sharing, multiple-employer defined benefit plan administered by the PERA. The Plan provides for retirement, disability benefits, survivor benefits, and COLAs to Plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123.

Funding Policy—ERA—Board Plan members are required to contribute 7.675% of their gross salary. The Board is required to contribute 9.40% of the gross covered salary. The contribution requirements of the Plan members and the Board are established in State statute at Chapter 22, Section 11, NMSA 1978. The requirements may be amended by acts of the Legislature. The plan members and the Board's contributions to ERA for the fiscal years ending June 30, 2006, 2005, and 2004, were $35,859, $37,829, and $43,509, respectively, equal to the amount of the required contributions for each fiscal year.

Funding Policy—PERA—PERA Plan members are required to contribute 7.42% of their gross salary. The Board is required to contribute 16.59% of the gross covered salary. The contribution requirements of the PERA Plan members and the Board are established in State statute at Chapter 10, Section 11, NMSA 1978. The requirements may be amended by acts of the Legislature. The plan members and the Board's contributions to PERA for the fiscal years ending June 30, 2006, 2005, and 2004, were $431,566, $390,696, and $376,915, respectively, equal to the amount of the required contributions for each fiscal year.

11. Post-employment Benefits

The Retiree Health Care Act (Section 10-7C-1 to 10-7C-16, NMSA 1978) (the "Act") provides comprehensive core group health insurance for persons who have retired from certain public service in the State. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses with health insurance consisting of a plan or optional plans of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by copayments and out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund (the "Fund") on a pay-as-you-go basis from eligible employees, employers, and retirees. Eligible employers are institutions of higher education, school districts or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, and municipalities or counties, which are affiliated under or covered by the ERA, the PERA, or the Magistrate Retirement Act.

Eligible retirees are as follows: (1) retirees who make contributions to the Fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the on the person's behalf, unless that person retires before the employers NMRHCA effective date, in which event, the time period required for employee and employer contributions shall become the period of time between employers effective date and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990, and former legislators who served at least two years.

Each participating employer makes contributions to the fund in the amount of 1.3% of each participating employee's annual salary. Each employee contributes to the Fund an employee contribution in an amount equal to 0.65% of employee's salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional participation fee of $5 if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

Each participating retiree pays a variable monthly premium based on coverage desired and years of service. The basic rate in FY 2006 was $92.90 and the basic rate in FY 2005 was $97.90. An additional premium of $5 per month is charged if the eligible participant retired prior to July 1, 1990, and made no contributions to the Plan.

Contributions from participating employers and employees become the property of the Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employers' operation or participation in the Act. The employer, employee, and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post-employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the Fund. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, NM 87107.

For the fiscal year ended June 30, 2006, $25,022 in employer contributions and $12,515 in employee contributions were remitted to the Retiree Health Care Authority by the Board.

For the fiscal year ended June 30, 2005, $22,982 in employer contributions and $11,491 in employee contributions were remitted to the Retiree Health Care Authority by the Board.

12. Risk Management

With the exception of investment losses, the Board is exposed to various business risks of loss for which it carries insurance through the Risk Management Division of the New Mexico General Services Department. In the event of a claim being filed, the Board is responsible only for a small deductible payment in amounts that vary according to the type of claim.

13. Statutory Disclosures

Section 2.2.2.12A(4) of the Audit Rule 2003, 2.2.2 NMAC entitled, "Requirements for Contracting and Conducting Audits of Agencies" requires that state agencies disclose all special, deficiency and specific appropriations. The Board received the following specific appropriations:

Building Remodel/Addition	
Laws of 2000, 2nd S.S., Chapter 23, Section 29 (FY00–FY08)	$ 750,000
Expended in FY 2001	(8,389)
Encumbered in FY 2001	(63,999)
Rebudgeted in FY 2002	677,612
Expended in FY 2002	(8,624)
Encumbered in FY 2002	(46,986)
Rebudgeted in FY 2003	686,001
Expended in FY 2003	(9,490)
Encumbered in FY 2003	(74,744)
Rebudgeted in FY 2004	648,753
Expended in FY 2004	(13,871)
Encumbered in FY 2004	(60,873)
Rebudgeted in FY 2005	648,753
Laws of 2002, Chapter 110, Section 58 (FY 2002–FY 2008)	500,000
Expended in FY 2005	(858,417)
Encumbered in FY 2005	(45,003)
Unencumbered balance—June 30, 2005	306,206
Expended in FY 2006	(71,885)
Unencumbered balance—June 30, 2006	$ 279,324

Pension Information Management System (IRIS)

Laws of 2000, Second Special Session/Chapter 5, Section 8 (FY 2000–FY 2002)	$ 3,000,000
Expended in FY 2001	(38,007)
Encumbered in FY 2001	(41,514)
Rebudgeted in FY 2002	2,920,479
Expended in FY 2002	(2,166,943)
Encumbered in FY 2002	(795,050)
Rebudgeted in FY 2003	-
Expended in FY 2003	(795,050)
Encumbered in FY 2003	-
Unencumbered balance—June 30, 2006	-
Laws of 2001, Second Session/Chapter 64, Section B (FY 2001–FY 2004)	3,000,000
Expended in FY 2002	-
Encumbered in FY 2002	(1,281,812)
Rebudgeted in FY 2003	1,718,188
Expended in FY 2003	(871,639)
Encumbered in FY 2003	(1,206,353)
Rebudgeted in FY 2004	922,008
Expended in FY 2004	(539,007)
Encumbered in FY 2004	(1,589,722)
Rebudgeted in FY 2005	-
Expended in FY 2005	(784,481)
Expended in FY 2006	(804,137)
Encumbered in FY 2006	-
Unencumbered balance—June 30, 2006	-
Laws of 2002, Second Session/Chapter 4, Section 7, Item 11	2,000,000
Expended in FY 2004	-
Encumbered in FY 2004	(1,607,110)
Rebudgeted FY 2005	392,890
Expended in FY 2005	(769,168)
Encumbered in FY 2005	(286,848)
Unencumbered balance—June 30, 2006	652,922
Laws of 2004, Second Session/Chapter 114, Section 8, Item 16	750,000
Laws of 2005, Second Session/Chapter 33, Section 7, Item 5	300,000
Laws of 2006, Second Session/Chapter 109, Section 7, Item 7	750,000
Unencumbered balance—June 30, 2006	$ 1,800,000

The Board expects to complete the final phase of the IRIS project in 2007.
Any unspent amounts of the above specific appropriations revert to the Educational Employees' Retirement Fund, the source of the funding, and not to the State General Fund.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress
Schedule of Employer Contributions
Notes to Required Supplementary Inforamtion

STATEMENT 1

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

SCHEDULE OF FUNDING PROGRESS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Valuation Date June 30	(1) Actuarial Value of Assets (AVA)	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded Actuarial Accrued Liability (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) Unfunded Liability Actuarial as a Percentage of Covered Payroll (3) / (5)
2001	$ 7,418.3	$ 8,070.3	$ 652.0	91.9%	$ 1,819.6	35.8 %
2002	7,595.1	8,748.0	1,152.9	86.8%	1,978.5	58.3
2003	7,518.2	9,266.6	1,748.4	81.1%	2,032.5	86.0
2004	7,488.0	9,927.1	2,439.1	75.4%	2,142.4	113.8
2005	7,457.5	10,591.8	3,134.3	70.4%	2,209.1	141.9
2006	7,813.9	11,436.3	3,622.4	68.3%	2,219.4	163.2

Notes: 1. Dollar amounts are in millions.
2. Actuarial assumptions were changed as of June 30, 2001 and June 30, 2003.

STATEMENT 2

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2001	$ 161,524,340	100.0 %
2002	173,863,363	100.0
2003	179,132,226	100.0
2004	203,937,432	92.8
2005	243,237,303	81.3
2006	299,967,996	75.5

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

Actuarial Methods and Significant Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	2006	2005
Valuation date	June 30, 2006	June 30, 2005
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level payment, open	Level payment, open
Amortization period for GASB 25 ARC**	30 years	40 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	8.00%	8.00%
Projected salary increases*	5.00% to 13.50%	5.00% to 13.50%
* Includes inflation calculated at	3.00%	3.00%
Cost of living adjustments	2.00%	2.00%

**The Governmental Accounting Standards Board "GASB" Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the employer normal cost plus a 30-year amortization of the Unfunded Actuarial Accrued Liability "UAAL", and (b) the statutory employer contribution rate, plus the 3.00% contribution on behalf of ARP members. Under GASB 25, the maximum allowable amortization period is 30 years. GASB 25 has allowed the use of a 40-year amortization during a transitional period that ended with FY 2006.

ADDITIONAL INFORMATION

SCHEDULE 1

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

BUDGETARY COMPARISON SCHEDULE--BUDGET TO GAAP COMPARISON
FOR THE YEAR ENDED JUNE 30, 2006

Revenue GAAP basis	$ 1,295,784,792
Net appreciation in investment value	(716,078,282)
Investment advisor and custody fees	17,074,105
Current-year revenue not needed for budgeted expenses	(570,403,967)
Revenue budgetary basis*	$ 26,376,648

Expenses GAAP basis—administrative	$ 5,230,635
Prior-year encumbrances paid in current year	(45,004)
Capital outlay, including capital assets in progress	1,060,780
Depreciation expense	(228,108)
Investment advisor and custody fees	17,074,105
Increase in accrued compensated absences	(17,835)
Miscellaneous	(26,117)
Loss on sale of capital assets	(5,060)
Expenses budgetary basis*	$ 23,043,396

*Significant revenues and non-administrative expenses are not budgeted (see Note 2).

SCHEDULE 2

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

RECONCILIATION BETWEEN BUDGET DOCUMENT AND S-8 FORM
FOR THE YEAR ENDED JUNE 30, 2006

	Actual Budgetary Basis*	Actual S-8 Form	Difference Favorable (Unfavorable)
Revenues:			
Other state funds-Investment Income	26,376,648	21,949,300	4,427,348
Total revenue	26,376,648	21,949,300	4,427,348
Expenses:			
Personal services and employee benefits	3,082,009	2,760,800	321,209
Contractual services	14,325,810	18,472,000	(4,146,190)
Other costs	720,438	716,500	3,938
Operating transfers	0	0	0
Total expenditures	18,128,257	21,949,300	(3,821,043)

*Actual Investment Income is recorded up to the budgeted amount for budget purposes.
Accrued expenses not reflected.

SCHEDULE 3

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

SCHEDULE OF CASH ACCOUNTS
AS OF JUNE 30, 2006 AND 2005

Educational Employees' Retirement Fund
Pension Trust Account
C-FRAS Funds 605 and 629

	2006	2005
Balance shown by State Treasurer	$ 44,656,743	$ 68,104,606
Outstanding warrants	(5,167,464)	(38,393,704)
DFA balance at June 30	39,489,279	29,710,902
Adjustments to DFA balance:		
Overnight Investment Income	248,140	
Actual for June 06 agency payroll	(120,558)	
Warrant Cancellations	31,377	
DFA deposited twice, corrected August 2005		(57)
Petty cash	50	50
Other cash balances:		
Short-Term Investment Fund (STIF)	200,037,624	81,431,340
Qualified Excess Benefit Arrangement (QEBA) Trust Checking Account at Wells Fargo Bank	18,646	13,344
Balance per financial statements	$ 239,704,558	$ 111,155,579
Repurchase agreements included in the balance considered to be cash equivalents:		
Overnight investment—State Treasurer	$ 39,775,000	$ 29,690,000
Overnight investment—STIF	200,037,624	81,431,340
Total repurchase agreements	$ 239,812,624	$ 111,121,340
Pledged collateral for Wells Fargo demand deposit account:		
Total amount on deposit at June 30, 2006	$ 18,646	$ 13,344
Less Federal Deposit Insurance Corporation (FDIC) coverage	(18,646)	(13,344)
Total uninsured public funds	$ -	$ -

SCHEDULE 4

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

RECONCILIATION OF REVENUES AND EXPENSES FROM THE CENTRAL ACCOUNTING SYSTEM REPORTS
TO THE STATEMENT OF REVENUES AND EXPENSES—BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Central Accounting System Actuals	Less Amounts Not Budgeted	Central Accounting System Encumbrances	Reconciling Differences	Total	Invalid Encumbrances	Actuals on Budgetary Basis
REVENUE							
Other state funds-Investment Income	$ 405,205,755	$ (378,829,107)	$	$	$ 26,376,648	$	$ 26,376,648
TOTAL REVENUE	$ 405,205,755	$ (378,829,107)	$	$	$ 26,376,648	$	$ 26,376,648
EXPENSES:							
Personal services and employee benefits	$ 3,082,009	$		$	$ 3,082,009	$	3,082,009
Contractual services	14,325,810		5,801,145		20,126,955	(5,801,145)	14,325,810
Other costs	720,438		37,034		757,472	(37,034)	720,438
Refunds	28,005,149	(28,005,149)					
Annuity payments	494,348,383	(494,348,383)					
TOTAL EXPENSES	$ 540,481,789	$ (522,353,532)	$ 5,838,179	$	$ 23,966,436	$ (5,838,179)	$ 18,128,257

SCHEDULE 5

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

YEAR-END ENCUMBRANCE ANALYSIS
AS OF JUNE 30, 2006

Administrative Encumbrances	Outstanding Encumbrances Per DFA	Adjustments to DFA	Encumbrances Reversed for Accounts Payable	Balance
Personal services and employee benefits	$	$	$	$
Contractual services	5,801,145	(5,801,145)		
Other costs	37,034	(37,034)		
Operating transfers				
Total administrative encumbrances	$ 5,838,179	$ (5,838,179)	$	$

SCHEDULE 6

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

ACCOUNTABILITY IN GOVERNMENT ACT—PERFORMANCE MEASURES
AS OF JUNE 30, 2006

Type	Description	Target	Actual
Quality	Percentage of member retirements computed accurately	99.5 %	99.6 %
Output	Number of benefit estimates and purchase of service requests computed annually	4,000	9,905
Outcome	Average number of working days to respond to requests for benefits estimates and purchase of service requests	20	18
Output	Number of member workshops conducted	27	28
Outcome	Percentage of member satisfaction with seminars and training events	95%	95%
Outcome	Average number of working days to process refund requests	17	12
Output	Total net assets held in trust for pension benefits		8.219 Billion
Outcome	Five-year average rate of return on investments	8.00 %	5.90 %
Output	Percentage completion of new pension system (IRIS)	100 %	95 %

SCHEDULE 7

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

STATEMENT OF REVENUES AND EXPENSES—BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual Budgetary Basis*	Variance—Final Budget Favorable (Unfavorable)
REVENUES:				
Other state funds-Investment Income	$ 23,306,648	$ 26,376,648	$ 26,376,648	$
TOTAL REVENUE	$ 23,306,648	$ 26,376,648	$ 26,376,648	$
EXPENSES:				
Personal services and employee benefits	$ 3,292,025	$ 3,292,025	$ 3,082,009	$ 210,015
Contractual services	19,047,499	22,330,723	19,215,129	3,115,594
Other costs	1,212,456	999,232	746,258	252,974
TOTAL EXPENSES	$ 23,551,980	$ 26,621,980	$ 23,043,396	$ 3,578,583

*Actual Investment Income is recorded up to the budgeted amount for budget purposes.

CONTENTS

Members & Retirees of NM ERB:

NMERB enjoyed its third year in a row of double digit returns from the investment portfolio. The one year return of 12.3% substantially out performed the benchmark return of 10.7% by 160 basis points or 1.6%. These better than average returns were led by the International Equity Markets, which produced a return in the NMERB portfolio of 29.1%. Another significant contributor to the overall performance of the fund was the REIT (Real Estate Investment Trust) portfolio which returned 21.9%. The domestic stock portfolio returned a more modest 10.2%. Of course, if one market is up substantially, often another market may well be down or neutral. In contrast to the outstanding performance of stocks, the performance of bonds was underwhelming, producing a return of only 0.7%. This underperformance was a direct result of the Federal Reserve Bank's raising the Fed Funds rate eight times during the last fiscal year for a total increase of 2.00%. As interest rates go up, the price of bonds go down, thus attributing to the poor performance in bonds last year.

ERB's three-year total Fund return of 12.5% surpassed its policy target return of 12.4% by 10 basis points (0.1%). The policy target represents the return that would have been earned by the Fund based on its target asset allocation and assuming that the investments in each separate asset class mirrored their benchmark returns.

ERB's five-year total Fund return was a disappointing 5.9% which was 30 basis points (0.30%) below its policy target of 6.2%. Both of these numbers are below our actuarial rate of 8.0%. This reflects the poor investment performance experienced by the Fund during the negative 2000-2002 period.

ERB's 10-year total Fund return was 7.9% which was 50 basis points (0.50%) below its policy target of 8.4% and slightly below the actuarial rate of 8%.

In February 2006, the ERB Board adopted a new asset allocation policy to reflect the changes allowed by the 2005 Legislation authorizing the Prudent Investor Rule. This rule effectively eliminated the "state legal list" and allows the Board to invest in a broad array of asset classes to allow for further diversification of the Fund, with the ultimate goal of mitigating the effects of any future market downturns. The Board authorized staff to invest 5% of the assets in Private Equity, 5% in Hedge Funds and 5% in Real Estate. To accomplish these goals, the Board hired New England Pension Consultants (NEPC) as its general consultant to assist in the traditional asset classes of the portfolio (stocks and bonds). It also hired NEPC to be its Hedge Fund Consultant. The Board was also in contract negotiations with Aldus Equity to become its Private Equity Consultant.

Investment returns for the past three fiscal years were quite strong, as the stock market rebounded from low levels. With more moderate economic growth, rising interest rates, the war in Iraq and high energy prices, the Board and investment staff anticipate that market returns could be considerably more modest over the next few years. Earning the 8% actuarial rate may once again prove to be a challenge.

Sincerely,

Frank C. Foy
Deputy Chief Investment Officer

Bob Jacksha
Chief Investment Officer

INVESTMENTS OVERVIEW

I. Investment Objectives

Recognizing the important and perpetual nature of the Fund and the fiduciary responsibilities of the Board, the primary goal in investing the assets shall be to provide significant real returns adjusted for inflation over long periods of time with acceptable risk. In light of these dual goals, the Investment Division seeks to diversify the Fund's assets for purposes of both controlling risk and enhancing return. Over the long term, the fund's objective also is to earn the actuarial rate of return, currently set at 8%.

The primary goal of the equity investment program is to build a diversified portfolio of stocks. The primary focus is on large capitalization "blue chip" stocks with further diversification achieved through allocations to small capitalization and international equities. Stock portfolios are managed in both the "growth" and "value" styles to provide further diversification. A portfolio of REITS (real estate investment trusts) provides exposure to real estate through an equity vehicle.

Fixed income securities are actively managed by external investment managers. The primary focus is on investment grade securities including US Treasury and agency, corporate, and asset backed securities. Additional diversification is achieved through an investment in high yield corporate bonds.

II. Investment Process

While ultimately responsible, the Board relies on the Investment Committee of the Board (the Director and three Board members) to monitor the activities of the Investment Division. Within the applicable statues and investment guidelines established by the Board, the Investment Division uses both internal and external managers for is assets. The S&P 500 equity and REIT index portfolios are managed internally. All other portfolios are managed externally.

In the day-to-day operation of the Investment Division, the in-house staff evaluates the investment environment to determine the relative attractiveness of the various asset classes. Based on their analysis, net cash flow from the portfolios is reinvested, bearing in mind the long-term asset allocation goals set by the Board. These asset allocation decisions were made in conjunction with an analysis of the long-term liabilities of the Fund. In view of the importance of asset allocation to investment performance, staff and the Investment Committee regularly monitor the position of the Fund relative to its target allocation. The general guidelines relating to these asset classes are reviewed annually by the Investment Committee and are included in ERB's written Investment Policy.

The investment activity is governed by the Educational Retirement Act of New Mexico wherein the eligible investments are defined. The "prudent man" standard, as defined in the state statutes, requires all members of the Board and the investment staff to discharge their duties solely in the interest of Fund participants and beneficiaries and with the care, skill, prudence and diligence which they would exercise in the conduct of their own affairs.

III. Asset Allocation

Asset allocation is the single greatest determinant of Fund performance. Based on a study conducted by the Fund's investment consultant, who considered both anticipated liabilities and expected market returns, the Board adopted a new asset allocation plan in February 2006. The targeted asset allocation is shown in Exhibit A. The new plan varies from past years in that new classes of alternative investments were added to the mix. The alternatives include real estate, private equity and hedge funds. The policy change was enabled by new legislation passed in 2005 which eliminated the previous restrictions in the state legal list and authorized the Prudent Investor Rule. This change allows greater Fund diversification, allowing a long-term reduction in risk (as measured by the standard deviation of returns) while maintaining the same expected return. Implementation of the new asset allocation plan is now underway. Full implementation of the all new asset classes is a expected to be a multi-year process due to the nature of the assets.

Exhibit A
Asset Allocation Policy

Asset Class:	Target Weight	Minimum	Maximum	Actual 6/30/06
Equities				
Domestic Equities	40%	35%	45%	46.1%
International Equities	18%	15%	21%	22.2%
Total Equities	58%	53%	63%	68.3%
Fixed Income				
Investment Grade Bonds	22%	19%	25%	20.3%
High Yield Bonds	5%	3%	8%	5.0%
Total Fixed Income	27%	22%	33%	25.3%
Alternatives:				
Real Estate/REITs	5%	2%	8%	5.2%
Private Equity	5%	2%	8%	0%
Hedge Funds	5%	2%	8%	0%
Cash	0%			1.1%

INVESTMENT PERFORMANCE OVERVIEW

I. ERB Fund Strategy

The ERB investment strategy focuses on a long-term approach, given the long-term nature of the Fund liabilities. Diversifying the portfolio across several different asset classes mitigates risk by ensuring that the Fund is not completely exposed to one poorly performing market. The long-term approach to asset allocation requires that the Fund be periodically rebalances by taking profits from the better performing asset classes and redeploying the cash into areas which have fallen in value. This discipline enforces a buy low/sell high philosophy during periods of market volatility and uncertainty.

II. Investment Activity

The only significant change during the year occurred upon the retirement of our fixed income portfolio manager, Rose Struck. Upon Rose's retirement, the decision was made to place the management of the investment grade fixed income portfolio in the hands of outside managers. This transition was completed on March 1, 2006, with the hiring of Western Asset Management, Lehman Brothers Asset Management and Fidelity Investments.

III. ERB Portfolio Performance

The two main factors affecting the economy were the same as last year: interest rates and energy prices. The Federal Reserve continued its program of quarter-percent interest rate increases designed to dampen potential inflation. On July 1, 2005, the beginning of the fiscal year, the effective federal funds rate stood at 3.25%. Over the course of the year, eight rate increases took the interest rate to 5.25%. Oil prices continued to rise, putting some pressure on consumer spending. Despite increased energy prices, inflation remained relatively in check and overall the economy grew at a moderate pace of 3.5%.

The ERB investment portfolio performed well both on an absolute and a relative basis for the year. The entire portfolio returned 12.3% versus the policy index of 10.7%.

The domestic equity portfolio gained 10.2%, versus the Wilshire 5000 return of 9.9%. International stocks did even better than the domestic market. The MSCI All-World ex-US Index returned 27.8% for the year. In addition, the ERB international equity portfolio outperformed the index, returning an outstanding 29.1%. While it was a difficult year for fixed income, the ERB portfolio did manage a positive return of 0.7% versus a negative 0.3% for the Lehman Aggregate Bond Index. The internally managed REIT index returned 21.9%, virtually equal to the Wilshire REIT Index return of 22.0%.

INVESTMENT RATES OF RETURN

Fiscal Year Ended 6/30/06

Asset Class *Benchmark*	1 year 2006	3 year 2004-06	5 year 2002-06
Domestic Equity	10.2%	12.3%	3.3%
Wilshire 5000	9.9%	13.0%	4.0%
International Equity	29.1%	24.7%	11.0%
MSCI ACW ex US	27.8%	24.6%	11.9%
Real Estate Inv. Trusts	21.9%	N/A	N/A
DJI/Wilshire REIT	22.0%		
Fixed Income	0.7%	2.5%	5.4%
Lehman Aggregate Bond	-0.3%	2.5%	5.4%
TOTAL FUND	12.3%	12.5%	5.9%
*POLICY INDEX **	10.7%	12.4%	6.2%

*Policy Index: 47% Wilshire 5000, 20% Lehman Aggregate, 23% MSCI ACWI ex US, 5% Citigroup High Yield Cash Pay

MARKET VALUE OF INVESTMENTS

June 30, 2006

Type of Investment	Market Value (000s)	Percent of Total Fund
Domestic Equity		
Large Cap	3,239,261	39.7%
Small Cap	526,488	6.4%
Total Domestic Equity	3,765,749	46.1%
Internation Equity	1,815,327	22.2%
Fixed Income		
High Yield	409,738	5.0%
Core Bonds	1,657,927	20.3%
Total Fixed Income	2,067,665	25.3%
Real Estate Investment Trusts	426,475	5.2%
Cash	91,094	1.1%
FUND TOTAL	8,166,310	100.0%

LIST OF LARGEST ASSETS HELD
June 30, 2006

Ten Largest Stock Holdings

Company	Shares	Market Value
Exxon Mobil	1,426,764	87,531,971
General Electric	2,254,155	74,296,949
Citigroup Inc	1,495,547	72,145,187
Bank of America Corp	1,408,932	67,769,629
Microsoft Corp	2,670,619	62,225,423
Wal-Mart Stores Inc	1,019,568	49,112,591
JP Morgan Chase & Co	1,119,052	47,000,184
Pepsico Inc	738,230	44,323,329
Cisco Systems Inc	2,096,218	40,939,138
Johnson & Johnson	671,604	40,242,512

Ten Largest Bond Holdings

Bond	Par Value	Market Value
CF Western Asset Mtg Backed Sec Portfolio	23,252,075	241,007,755
FNMA 30Yr Pass-Throughs 5.5% 30yr	39,080,000	37,528,993
US Treas Note 4.% due 02-15-2015 REG	37,085,000	34,173,234
US Treas Note 4.25% due 08-15-2015	33,500,000	31,344,744
FNMA Single Family Mtg 5.0% 30 yr	31,740,000	29,666,997
US Treas Note Inflation .875% due 04-15-2010 REG	28,538,000	28,625,339
FNMA Pool 254800 5.50% due 07-01-2023 BEO	29,397,484	28,621,125
CF Western Asset Opp Int Inv Grade Sec Portfolio	1,219,934	26,080,971
US Treas Note Inflation 2.375% due 04-15-2011 REG	24,575,000	24,842,775
FNMA Preassign 00451 4.75% due 12-15-2010	25,000,000	24,989,000

A complete list of portfolio holdings is available upon request.

SCHEDULE OF INVETMENT FEES AND COMMISSIONS FOR YEAR ENDED JUNE 30, 2006

	Investment Fees	Commissions
Domestic Fixed Income	1,728,486	N/A
Domestic Equities	7,933,566	2,202,817
International Equities	7,078,338	*N/A
Short Term Invstment (NTR)	64,842	N/A
Total	16,805,232	2,202,817
Custodian Fees	238,150	N/A
Consultant Fees	336,314	N/A
Grand Total	**$17,379,696.00**	**$2,202,817.00**

*International equities are held in commingled funds; commissions are not reported.

CONTENTS

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631
469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

February 23, 2007

Board of Trustees
Educational Retirement Board of New Mexico
P.O. Box 26129
Santa Fe, NM 87502-0129

Dear Members of the Board:

Subject: Actuarial Valuation as of June 30, 2006

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Educational Retirement Board of New Mexico (ERB) as of June 30, 2006.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion the results presented also comply with the relevant statutes, and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Both are Enrolled Actuaries and Members of the American Academy of Actuaries, and both are experienced in performing valuations for large public retirement systems. Both meet the Qualification Standards of the American Academy of Actuaries.

To the best of our knowledge, this report is based on benefit provisions in effect as of June 30, 2006, audited financial information prepared as of that date, member data gathered as of that date, and actuarial assumptions and methods previously adopted by the Board.

Actuarial Valuation

The primary purposes of the valuation report are to determine the adequacy of the current employer contribution rate, to describe the current financial condition of ERB, and to analyze changes in ERB's condition. In addition, the report provides information required by ERB in connection with Governmental Accounting Standards Board Statement No. 25 (GASB 25), and it provides various summaries of the data.

Valuations are prepared annually, as of June 30 of each year, the last day of ERB's plan and fiscal year.

Financing Objectives

The member and employer contribution rates are established by statute. In 2005, the enactment of SB 181 increased the employer contribution rate by 75 basis points (0.75%) each year through FY 2012, and it increased member contribution rates by 7.50 basis points (0.075%) each year through FY 2009. As of July 1 2006, the current employer contribution rate is 10.15% and the current member contribution rate is 7.75%. The member rate will reach its ultimate level of 7.90% in FY 2009, and the employer rate will reach its ultimate level of 13.90% in FY 2012. In addition, certain higher education employers make an additional contribution equal to 3.00% of the total pay for their employees who elected to join the Alternative Retirement Program rather than ERB.

These rates are intended to be sufficient to pay ERB's normal cost and to amortize ERB's unfunded actuarial accrued liability (UAAL) in payments which are level as a percentage of payroll. Except for short-term fluctuations, the amortization period should not exceed the maximum 30-year period currently allowed under GASB No.25. (The amortization period, also referred to as the funding period, is the number of years expected to be required to completely amortize the UAAL, assuming that ERB's experience exactly follows the actuarial assumptions.) This funding policy is set by the Board of Trustees, and is considered reasonable by the actuary.

Progress Toward Realization of Financing Objectives

As of June 30, 2006, ERB has an infinite funding period. Therefore, if the employer contribution rate (10.15% as of July 1, 2006) and member contribution rate (7.75% as of July 1, 2006) were to remain in place, and all actuarial assumptions were exactly realized, including an 8.00% investment return on the actuarial value of assets, then the UAAL would never achieve complete amortization. The contribution that would be required in order to amortize the UAAL over 30 years is 14.51%. (Last year the 40-year funding rate was 12.50% and the 30-year funding rate was 13.46%.) Thirty years is the maximum funding period under GASB 25 effective for FY 2007. Prior valuations were allowed to use up to a 40-year funding period. As mentioned above, under current law, the employer and member rates will increase to 13.90% and 7.90%, respectively. However, GASB 25 does not permit the consideration of contribution rates not yet in effect, so an infinite funding period must be reported.

Our projections indicate that these increased contributions will result in the unfunded liability being fully amortized within about 26 years. (This projection reflects an assumption that active membership growth will average 1.50% per year. GASB 25 prohibits reflecting anticipated membership growth in the financial reports or required supplemental schedules.)

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio at June 30, 2005 was 70.4%, while it is now 68.3%. Five years ago the ratio stood at 91.9%, and ten years ago the ratio was 72.1%. However, if the ratio were calculated using the market value rather than the actuarial value of assets, it would be 71.9% as of June 30, 2006, up from 70.3% as of June 30, 2005. During the last fiscal year, the UAAL increased from $3,134.3 million to $3,622.4 million. Projections indicate that, as the higher contribution rates are phased in, the UAAL will increase to nearly $4 billion before beginning to decrease.

Future Expected Changes

All of the standard actuarial measurements, including the funded ratio and the funding period, are functions of the actuarial value of assets. The actuarial value of assets recognizes investment gains and losses—the positive or negative differences between the actual net investment return on market value and the expected 8.00% investment return—over a period of five years, at the rate of 20% per year. Therefore, 20% of the loss from FY 2003, 40% of the gain from FY 2004, 60% of the gain from FY 2005, and 80% of the gain in FY 2006 are not yet reflected in the actuarial measurements.

Because of the known asset gains which will be phased in over the next five years, we project that the funded ratio will increase next year, and that by the time the employer contribution reaches 13.90%, the plans contributions will be larger than required under GASB 25.

Benefit Provisions

The actuarial valuation reflects the benefit and contribution provisions set forth in the relevant New Mexico statutes. There were no material benefit changes made to these provisions since the previous actuarial valuation. The increases to the contribution rates which are still being phased in are described above. There are no ancillary benefits (such as cost-of-living increases to retirees) funded by a source independent of ERB.

Assumptions and Methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. The last review of these assumptions occurred following the 2004 actuarial valuation, and the Board adopted all of our recommendations.

We believe the recommended assumptions are internally consistent and are reasonably based on the actual experience of ERB. The actuarial assumptions and methods used in this report comply with the parameters for disclosure that appear in GASB 25.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods.

Member and Financial Data

Member data for retired, active, and inactive participants was supplied as of June 30, 2006, by the ERB staff. This year ERB implemented a new data administration system, IRIS, which resulted in some changes in the reported information and the reporting of some additional data.
Previously, ERB did not know of or report member terminations at the end of the school year, unless the member retired or took a refund. Under IRIS, however, a termination date is supplied by the employers. Members who have terminated are no longer reported as active. For this reason, there was a significant decrease in the number of reported active members (from 63,362 at June 30, 2005 to 61,829 at June 30, 2006). This also caused the reported payroll to be almost unchanged at $2.2 billion, and it caused the increase in the number of inactive members, from 25,428 to 29,950.

Because of IRIS, ERB was also able to report members who were retired under PERA reciprocity. These are members who receive their benefit from PERA, but who had service in ERB at one time. ERB reimburses PERA for the ERB-portion of their benefit. There were also some retirees reported this year who had been omitted from all the data files we received last year. These were members who were not retired as of the June 2005 payroll, used to supply retiree data for the June 30, 2005 actuarial valuation, but who had been removed from the active or inactive data files because their retirements were pending. The combination of these PERA reciprocity cases and the overlooked-and-now-found retirees accounted for almost all of the $205 million experience loss this year.

We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was also supplied by the ERB staff and by the plan's auditors.

We would like to thank the ERB staff and the auditors for their assistance with this project.

Sincerely,

J. Christian Conradi, ASA, MAAA, EA
Senior Consultant

Leslie L. Thompson, FSA, MAAA, EA
Senior Consultant

Table of Contents

Table of Contents

Executive Summary

Valuation Date:	06/30/2006	06/30/2005
Fiscal Year Ending:	06/30/2007	06/30/2006
Membership		
• Number of		
- Active members	61,829	63,362
- Retirees and beneficiaries	28,539	26,100
- Inactive, vested	8,369	6,340
- Inactive, nonvested	21,581	19,088
- Total	120,318	114,890
• Payroll	$ 2,219.4 million	$ 2,209.1 million
Statutory contribution rates		
• Employer	10.15%	9.40%
• Member	7.750%	7.675%
Assets		
• Market value	$ 8,219.3 million	$ 7,451.1 million
• Actuarial value	$ 7,813.9 million	$ 7,457.5 million
• Return on market value	12.0%	9.6%
• Return on actuarial value	6.4%	1.1%
• Employer contributions	$ 226.5 million	$ 197.9 million
• External cash flow %	-1.4%	-1.6%
• Ratio of actuarial to market value	95.1%	100.1%
Actuarial Information		
• Normal cost %	13.56%	13.56%
• Unfunded actuarial accrued liability (UAAL)	$ 3,622.4 million	$ 3,134.3 million
• Funded ratio	68.3%	70.4%
• Funding period (years)	Infinite	Infinite
• GASB Annual Required Contribution	14.51%	12.50%
Gains/(losses)		
• Asset experience	$ (121.8) million	$ (513.8) million
• Liability experience	(205.3) million	146.0 million
• Benefit changes	N/A	N/A
• Assumption/method changes	-	(212.7) million
• Total	$ (327.1) million	$ (580.5) million

Introduction

Table 1 shows the most significant actuarial results. Table 2 analyzes changes in the UAAL. Tables 3 and 4 show more detailed actuarial information. Tables 5a and 5b develop the GASB 25 Annual Required Contribution for the last fiscal year, and Tables 6a-6c show required GASB 25 disclosure information. Tables 7a, 7b, 15 and 16 show statistical information about the membership, and Tables 8a-11b, and Table 13 show information about plan assets. Tables 12a and 12b show the calculation of the actuarial gains and losses, and Table 14 shows the solvency test, used by some funds in their annual report. Finally, Appendix 1 is a summary of the benefit and contribution provisions of ERB, Appendix 2 is a summary of the actuarial methods and assumptions, and Appendix 3 is a Glossary.

Actuarial Information

The determination of the undefined actuarial accrued liability (UAAL) and the funding period involves the following steps:

- The acturial value of futures benefits is determined for the present members, incuding retired members, beneficiaries, inactive members and active members. This amounts to $13,716.2 million, as shown on table 3.

- The entry age normal funding method is used to allocate the actuarial present value of future benefits between the portion due for the current year (the normal cost), prior years (the actuarial accrued liability) and future years. The actuarial accrued liability is $11,436.3 million, as shown in line 6d on Table 1.

- Under the entry age normal cost method the current and future normal costs are determined as a level percentage of payroll. Table 4 shows an analysis of the normal cost rate. The amount needed to fund the current and future normal costs is 13.56% of payroll inclusive of member contributions. This is the total (member plus employer) contribution rate needed to pay for the average new member.

- A part of the normal cost is paid by the employee contributions of 7.75%, leaving 5.81% to be funded by the employers. I.e., the current year's employer normal cost is 5.81% of payroll. This is shown in Line 3 of Table 1.

- The unfunded actuarial accrued liability (UAAL) is determined by subtracting the actuarial value of assets from the actuarial accrued liability. (The actuarial value of assets is a smoothed market value, as discussed in more detail below.) The UAAL is $3,622.4 million, as shown in line 8 on Table 1.

- Since the statutory employer contribution rate is 10.15%, and the employer normal cost rate is 5.81%, the difference of 4.34% is used to amortize the UAAL. The 3% contribution made on behalf of ARP members is also used to amortize the UAAL.

- Finally, the funding period is the anticipated period needed to reduce the UAAL to zero, assuming that plan experience exactly follows the assumptions, that no benefit changes are made, that payroll grows at 3.75% per year, and that the contributions are made as required. As shown in line 10 on Table 1, the current employer rate is not sufficient to amortize the UAAL over any period.

Analysis of Changes

Table 2 shows an analysis of the changes in the UAAL. Since the UAAL is an actuarial present value, with future anticipated benefits

discounted using an 8.00% interest rate, the UAAL increases each year by the imputed interest rate, less employer contributions made to amortize the UAAL. (Keep in mind that part of the employer contribution is used to pay the normal cost, so only part of each year's contribution is available to amortize the UAAL.)
As shown on Table 2, the UAAL increased by $250.7 million for imputed interest and decreased by $89.7 million because of payments made. This means that the UAAL was expected to increase $161.0 million before recognizing plan experience. The UAAL as of June 30, 2005 was $3,134.3 million, and the expected UAAL at June 30, 2006, recognizing actual contributions made, was $3,295.3 million.

However, we had previously anticipated that the plan would experience an actuarial loss on investments, because under the smoothing method used to determine the actuarial value of assets, we knew there were still substantial deferred losses from FY 2002 and FY 2003.

As expected the plan experienced an actuarial loss on investments of $121.8 million. The investment loss resulted from the fact that the return on the actuarial value of assets, 6.4%, was less than the 8.00% assumed investment return rate. This loss was the result of recognizing an additional 20% of the losses from FY 2002 and FY 2003, as well as recognizing only 20% of the investment gains from FY 2004, FY 2005 and FY 2006. The market rate of return in FY 2006 was 12.0%.

The plan experienced a liability loss of $205.3 million. This loss represents 1.8% of the total actuarial accrued liability. This was almost entirely the result of changes made to the data provided because of the new IRIS data system. This is discussed further in the Member Data topic below.

There were no material benefit changes adopted since last actuarial valuation, nor were any changes made to the actuarial assumptions or methods.
As a result of all the experience, the UAAL increased from $3,134.3 million to $3,622.4 million, and the funding period remained infinite.

GASB 25 Disclosure

Governmental Accounting Standards Board Statement No. 25 (GASB 25) is the relevant accounting standard for governmental retirement systems like ERB.

Tables 5a and 5b show the calculation of the Annual Required Contribution (ARC) as computed under GASB 25, and they show what percent of this amount was actually received. For ERB, the ARC is defined to be the actual contributions required by statute, as long as this is not less than the minimum allowed under GASB 25. The GASB 25 minimum is equal to the employer normal cost, plus a 30-year amortization of the UAAL.
Tables 6a, 6b, and 6c show information required to be reported under GASB 25. Table 6a shows a history of funding progress--a comparison of the actuarial value of assets with the actuarial accrued liability and a comparison of the UAAL with covered payroll. This table shows steady progress over the years from 1992 to 2001, with the best funded ratio in 2001, 91.9%, then it decreased to 86.8% as of 2002, 81.1% as of 2003, 75.4% as of 2004, 70.4% as of 2005, and 68.3% as of 2006. These decreases were principally the result of investment experience in the 2001 – 2003 fiscal years, which is still being phased into the actuarial value of assets.
Table 6b shows a ten-year comparison of (a) the employer contributions actually received, with (b) the GASB 25 ARC. Note that this shows that 75.5% of the ARC

was contributed during FY 2006, since the 9.40% employer contribution rate is less than the 40-year contribution calculated in last year's valuation (12.50%). For FY 2007, the financial reports prepared for ERB will show that only approximately 70% of the ARC was contributed. This is because the 10.15% statutory rate is less than the calculated 30-year contribution rate of 14.51%.

Table 6c shows other information which must be included in the notes section of the financial report. The auditor's notes should also disclose the following items that may affect the comparability of the trend information shown in Tables 6a and 6b:

- Actuarial assumptions were changed at June 30, 1998, June 30, 2001, June 30, 2003 and June 30, 2005.

Benefit Provisions

Appendix 1 summarizes the provisions of ERB. These have not been materially changed since the previous valuation.

This valuation reflects benefits promised to members by statute. There are no ancillary benefits - retirement type benefits not required by statutes but which might be deemed an ERB liability if continued beyond the availability of funding by the current funding source.

Actuarial Assumptions and Methods

In determining costs and liabilities, actuaries use assumptions about the future, such as rates of salary increase, probabilities of retirement, termination, death and disability, and an investment return assumption. ERB's Board adopts the assumptions used, taking into account the actuary's recommendations. The last review of these assumptions occurred following the 2004 actuarial valuation, and the Board adopted all of our recommendations.

We believe the recommended assumptions are internally consistent and are reasonably based on the actual experience of ERB. Appendix 2 summarizes the current assumptions.

The most significant assumptions are (i) the assumed investment return, currently set at 8.00%, and (ii) the assumption regarding future salary increases, which is based on a table that varies by service.

In addition to the actuarial assumptions, the actuary also makes use of an actuarial funding method to allocate costs to particular years. In common with most public-sector plans, ERB uses the entry age normal method. This method produces a relatively level pattern of funding over time, and thereby provides equity between various generations of taxpayers. We continue to believe this method is appropriate for ERB.

Assets

ERB assets are held in trust. The ERB staff and the ERB auditors have provided the asset information used in this valuation.

Table 8a presents a summary of the market value of assets held by the fund, and Table 8b shows the allocation of assets held for investment. About 72% of the assets are now held in equities, compared to 73% last year and 71% the year before. Table 9 shows a reconciliation of the assets from the beginning of the prior year to the valuation date.

Tables 10a and 10b show the development of the actuarial value of assets (AVA). The AVA is a smoothed market value. A smoothed value is used in order to dampen some of the year-to-year fluctuations that would occur if the market value were used instead. The method used phases in differences between the actual and expected market returns over five years. The expected return is determined using the 8.00% assumption and the plan's market value, adjusted for contributions received and benefits and refunds paid. Both the actual and expected returns are computed net of administrative expenses.

Note that the actuarial value is currently 95% of the market value. Over any short time period, a disparity between actuarial value and market value may appear, but in the long-run, we would expect the actuarial value and the market value to continue to track each other fairly closely.

Table 11a shows that the investment return rate for FY 2006 on market value was 12.0%, while it was 6.4% on actuarial value. Table 11b shows historical return rates since the current actuarial asset method was adopted.

Finally, Table 13 shows a history of cash flows to the trust, and the net cash flow measured as a percentage of the assets. The cash flow is slightly negative, 1.4% of market value, but this is not a sign of concern in a mature plan such as ERB.

Member Data

Membership data was provided on electronic files by the ERB staff. Data for active members includes sex, birthdate, service, salary paid in the prior year, and accumulated contributions. Data for inactive, nonretired members was similar, but includes the member's accrued benefit as well. For retired members, data includes status (service retiree, disabled retiree or beneficiary), sex, birthdate, pension amount, form of payment, beneficiary sex and birthdate if applicable, and date of retirement.

While not verifying the correctness of the data at the source, we performed various tests to ensure the internal consistency of the data and its overall reasonableness.

Table 7a summarizes data on all members. Table 7b is a history of key statistical information about active members, and Table 15 is a history of statistical information about retirees. Table 16 is an age/service distribution of active members and their average pay.

The number of active members decreased 2.4% since last year, from 63,362 to 61,829.

Total payroll increased 0.5% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2005-06 member pay). However, this figure is increased by one year's pay increase to determine the member's rate of pay at July 1, 2006. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 3.0% since last year. Average pay for members active in both this valuation and the last year's valuation increased 6.7%. The difference between these two figures is due to the effect of retirements and terminations, and their replacement by new members who generally earn less.

This year ERB implemented a new data administration system, IRIS, which resulted in several changes in the reported information. Some of the changes in membership statistics reported on Table 7a may have been affected by this change in their procedure used for gathering data. Examples of some of the primary changes include:

- Previously, members who terminated near the end of the fiscal year but still had a contribution account balance on file were reported as still active. This year, ERB reported these members as terminated. The decrease in the number of active members and the increase in the number of inactive members this year is consistent with the extent of the change that ERB estimated.

- In prior valuations, members who previously accrued a benefit with ERB, terminated, then went to work for and retired with PERA were not reported with the ERB data. This year, these PERA reciprocity members have been reported and ERB's share of the accrued liability associated with this benefit has been calculated and included in this valuation.

- Likewise, some members previously accrued a benefit with PERA, terminated, then went to work for and retired with ERB. Previously, the benefit reported for these ERB reciprocities has been the member's total benefit payable from the two systems. This year, ERB has supplied just the share of the benefit payable by ERB.

- This year, ERB reported about 300 extra members who retired July 1, 2005 but were not reported on the data used for the prior valuation.

Together, these last three items generated almost all of the liability experience loss of $205.3 million reported on Table.

Actuarial Information

	June 30, 2006 (1)	June 30, 2005 (2)
1. Payroll		
a. Supplied by System (annualized)	$ 2,219,411,615	$ 2,209,133,721
b. Adjusted for one-year's pay increase	2,392,902,664	2,376,431,552
2. Actuarial present value of future pay	$ 16,813,022,476	$ 16,750,029,512
3. Normal cost rate (payable monthly)		
a. Total normal cost rate	13.560%	13.560%
b. Less: member contribution rate	(7.750%)	(7.675%)
c. Employer normal cost rate	5.810%	5.885%
4. Employer normal cost (Item 3c * Item 1b)	$ 139,027,645	$ 139,852,997
5. Actuarial accrued liability for active members		
a. Actuarial present value of future benefits	$ 7,678,012,910	$ 7,717,527,250
b. Less: actuarial present value of future normal costs (Item 3a * Item 2)	(2,279,845,848)	(2,271,304,002)
c. Actuarial accrued liability	$ 5,398,167,062	$ 5,446,223,248
6. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	$ 5,347,533,306	$ 4,875,273,149
b. Inactive members	690,623,822	270,312,092
c. Active members (Item 5c)	5,398,167,062	5,446,223,248
d. Total	$ 11,436,324,190	$ 10,591,808,489
7. Actuarial value of assets	$ 7,813,888,383	$ 7,457,547,183
8. Unfunded actuarial accrued liability (UAAL) (Item 6d - Item 7)	$ 3,622,435,807	$ 3,134,261,306
9. Amortization payment for next fiscal year		
a. Employer contribution rate	10.150%	9.400%
b. Less: Employer normal cost rate (Item 3c)	(5.810%)	(5.885%)
c. Amortization rate	4.340%	3.515%
d. Amortization contribution (Item 9c * Item 1b)	$ 103,851,976	$ 83,531,569
e. Expected ARP contribution	3,949,693	3,747,968
d. Total	$ 107,801,669	$ 87,279,537
10. Funding period based on current 10.15% employer contribution requirement, with payments increasing at assumed payroll growth rate	Infinite	Infinite

Table 1

Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

Basis	Year Ending June 30, 2006	Year Ending June 30, 2005
(1)	(2)	(3)
1. UAAL at prior valuation	$ 3,134.3	$ 2,439.1
2. Increases/(decreases) due to:		
a. Interest on UAAL	250.7	195.1
b. Amortization payments [1]	(89.7)	(80.4)
c. Liability experience	205.3	(146.0)
d. Asset experience	121.8	513.8
e. Changes in actuarial assumptions and methods	-	212.7
f. Benefit change	N/A	N/A
g. Total	$ 488.1	$ 695.2
3. Current UAAL (1+2g)	$ 3,622.4	$ 3,134.3

Note : Dollar amounts in millions

[1] Actual contributions reduced by normal cost, and adjusted for timing.

Table 2

Actuarial Present Value of Future Benefits

	June 30, 2006	June 30, 2005
	(1)	(2)
1. Active members		
a. Service retirement benefits	$ 6,900,267,455	$ 6,949,078,178
b. Refunds and deferred termination benefits	621,558,992	612,168,774
c. Survivor benefits	70,745,394	70,984,748
d. Disability retirement benefits	85,441,069	85,295,550
e. Total	$ 7,678,012,910	$ 7,717,527,250
2. Retired members		
a. Service retirement	$ 5,051,046,773	$ 4,606,173,471
b. Disability retirement	57,697,077	52,687,793
c. Beneficiaries	238,789,456	216,411,885
d. Total	$ 5,347,533,306	$ 4,875,273,149
3. Inactive members		
a. Vested terminations	$ 619,457,517	$ 211,315,650
b. Nonvested terminations	71,166,305	58,996,442
c. Total	$ 690,623,822	$ 270,312,092
4. Total actuarial present value of future benefits	$ 13,716,170,038	$ 12,863,112,491

Table 3

Analysis of Normal Cost

		June 30, 2006	June 30, 2005
		(1)	(2)
1.	Gross normal cost rate (payable monthly)		
	a. Service retirement benefits	9.500%	9.500%
	b. Refunds and deferred termination benefits	3.770%	3.770%
	c. Disability retirement benefits	0.170%	0.170%
	d. Survivor benefits	0.120%	0.120%
	e. Total	13.560%	13.560%
2.	Less: member contribution rate	(7.750%)	(7.675%)
3.	Employer normal cost rate	5.810%	5.885%

Table 4

Calculation of GASB 25 ARAC as Percent of Payroll (For Following Fiscal Year)

	June 30, 2006 (1)	June 30, 2005 (2)
1. GASB 25 funding period (years)	30	40
2. Amortization contribution percentage		
a. Amortization payment	$ 212,250,466	$ 160,884,416
b. Less: expected payment for ARP members	3,949,693	3,747,968
c. Net (a-b)	$ 208,300,773	$ 157,136,448
d. Expected payroll	2,392,902,664	2,376,431,552
e. Amortization contribution percentage (c/d)	8.70%	6.61%
3. GASB 25 Annual Required Contribution		
a. Employer normal cost rate	5.81%	5.89%
b. Amortization percentage	8.70%	6.61%
c. Total	14.51%	12.50%
d. Statutory rate	10.15%	9.40%
e. ARC (max of (c,d))	14.51%	12.50%

Table 5a

Actual Contributions as Percentage of GASB 25 ARC for Year Ending 6/30/2006

1.	Actual contributions	
	a. On behalf of ERB members	$ 222,672,399
	b. On behalf of ARP members	3,806,933
	c. Total	$ 226,479,332
2.	Statutory employer contribution rate	9.40%
3.	Imputed fiscal year payroll for ERB members (Item 1a / Item 2)	$ 2,368,855,308
4.	GASB 25 Annual Required Contribution	
	a. Required GASB 25 employer contribution for ERB members as percent of payroll	12.50%
	b. Required GASB 25 employer contribution for ERB members (Item 4a * Item 3)	$ 296,161,063
	c. GASB 25 ARC (Item 4b + Item 1b)	$ 299,967,996
5.	Percentage of ARC contributed (Item 1c / Item 4c)	75.5%

Table 5b

Schedule of Funding Progress
(As required by GASB #25)

Valuation Date (1)	Actuarial Value of Assets (AVA) (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as % of Payroll (4)/(6) (7)
June 30, 1992	$2,549.8	$3,912.7	$1,362.9	65.2%	$1,150.4	118.5%
June 30, 1993	2,798.2	4,207.7	1,409.5	66.5%	1,191.0	118.3%
June 30, 1994	3,180.1	4,657.7	1,477.6	68.3%	1,258.7	117.4%
June 30, 1995	3,561.8	5,079.6	1,517.8	70.1%	1,356.5	111.9%
June 30, 1996	3,993.6	5,542.3	1,548.7	72.1%	1,413.6	109.6%
June 30, 1997	4,516.4	5,854.4	1,338.0	77.1%	1,448.7	92.4%
June 30, 1998	5,169.5	6,398.8	1,229.3	80.8%	1,542.8	79.7%
June 30, 1999	5,988.5	6,971.7	983.1	85.9%	1,637.5	60.0%
June 30, 2000	6,835.8	7,460.6	624.8	91.6%	1,795.7	34.8%
June 30, 2001	7,418.3	8,070.3	652.0	91.9%	1,819.6	35.8%
June 30, 2002	7,595.1	8,748.0	1,152.8	86.8%	1,978.5	58.3%
June 30, 2003	7,518.2	9,266.6	1,748.5	81.1%	2,032.5	86.0%
June 30, 2004	7,488.0	9,927.1	2,439.1	75.4%	2,142.4	113.8%
June 30, 2005	7,457.5	10,591.8	3,134.3	70.4%	2,209.1	141.9%
June 30, 2006	7,813.9	11,436.3	3,622.4	68.3%	2,219.4	163.2%

e : Dollar amounts in millions

Table 6a

Schedule of Employer Contributions (As required by GASB #25)

Fiscal Year	Annual Required Contribution	Percentage Contributed
1997	$131,535,477	98.9%
1998	$136,190,862	100.0%
1999	$145,521,527	100.0%
2000	$153,260,317	100.0%
2001	$161,524,340	100.0%
2002	$173,863,363	100.0%
2003	$179,132,226	100.0%
2004	$203,937,432	92.8%
2005	$243,237,303	81.3%
2006	$299,967,996	75.5%

Table 6b

Notes to Required Supplementary Information
(As required by GASB #25)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2006
Actuarial cost method	Entry Age Normal
Amortization method	Level payment, open
Amortization period for GASB 25 ARC**	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	5.00% to 13.50%
*Includes inflation at	3.00%
Cost-of-living adjustments	2.00%

** The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the employer normal cost plus a 30-year amortization of the UAAL, and (b) the statutory employer contribution rate, plus the 3.00% contribution on behalf of ARP members. Under GASB 25, the maximum allowable amortization period is 30 years. GASB 25 had allowed the use of a 40-year amortization during a transitional period that ended with FY 2006.

Table 6c

Membership Data

		June 30, 2006	June 30, 2005
		(1)	(2)
1.	Active members		
	a. Number	61,829	63,362
	b. Total payroll supplied by System (annualized)	$ 2,219,411,615	$ 2,209,133,721
	c. Average salary	$ 35,896	$ 34,865
	d. Average age	45.7	45.6
	e. Average service	9.2	9.3
2.	Vested inactive members (excluding pending refunds)		
	a. Number	8,369	6,340
	b. Total annual deferred benefits	$ 74,708,123	$ 37,197,069
	c. Average annual deferred benefit	$ 8,927	$ 5,867
3.	Nonvested inactive members and vested pending refunds		
	a. Number	21,581	19,088
	b. Employee assessments with interest due	$ 71,166,305	$ 58,996,442
	c. Average refund due	$ 3,298	$ 3,091
4.	Service retirees		
	a. Number	25,648	23,397
	b. Total annual benefits	$ 471,186,320	$ 429,368,138
	c. Average annual benefit	$ 18,371	$ 18,351
5.	Disabled retirees		
	a. Number	679	659
	b. Total annual benefits	$ 5,928,138	$ 5,493,176
	c. Average annual benefit	$ 8,731	$ 8,336
6.	Beneficiaries		
	a. Number	2,212	2,044
	b. Total annual benefits	$ 26,889,673	$ 24,346,383
	c. Average annual benefit	$ 12,156	$ 11,911

Note: Retirement benefits include impact of July 1 cost-of-living increases.

Table 7a

Historical Summary of Active Member Data

Year Ending June 30,	Active Members		Covered Payroll		Average Salary		Average Age	Average Service
	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1982	42,015	---	$622	---	$14,810	---	40.9	10.7
1984	40,385	-3.9%	670	7.7%	16,600	12.1%	42.0	9.9
1986	45,311	12.2%	786	17.3%	17,353	4.5%	41.7	9.7
1988	45,492	0.4%	863	9.8%	18,968	9.3%	43.9	10.1
1990	48,858	7.4%	1,033	19.7%	21,146	11.5%	42.6	8.5
1992	51,161	4.7%	1,150	11.3%	22,486	6.3%	43.0	8.9
1993	52,296	2.2%	1,191	3.6%	22,774	1.3%	43.2	8.9
1994	53,744	2.8%	1,259	5.7%	23,420	2.8%	43.3	9.0
1995	54,840	2.0%	1,356	7.7%	24,735	5.6%	43.2	9.0
1996	55,782	1.7%	1,414	4.3%	25,341	2.4%	43.7	9.1
1997	56,685	1.6%	1,449	2.5%	25,556	0.8%	43.9	9.1
1998	58,097	2.5%	1,543	6.5%	26,555	3.9%	44.0	9.0
1999	58,615	0.9%	1,637	6.1%	27,936	5.2%	44.3	9.2
2000	60,090	2.5%	1,796	9.7%	29,884	7.0%	44.5	9.1
2001	60,155	0.1%	1,820	1.3%	30,248	1.2%	44.9	9.2
2002	61,091	1.6%	1,979	8.7%	32,387	7.1%	45.2	9.3
2003	62,614	2.5%	2,032	2.7%	32,460	0.2%	45.3	9.3
2004	62,901	0.5%	2,142	5.4%	34,061	4.9%	45.6	9.4
2005	63,362	0.7%	2,209	3.1%	34,865	2.4%	45.6	9.3
2006	61,829	-2.4%	2,219	0.5%	35,896	3.0%	45.7	9.2

Table 7b

Plan Net Assets
(Assets at Market of Fair Value)

Item	Valuation as of June 30, 2006	Valuation as of June 30, 2005
(1)	(2)	(3)
1. Cash and cash equivalents	$ 239,704,558	$ 111,155,579
2. Receivables:		
a. Contributions	$ 55,641,277	$ 48,047,249
b. Investment income	27,881,569	24,930,349
c. Investment sales proceeds - brokers	19,075,687	11,614,106
d. Other	42,274	472
e. Total receivables	$ 102,640,807	$ 84,592,176
3. Investments		
a. U.S. treasury securities	$ 232,306,719	$ 617,732,732
b. U.S. government agencies	692,326,028	587,125,052
c. Domestic corporate bonds	1,132,490,442	686,748,201
d. Domestic equities	4,160,891,776	3,815,512,041
e. International equities	1,815,409,965	1,556,996,425
f. Mortgage backed securities	34,892,286	0
g. Other investments	884,808	0
h. Total investments	$ 8,069,202,024	$ 7,264,114,451
4. Invested securities lending collateral	$ 870,230,520	$ 822,073,281
5. Properties : land, building, furniture and equipment (at cost, less accumulated depreciation)	$ 7,428,225	$ 6,600,613
6. Total assets	$ 9,289,206,134	$ 8,288,536,100
7. Liabilities		
a. Accounts payable	$ 4,976,697	$ 4,592,510
b. Accrued expenses	159,477	244,204
c. Refunds payable	2,652,016	1,960,150
d. Investment purchases payable - brokers	190,300,628	8,131,044
e. Due to other funds	1,596,822	396,625
f. Securities lending collateral	870,230,520	822,073,281
g. Total liabilities	$ 1,069,916,160	$ 837,397,814
8. Total market value of assets available for benefits (Item 6 - Item 7g)	$ 8,219,289,974	$ 7,451,138,286

Table 8a

Allocation of Cash and Investments

		June 30, 2006	June 30, 2005
1.	Cash and short-term equivalents	2.9%	1.5%
2.	U.S. treasury securities	2.8%	8.4%
3.	U.S. government agencies	8.3%	8.0%
4.	Domestic corporate bonds	13.6%	9.3%
5.	Domestic equities	50.1%	51.7%
6.	International equities	21.9%	21.1%
7.	Other investments	0.4%	0.0%
8.	Total investments	100.0%	100.0%

Table 8b

Reconciliation of Plan Net Assets

	Year Ending June 30, 2006 (1)	Year Ending June 30, 2005 (2)
1. Value of assets at beginning of year		
a. Value reported in prior valuation	$ 7,451,138,286	$ 6,911,545,120
b. Prior period adjustments	-	-
c. Revised value	$ 7,451,138,286	$ 6,911,545,120
2. Revenue for the year		
a. Contributions		
i. Member contributions (including redeposits and service purchases)	$ 182,048,655	$ 173,127,814
ii. Employer contributions	222,672,399	194,260,033
iii. Employer contributions for ARP members	3,806,933	3,612,499
iv. Total	$ 408,527,987	$ 371,000,346
b. Income		
i. Interest, dividends, and other income	$ 188,252,629	$ 184,818,576
ii. Investment expenses	(17,074,105)	(15,495,256)
iii. Net	$ 171,178,524	$ 169,323,320
c. Net realized and unrealized gains	$ 716,078,282	$ 486,788,294
d. Total revenue	$ 1,295,784,793	$ 1,027,111,960
3. Expenditures for the year		
a. Refunds	$ 28,305,855	$ 27,214,675
b. Benefit payments	494,096,615	454,983,452
c. Administrative and miscellaneous expenses	5,230,635	5,320,667
d. Total expenditures	$ 527,633,105	$ 487,518,794
4. Increase in net assets (Item 2 - Item 3)	$ 768,151,688	$ 539,593,166
5. Value of assets at end of year (Item 1 + Item 4)	$ 8,219,289,974	$ 7,451,138,286

Table 9

Determination of Excess Earnings to be Deferred

Year ended :	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
	(1)	(2)	(3)	(4)
1. MVA at beginning of year	$ 6,011,150,752	$ 6,083,358,784	$ 6,911,545,120	$ 7,451,138,286
2. Net new investments				
a. Contributions	$ 337,902,406	$ 355,643,714	$ 371,000,346	$ 408,527,987
b. Benefits and refunds paid	(424,420,211)	(448,803,379)	(482,198,127)	(522,402,470)
c. Subtotal	$ (86,517,805)	$ (93,159,665)	$ (111,197,781)	$ (113,874,483)
3. MVA at end of year	$ 6,083,358,784	$ 6,911,545,120	$ 7,451,138,286	$ 8,219,289,974
4. Net MVA earnings (3 - 1 - 2c)	$ 158,725,837	$ 921,346,001	$ 650,790,947	$ 882,026,171
5. Assumed investment return rate	8.00%	8.00%	8.00%	8.00%
6. Expected return	$ 477,431,348	$ 482,942,316	$ 548,475,698	$ 591,536,084
7. Excess return (4 - 6)	$ (318,705,511)	$ 438,403,685	$ 102,315,249	$ 290,490,087
8. Excess return deferral percent	20%	40%	60%	80%
9. Amount deferred	$ (63,741,102)	$ 175,361,474	$ 61,389,149	$ 232,392,070

Note : MVA is market value of assets.

Development of Actuarial Value of Assets

1.	Market value of assets as of valuation	$	8,219,289,974
2.	Deferred amounts for fiscal year ending June 30,		
	a. 2006	$	232,392,070
	b. 2005	$	61,389,149
	c. 2004	$	175,361,474
	d. 2003	$	(63,741,102)
	e. Total	$	405,401,591
3.	Actuarial value of assets (1 - 2e)	$	7,813,888,383
4.	Actuarial value as percent of market value		95.1%

Table 10b

Estimation of Yields

	Year Ending June 30, 2006 (1)	Year Ending June 30, 2005 (2)
A. Market value yield		
1. Beginning of year market assets	$ 7,451,138,286	$ 6,911,545,120
2. Investment income (including realized and unrealized gains and losses)	$ 887,256,806	$ 656,111,614
3. End of year market assets	$ 8,219,289,974	$ 7,451,138,286
4. Estimated dollar weighted market value yield	12.0%	9.6%
B. Actuarial value yield		
1. Beginning of year actuarial assets	$ 7,457,547,183	$ 7,487,979,776
2. Actuarial return	$ 470,215,683	$ 80,765,188
3. End of year actuarial assets	$ 7,813,888,383	$ 7,457,547,183
4. Estimated actuarial value yield	6.4%	1.1%

Table 11a

History of Investment Return Rates

Plan Year Ending June 30 of	Market	Actuarial
(1)	(2)	(3)
1995	18.5%	11.5%
1996	12.2%	12.0%
1997	20.3%	13.4%
1998	19.6%	15.0%
1999	11.3%	16.4%
2000	13.1%	15.1%
2001	-11.1%	9.5%
2002	-8.8%	3.3%
2003	2.7%	0.1%
2004	15.3%	0.8%
2005	9.6%	1.1%
2006	12.0%	6.4%
Average Returns		
Last 5 years	5.8%	2.3%
Last 10 years	7.9%	7.9%

Table 11b

Investment Experience Gain or Loss

Item	Year Ending June 30, 2006	Year Ending June 30, 2005
(1)	(2)	(3)
1. Actuarial assets, beginning of year	$ 7,457,547,183	$ 7,487,979,776
2. Total contributions during year	$ 408,527,987	$ 371,000,346
3. Benefits and refunds paid	$ (522,402,470)	$ (482,198,127)
4. Assumed net investment income at 8%		
a. Beginning of year assets	$ 596,603,775	$ 599,038,382
b. Contributions	16,341,119	14,840,014
c. Benefits and refunds paid	(20,896,099)	(19,287,925)
d. Total	$ 592,048,795	$ 594,590,471
5. Expected actuarial assets, end of year (Sum of items 1 through 4)	$ 7,935,721,495	$ 7,971,372,466
6. Actual actuarial assets, end of year	$ 7,813,888,383	$ 7,457,547,183
7. Asset gain (loss) for year (Item 6 - Item 5)	$ (121,833,112)	$ (513,825,283)

Table 12a

Total Experience Gain or Loss

Item	Year Ending June 30, 2006	Year Ending June 30, 2005
(1)	(2)	(3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	$ 3,134,261,306	$ 2,439,078,791
2. Normal cost for the previous year	$ 322,244,118	$ 293,651,367
3. Less: contributions for the year	$ (408,527,987)	$ (371,000,346)
4. Interest at 8 %		
a. On UAAL	$ 250,740,904	$ 195,126,303
b. On normal cost	12,889,765	11,746,055
c. On contributions	(16,341,119)	(14,840,014)
d. Total	$ 247,289,550	$ 192,032,344
5. Expected UAAL (Sum of Items 1 - 4)	$ 3,295,266,987	$ 2,553,762,156
6. Actual UAAL	$ 3,622,435,807	$ 3,134,261,306
7. Total gain (loss) for the year (Item 5 - Item 6)	$ (327,168,820)	$ (580,499,150)
B. Source of gains and losses		
8. Asset gain (loss) for the year	$ (121,833,112)	$ (513,825,283)
9. Liability experience gain (loss) for the year	$ (205,335,708)	$ 146,017,646
10. Assumption change	$ -	$ (212,691,513)
11. Benefit change	N/A	N/A
12. Total	$ (327,168,820)	$ (580,499,150)

Table 12b

HISTORY OF CASHFLOW

Year Ending June 30,	Contributions[1]	Expenditures: Benefit Payments	Expenditures: Refunds	Expenditures: Administrative Expenses[2]	Expenditures: Other	Expenditures: Total	External Cash Flow for the Year[3]	Market Value of Assets	External Cash Flow as Percent of Market Value
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1994	214.2	(175.3)	(19.8)	(1.7)	0.0	(196.8)	17.4	3,190.0	0.5%
1995	229.7	(193.1)	(22.3)	(2.0)	0.0	(217.4)	12.3	3,792.3	0.3%
1996	238.9	(210.6)	(23.9)	(2.3)	0.0	(236.8)	2.1	4,257.2	0.0%
1997	245.6	(231.6)	(24.7)	(1.9)	0.0	(258.2)	(12.6)	5,107.3	-0.2%
1998	260.9	(254.4)	(28.2)	(2.1)	0.0	(284.7)	(23.8)	6,082.1	-0.4%
1999	278.9	(274.8)	(30.0)	(2.7)	0.0	(307.5)	(28.6)	6,740.4	-0.4%
2000	295.9	(311.8)	(35.2)	(2.5)	0.0	(349.5)	(53.6)	7,567.5	-0.7%
2001	315.2	(340.6)	(36.6)	(3.5)	0.0	(380.7)	(65.5)	6,667.0	-1.0%
2002	328.6	(367.5)	(28.5)	(5.8)	0.0	(401.8)	(73.2)	6,011.2	-1.2%
2003	337.9	(396.1)	(28.3)	(4.3)	0.0	(428.7)	(90.8)	6,083.4	-1.5%
2004	355.6	(422.4)	(26.4)	(2.6)	0.0	(451.4)	(95.8)	6,911.5	-1.4%
2005	371.0	(455.0)	(27.2)	(5.3)	0.0	(487.5)	(116.5)	7,451.1	-1.6%
2006	408.5	(494.1)	(28.3)	(5.2)	0.0	(527.6)	(119.1)	8,219.3	-1.4%

Amounts in $ millions

[1] Column (2) includes employee and employer contributions, as well as employer contributions for ARP members.

[2] Excludes investment expenses starting in 1997

Table 13

Solvency Test

	June 30, 2006 (1)	June 30, 2005 (2)
1. Actuarial accrued liability (AAL)		
a. Active member contributions	$ 1,918,438,460	$ 1,927,703,125
b. Retirees and beneficiaries	5,347,533,306	4,875,273,149
c. Active and inactive members (employer financed)	4,170,352,424	3,788,832,215
d. Total	$ 11,436,324,190	$ 10,591,808,489
2. Actuarial value of assets	$ 7,813,888,383	$ 7,457,547,183
3. Cumulative portion of AAL covered		
a. Active member contributions	100%	100%
b. Retirees and beneficiaries	100%	100%
c. Active and inactive members (employer financed)	13%	17%

Table 14

Historical Retired Particpants' Data

Year Ending June 30, (1)	Number (2)	Average Monthly Benefit (3)
1984	8,462	$430
1986	10,004	512
1988	11,375	663
1990	12,741	767
1992	14,107	846
1993	15,001	890
1994	15,814	966
1995	16,593	976
1996	17,381	1,011
1997	18,317	1,055
1998	19,244	1,104
1999	20,109	1,139
2000	21,186	1,228
2001	22,191	1,274
2002	23,052	1,315
2003	24,085	1,376
2004	24,947	1,420
2005	26,100	1,466
2006	28,539	1,472

Note: Retirement benefits include impact of July 1 cost-of-living increases.

Table 15

Distribution of Active Members by Age and by Years of Service
As of 06/30/06

	Years of Credited Service												
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	Total
Attained Age	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.
Under 25	585	573	182	76	30	17	0	0	0	0	0	0	1,463
	$16,148	$20,796	$17,964	$17,304	$20,355	$17,626	$0	$0	$0	$0	$0	$0	$18,358
25-29	629	1,052	792	571	429	523	3	0	0	0	0	0	3,999
	$24,345	$27,100	$28,510	$30,902	$34,568	$30,301	$24,947	$0	$0	$0	$0	$0	$28,707
30-34	518	886	686	588	586	2,023	298	1	0	0	0	0	5,586
	$25,481	$26,525	$29,242	$30,329	$33,387	$36,540	$36,980	$29,412	$0	$0	$0	$0	$32,067
35-39	902	958	749	601	530	2,179	1,293	236	7	0	0	0	7,455
	$23,020	$26,444	$29,184	$30,073	$32,349	$35,564	$39,946	$39,293	$40,580	$0	$0	$0	$32,445
40-44	436	774	657	536	540	2,269	1,511	1,027	241	7	0	0	7,998
	$24,758	$24,854	$28,227	$28,876	$29,086	$33,043	$38,398	$42,192	$42,118	$31,910	$0	$0	$33,316
45-49	460	691	632	533	519	2,502	1,898	1,432	1,057	306	6	0	10,036
	$25,421	$27,106	$28,533	$29,025	$32,574	$32,850	$37,127	$44,257	$48,789	$47,101	$38,455	$0	$36,178
50-54	405	596	551	464	520	2,258	1,958	1,769	1,174	816	197	0	10,708
	$28,325	$29,327	$32,439	$32,446	$32,545	$34,479	$38,092	$43,857	$50,203	$54,273	$52,318	$0	$39,443
55-59	269	487	436	371	361	1,702	1,545	1,680	1,120	663	422	49	9,105
	$32,051	$32,786	$32,295	$32,928	$35,486	$36,163	$40,254	$43,384	$50,933	$56,200	$59,124	$60,951	$42,017
60-64	125	227	215	178	177	835	680	630	411	302	175	64	4,019
	$31,967	$29,551	$32,848	$33,383	$38,762	$35,027	$39,734	$43,791	$51,288	$54,809	$68,929	$69,501	$41,942
65 & Over	52	114	87	86	77	312	223	179	106	99	68	57	1,460
	$18,025	$24,876	$26,451	$27,131	$31,511	$31,974	$31,246	$39,188	$48,095	$49,875	$69,300	$73,412	$36,798
Total	4,381	6,358	4,987	4,004	3,769	14,620	9,409	6,954	4,116	2,193	868	170	61,829
	$24,250	$26,772	$29,209	$30,310	$32,843	$34,429	$38,473	$43,296	$49,603	$53,659	$60,211	$68,348	$35,896

Table 16

CONTENTS

Summary of Plan Provisions

1. Effective Date: July 1, 1957.

1. Plan Year/Fiscal Year: Twelve-month period ending June 30th.

2. Administration: The Educational Retirement Board is responsible for administration of the System and investment of System assets.

3. Type of Plan: The System is a qualified, defined benefit, governmental retirement plan. For government accounting purposes, it is a cost-sharing multiple-employer PERS.

4. Eligibility: All teachers, nurses, and administrators employed by public schools in New Mexico, including public colleges and universities, participate in the System. These are the "regular members", and their participation is a condition of employment. However, see the section on the Alternative Retirement Plan below for an exception. Generally, other employees of these schools are also required to participate, although such employees employed continuously since June 30, 1971 may exempt themselves from membership. Employees of state schools and certain state agencies also participate.

5. Member Contributions: Members must contribute a percentage of their salary to the System. "Salary" for this purpose includes substantially all earnings. The member contribution rate is set by statute, and has been changed from time to time. It was most recently changed from 7.60%, the rate effective for the fiscal year ending June 30, 2005 (FY 2005), to 7.90%. The increase was phased in over four years as shown in the following schedule. Employee contributions are "picked up" by the local employer for federal income tax treatment.

Fiscal Year	Member
FY 2005 and earlier	7.600%
FY 2006	7.675%
FY 2007	7.750%
FY 2008	7.825%
FY 2009 and later	7.900%

7. Employer Contributions: The school district or other local administrative unit which employs a member contributes a percentage of the member's salary to the System. "Salary" for this purpose includes substantially all earnings. The employer contribution rate is set by statute, and has been changed from time to time. The following schedule shows recent and future employer contribution rates. In addition, state universities, colleges and junior colleges contribute 3% of the earnings of non-members who are participating in the Alternative Retirement Plan.

Fiscal Year	Employer
FY 2005 and earlier	8.65%
FY 2006	9.40%
FY 2007	10.15%
FY 2008	10.90%
FY 2009	11.65%
FY 2010	12.40%
FY 2011	13.15%
FY 2012 and later	13.90%

8. Service: Employees receive credit for each calendar quarter in which they are contributing members. Credit is also granted for service prior to the System's effective date, and certain military service. Credit may also be purchased for some out-of-state service under certain circumstances.

9. Final Average Compensation (FAC):

The average of the member's earnings for the last five consecutive years, or such other five consecutive year period that gives the largest average. Monthly benefits are based on one-twelfth of this amount.

10. Normal Retirement

Eligibility: A member may retire upon Norml Retirement on the earliest of (i) the date he/she attains age 65 with credit for 5 years of service, or (ii) the date the member completes 25 years of service, or (iii) the date that the sum of the member's age and service is at least 75, provided the member is at least age 60.

a. Monthly Benefit: 2.35% of FAC (monthly) times years of service.

b. Payment Form: Benefits are paid as a monthly life annuity, with a guarantee that if the sum of payments made does not exceed the member's accumulated contributions with interest, determined as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. Optional forms of payment are available; see below.

11 .Early Retirement

a. Eligibility: A member may take early retirement once the sum of his/her age and service equals or exceeds 75.

a. Monthly Benefit: 2.35% of FAC (monthly) times years of service, multiplied by the early retirement factor below.

b. Early Retirement Factor:

Age at Retirement	Factor
60 or later	1.000
59	.976
58	.952
57	.928
56	.904
55	.880
54	.808
53	.736
52	.664
51	.592
50	.520
49	.448
48	.376
47	.304
46	.232
45	.160

c. Payment Form: Same as for Normal Retirement above.

12. Disability Retirement

a. Eligibility: A member is eligible provided (i) he/she has credit for at least 10 years of service, and (ii) the disability is approved by the Board.

b. Monthly Benefit: 2% of FAC (monthly) times years of service, but not less than the smaller of (i) one-third of FAC, or (ii) 2% of FAC times years of service projected to age 60.

c. Payment Form: The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that if the payments made do not exceed the sum of the member's accumulated contributions with interest as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are available.

13. Vested Termination Benefit

a. Eligibility: A member with at least 5 years of service who does not withdraw his/her contributions from the fund is eligible for a vested termination benefit.

b. Monthly Benefit: 2.35% of FAC (monthly) times years of service. Both FAC and service are determined at the time the member leaves active employment.

c. Payment Form: Benefits commence when the participant attains his/her normal retirement age. Optionally benefits may commence at the early retirement age, applying the same reduction factors as are used for regular early retirement. The form of payment is the same as for Normal Retirement above.

14. Withdrawal (Refund) Benefit

a. Eligibility: All members leaving covered employment with less than 5 years of service for a reason other than the member's death. Optionally, members eligible for other benefits may withdraw their contributions in lieu of the regular benefits due.

b. Benefit: The member who elects to withdraw receives a lump-sum payment of his/her employee contributions, plus interest computed at a rate set by the Board of Trustees.

15. Death in Service

Benefit: Upon the death of an active member, the beneficiary may receive a refund of the member's contributions, plus interest based upon a rate set by the Board of Trustees. If the member has five or more years of service, the beneficiary may elect to receive an annuity determined as though the member had retired, elected option B below, and then died, in lieu of the refund. If the member is not eligible for early or normal retirement, this benefit may still be elected, with payments deferred until the member would have been eligible for retirement.

16. Optional Forms of Payment:

There are optional forms of payment available on an actuarially equivalent basis, as follows:

a. Option B - A Joint and 100% Survivor annuity with a "pop-up" feature. The regular life annuity amount is reduced to provide a Joint and 100% Survivor benefit, i.e., a benefit payable as long as either the member or his joint annuitant shall live. However, if the joint annuitant predeceases the member, then the member's benefit amount reverts back to the regular life annuity amount. The "pop-up" feature is subsidized by the System.

b. Option C - A Joint and 50% Survivor annuity with a pop-up feature. The benefit is reduced to provide a Joint and 50% Survivor benefit, i.e., a benefit payable as long as both the member and the joint annuitant are alive, reducing to 50% of this amount upon the member's death, if the joint annuitant is still living. If the joint annuitant predeceases the member, the benefit reverts to the regular life annuity amount. The pop-up feature is subsidized by the System.

17. Cost-of-living Increase:

All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit each July, beginning in the year they attain age 65. The adjustment is equal to one-half the percentage increase in the cost-of-living index, except that the adjustment shall not exceed four percent, nor be less than two percent. However, this increase shall not be greater than the actual percentage increase in the cost-of-living index. Members retired prior to July 1, 1984 are also entitled to an increase of the lesser of 2% or the percentage increase in the cost-of-living index for years prior to the attainment of 65. Members on disability retirement are entitled to an adjustment commencing on July 1 of the calendar year in which the third anniversary of disability retirement occurs.

18. Alternative Retirement Plan (ARP)

Beginning July 1, 1991, new faculty members employed by state universities may elect participation in the ARP rather than in this System. If this election is not made, the employee remains a member of this System permanently. No benefits are paid to ARP members from ERB. Also as discussed in the section on Employer Contributions above, the employer of an ARP makes a contribution of 3.00% of the member's salary to ERB.

Summary of Actuarial Methods and Assumptions

I.Valuation Date

The valuation date is June 30th of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

II. Actuarial Cost Method

The contribution rate is set by statute for both members and for the employers. The funding period is determined, as described below, using the Entry Age Normal actuarial cost method.

The Entry Age Normal actuarial cost method assigns the plan's total unfunded liabilities (the actuarial present value of future benefits less the actuarial value of assets) to various periods. The unfunded actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are the normal costs for future years. Each year's contribution is composed of (i) that year's normal cost, plus (ii) a payment used to reduce the unfunded actuarial accrued liability.

The normal cost is the level (as a percentage of pay) contribution required to fund the benefits for a new member. This is determined based upon a hypothetical group of new entrants. This group is based on the age-pay-sex distribution at hire for members joining ERB during the five-year period ending June 30, 2004. Part of the normal cost is paid from the employees' own contributions. The employers pay the balance from their contributions.

The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of assets.

The balance of the employers' contributions--the remainder after paying their share of the normal cost--is used to reduce the unfunded actuarial accrued liability. The funding period is the length of time required for the unfunded actuarial accrued liability to be completely amortized, assuming that the portion used to reduce the unfunded remains level as a percentage of total payroll, which is assumed to grow 3.75% per year. The 3.00% contribution made by employers to ERB on behalf of employees who elected to participate in the Alternative Retirement Plan is also used to amortize the unfunded actuarial accrued liability.

It is assumed that all contributions are made monthly at the end of the month.

III. Actuarial Value of Assets

The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (less than) expected investment income. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year).

Returns are measured net of all investment and administrative expenses.

IV. Actuarial Assumptions

A. Economic Assumptions

1. Investment return: 8.00%, compounded annually, net of expenses. This is composed of a 3.00% inflation rate and a 5.00% real rate of return.

2. Salary increase rate: Inflation rate of 3.00% plus productivity increase rate of 2.00% plus step-rate/promotional as shown:

Years of Service	Annual Step-Rate/ Promotional Component Rates of Increase	Total Annual Rate of Increase
0	8.50%	13.50%
1	2.75%	7.75%
2	1.75%	6.75%
3	1.25%	6.25%
4	1.00%	6.00%
5	0.75%	5.75%
6	0.50%	5.50%
7	0.25%	5.25%
8	0.25%	5.25%
9	0.25%	5.25%
10 +	0.00%	5.00%

3. Three-Tier Licensure Increased: In 2003, the legislature adopted a new framework for classroom teacher salaries with minimum salaries mandated for certain classes of teachers beginning in FY 2004. For teachers who met the mandated minimum salary of $30,000 in FY 2004, their salaries were assumed to meet the mandated minimum of $35,000 in FY 2005 and $40,000 in FY 2006 and later years for "professional" teachers if they had at least three years of service at each respective valuation date. Likewise, for teachers who met the mandated minimum salary of $30,000 in FY 2004, their salaries were assumed to meet the mandated minimum of $45,000 in FY 2007 and $50,000 in FY 2008 and later years for "master" teachers if they had at least six years of service at each respective valuation date.

4. Cost-of-living increases: 2% per year, compounded annually. Note that increases are deferred until age 65 or, for disabled retirees, until the third year following retirement. Also, members who retired prior to July 1, 1984 and who are younger than age 65 receive an annual increase.

5. Payroll growth: 3.75% per year (with no allowance for membership growth)

6. Contribution accumulation: Member contributions are assumed to have grown at 5.50% per year, with 6.00% interest, compounded annually

B.Demographic Assumptions

1. Mortality after termination or retirement -

a. Healthy males - 1994 Uninsured Pensioner Mortality Table for males, set back three years
b. Healthy females - 1994 Uninsured Pensioner Mortality Table for females, set back two years
c. Disabled males and females - 1981 Disability Table

See sample rates below:

	Deaths per 100 Lives		
Age	Healthy Males	Healthy Females	Disabled Males and Females
40	.10	.06	1.76
45	.13	.09	2.08
50	.20	.13	2.42
55	.35	.21	2.83
60	.60	.36	3.29
65	1.09	.72	3.76
70	1.94	1.26	4.36
75	3.06	1.97	5.62
80	4.86	3.41	8.84
85	8.12	5.90	12.95

2. Mortality rates of active members - As shown below for sample ages:

Age	Deaths per 100 Members	
	Males	Females
25	.10	.02
30	.10	.02
35	.08	.04
40	.08	.03
45	.11	.05
50	.15	.10
55	.23	.17
60	.31	.24
65	.46	.31

3. Disability - As shown below for selected ages (rates are only applied to eligible members – members with at least 10 years of service):

Age	Occurrences of Disability per 100 Members	
	Males	Females
25	.00	.00
30	.00	.03
35	.06	.07
40	.13	.12
45	.19	.16
50	.24	.19
55	.26	.20
60	.24	.19
65	.18	.16

4. Retirement - Select and ultimate as shown below for selected ages (rates are only applied to members eligible for retirement):

Retirement Per 100 Members

Males						
	Years of Service					
Age	0-4	5-9	10-14	15-19	20-24	25+
45	0.00	0.00	0.00	0.00	0.00	20.00
50	0.00	0.00	0.00	0.00	0.00	20.00
55	0.00	0.00	0.00	0.00	5.00	20.00
60	0.00	0.00	0.00	15.00	20.00	25.00
62	0.00	0.00	40.00	40.00	35.00	35.00
65	0.00	25.00	40.00	45.00	45.00	45.00
70	100.00	100.00	100.00	100.00	100.00	100.00

Females						
	Years of Service					
Age	0-4	5-9	10-14	15-19	20-24	25+
45	0.00	0.00	0.00	0.00	0.00	20.00
50	0.00	0.00	0.00	0.00	0.00	20.00
55	0.00	0.00	0.00	0.00	6.00	23.00
60	0.00	0.00	0.00	20.00	15.00	30.00
62	0.00	0.00	50.00	35.00	35.00	40.00
65	0.00	35.00	35.00	35.00	35.00	35.00
70	100.00	100.00	100.00	100.00	100.00	100.00

5. Termination (for causes other than death, disability or retirement) - Select and ultimate as shown below for selected ages:

Terminations per 100 Members

Males											
	Years of Service										
Age	0	1	2	3	4	5	6	7	8	9	10+
25	45.10	33.50	23.39	17.10	13.75	11.68	10.21	8.94	7.79	7.10	8.86
30	42.28	28.78	20.12	14.85	11.95	10.34	9.17	8.08	7.04	6.28	5.99
35	40.37	26.82	18.43	13.40	10.65	9.29	8.37	7.48	6.58	5.80	3.84
40	39.28	26.65	17.89	12.64	9.85	8.56	7.82	7.13	6.38	5.65	2.40
45	38.59	26.98	18.04	12.55	9.58	8.20	7.49	6.94	6.37	5.79	1.81
50	37.83	27.06	18.60	13.10	9.90	8.24	7.35	6.83	6.45	6.13	2.50
55	36.87	26.97	19.58	14.29	10.83	8.70	7.43	6.77	6.54	6.59	5.30
60	35.79	27.22	21.09	16.11	12.36	9.58	7.69	6.74	6.57	7.11	10.67
65	34.67	28.18	23.21	18.55	14.47	0.00	0.00	0.00	0.00	0.00	0.00

Females											
	Years of Service										
Age	0	1	2	3	4	5	6	7	8	9	10+
25	40.50	29.30	21.62	17.88	16.08	14.90	13.60	11.81	9.39	6.66	7.55
30	36.06	25.45	18.97	15.08	12.93	11.68	10.69	9.58	8.12	6.36	5.47
35	33.25	23.24	16.75	12.79	10.57	9.37	8.62	7.94	7.11	6.03	3.87
40	31.79	22.00	15.10	11.14	9.05	7.99	7.34	6.86	6.35	5.66	2.76
45	31.29	21.37	14.28	10.40	8.46	7.48	6.83	6.32	5.87	5.32	2.20
50	31.49	21.39	14.49	10.65	8.71	7.71	6.96	6.32	5.74	5.18	2.27
55	32.32	22.32	15.72	11.79	9.67	8.47	7.57	6.76	6.02	5.39	3.10
60	33.76	24.34	17.95	13.71	11.24	9.62	8.51	7.54	6.72	6.07	4.95
65	35.82	27.54	21.14	16.33	13.36	0.00	0.00	0.00	0.00	0.00	0.00

Rates are not applied after the member is eligible for reduced or unreduced retirement benefits.

C. Other Assumptions

1. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses. All beneficiaries are assumed to be spouses.

2. Percent electing annuity on death: It is assumed that beneficiaries of deceased members will elect to receive the refund of contributions with interest, unless the member is eligible for early or normal retirement, in which case the beneficiary will elect to receive the survivor annuity.

3. Percent electing deferred termination benefit: All vested active members terminating prior to eligibility for a retirement benefit are assumed to elect the more valuable of (i) an immediate refund, or (ii) a deferred annuity commencing when the member is eligible for an unreduced retirement benefit.

4. Assumed age for commencement of deferred benefits: Members electing to receive a deferred benefit are assumed to commence receipt when eligible for an unreduced benefit (or attained age if later)

5. Administrative expenses: The assumed investment return rate is intended to be the net rate of return after payment of all investment and administrative expenses.

6. Percent married: For valuation purposes 100% of members are assumed to be married.

V. Participant Data

Participant data was supplied in electronic files for (i) active members, (ii) inactive members, who are entitled to either a future deferred benefit or a refund of their employee contributions and the accumulated interest, and (iii) members and beneficiaries receiving benefits.
The data for active and inactive, non-retired members include birth date, sex, years of service, salary, and accumulated employee contributions (without interest). For retired members and beneficiaries, the data included date of birth, sex, beneficiary or joint annuitant date of birth (where applicable), current monthly benefit, date of retirement, and a form of payment code.

Salary supplied for the current year was the total earnings for the year preceding the valuation date. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year’s data.

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of Future Plan Benefits which is not provided for by future Normal Costs. It is equal to the Actuarial Present Value of Future Plan Benefits minus the actuarial present value of future Normal Costs.

Actuarial Assumptions: Assumptions as to future experience under the Plan. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and future investment and administrative expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

Actuarial Cost Method or ***Funding Method:*** Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of Future Plan Benefits which is not provided for by future Normal Costs. It is equal to the Actuarial Present Value of Future Plan Benefits minus the actuarial present value of future Normal Costs.
Actuarial Assumptions: Assumptions as to future experience under the Plan. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
-]future increases in salary;
- future rates of investment earnings and future investment and administrative expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

Actuarial Cost Method or Funding Method A procedure for allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability. These items are used to determine the ARC.

Actuarial Gain or ***Actuarial Loss:*** A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Plan's assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

New Mexico Educational Retirement Board Annual Report June 30, 2006
108

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)

b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and

c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of those benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive, nonretired members either entitled to a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.

Actuarial Valuation: The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB 25, such as the funded ratio and the ARC.

Actuarial Value of Assets or ***Valuation Assets:*** The value of the Plan's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly actuaries use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ARC.

Actuarially Determined: Values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.

Amortization Method: A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.

Amortization Payment: That portion of the pension plan contribution or ARC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Annual Required Contribution (ARC): The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB 25. The ARC consists of the Employer Normal Cost and the Amortization Payment.

Closed Amortization Period: A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.

Decrements: Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.

Defined Benefit Plan: A retirement plan that is not a Defined Contribution Plan. Typically a defined benefit plan is one in which benefits are defined by a formula applied to the member's compensation and/or years of service.

Defined Contribution Plan: A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, and the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.

Employer Normal Cost: The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.

Experience Study: A periodic review and analysis of the actual experience of the Plan which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.

Funded Ratio: The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA, although GASB 25 reporting requires the use of the AVA.

Funding Period or ***Amortization Period:*** The term "Funding Period" is used it two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ARC. This funding period is chosen by the Board of Trustees. In the second sense, it is a calculated item: the number of years in the future that will theoretically be required to amortize (i.e., pay off or eliminate) the Unfunded Actuarial Accrued Liability, based on the statutory employer contribution rate, and assuming no future actuarial gains or losses.

GASB: Governmental Accounting Standards Board.

GASB 25 and ***GASB 27***: Governmental Accounting Standards Board Statements No. 25 and No. 27. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 25 sets the rules for the systems themselves.

Normal Cost: That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated. Under the entry age normal cost method, the Normal Cost is intended to be the level cost (when expressed as a percentage of pay) needed to fund the benefits of a member from hire until ultimate termination, death, disability or retirement.

Open Amortization Period: An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

Valuation Date or Actuarial Valuation Date: The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.

CONTENTS

Participating Employers, June 30. 2006

Public Schools

Alamogordo
Albuquerque
Animas
Artesia
Aztec
Belen Consolidated
Bernalillo
Bloomfield
Capitan
Carlsbad
Carrizozo
Central Consolidated
Chama Valley
Cimarron
Clayton
Cloudcroft
Clovis
Cobre Consolidated
Corona
Cuba Independent
Deming
Des Moines
Dexter Consolidated
Dora Consolidated
Dulce
Elida
Espanola
Estancia
Eunice
Farmington
Floyd
Fort Sumner
Gadsden
Gallup-Mckinley Co.
Grady
Grants-Cibola
Hagerman
Hatch Valley
Hobbs
Hondo Valley
House
Jal
Jemez Mountain
Jemez Valley
Lake Arthur
Las Cruces
Las Vegas
Las Vegas West
Logan
Lordsburg
Los Alamos
Los Lunas
Loving
Lovington
Magdalena
Maxwell
Melrose
Mesa Vista
Mora
Moriarty
Mosquero
Mountainair
Pecos
Peñasco
Pojoaque Valley
Portales
Quemado
Questa
Raton
Reserve
Rio Rancho
Roswell
Roy
Ruidoso
San Jon
Santa Fe
Santa Rosa
Silver Consolidated
Socorro
Springer
Taos
Tatum
Texico
Truth or Consequences
Tucumcari
Tularosa
Vaughn
Wagon Mound
Zuni

Charter Schools

Academy for Technology and the Classics
Alma D'Arte Charter High School
Amistad Elementary
Amy Biehl High School
Anansi
Bridge Academy
Cesar Chavez Community School
Cottonwood Valley
Creative Education Preparatory Institute #1
Creative Education Preparatory Institute #2
East Mountain High School
Horizon Academy Northwest
Horizon Academy South
Horizon Academy West
Jefferson Montessori Academy
La Academia de Esperanza
La Academia de Lengua y Cultura
La Academia de Idiomas Y Cultura
Lacy Simms
Learning Community
Los Puentas
Monte del Sol
Montessori of the Rio Grande
Moreno Valley
Nuestros Valores
Public Academy for Performing Arts
Red River Valley
Robert F. Kennedy
Roots and Wings
San Diego Riverside
School for Integrated Academics and Technologies
Sidney Gutierrez
South Valley Academy
Southwest Secondary Learning Center
Taos Municipal
Turquoise Trail
Twenty-First Century
Walatowa

Participating Employers, June 30. 2006

Special Schools

NM Military Institute

NM School for the Deaf

NM School for the Visually Handicapped

University Hospital

Colleges and Universities

Albuquerque Technical Vocational Institute
Clovis Community College
Eastern NM University (Portales)
Eastern NM University (Roswell)
Luna Community College
Mesalands Community College
NM Highlands University
NM Junior College
NM State University
NM Institute of Mining & Technology
Northern NM Community College
San Juan College
Santa Fe Community College
University of New Mexico
Western NM University

State Agencies

Central Regional Education Coop
High Plains Regional Education Coop
NM Activities Association
NM Boys School
NM Department of Corrections
NM Public Education Department
NM Department of Health
NM Department of Vocational Rehabilitation
NM Educational Retirement Board
Northeast Regional Education Coop
Pecos Valley Regional Education Coop #8
Region IX Educational Coop
Regional Education Coop #7
Regional Educational Center #6
Southwest Regional Education Coop
Youth Diagnostic Center

Growth of Retired Participants

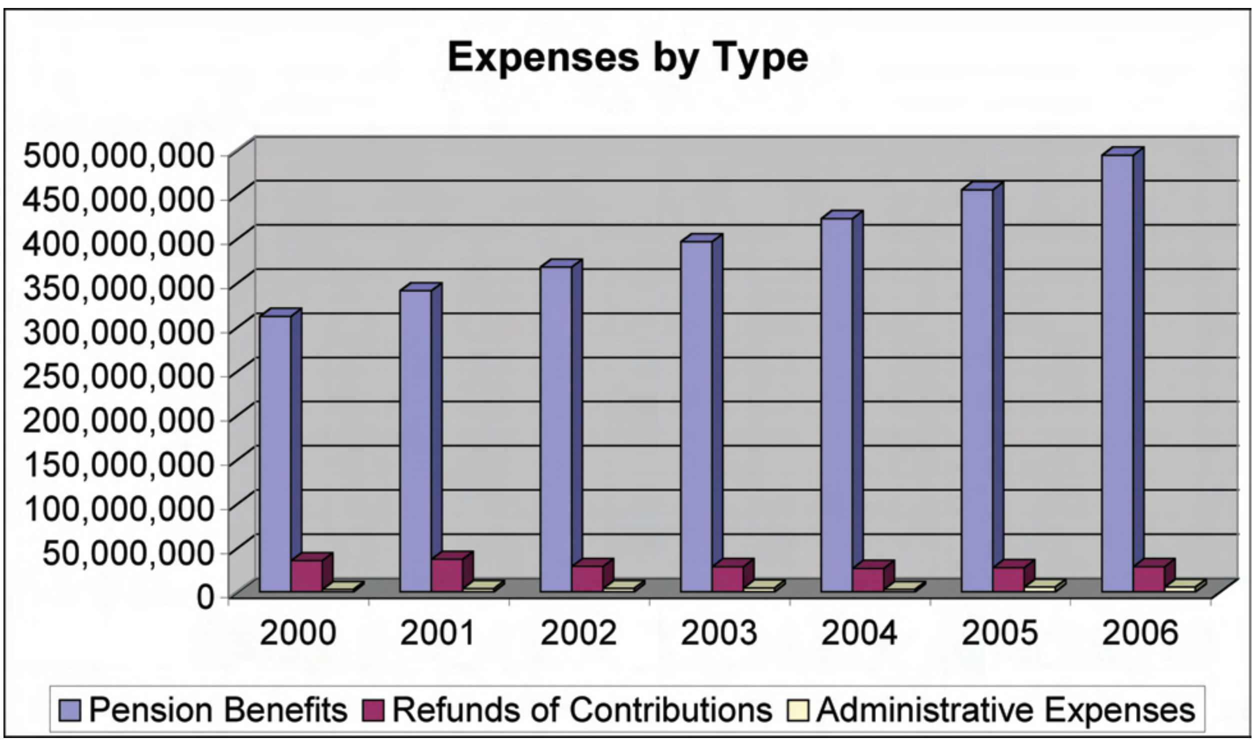
Year Ending June 30	Number of Retirees	All Retirees Average Monthly Benefit
(1)	(2)	(3)
1984	8,462	$430
1986	10,004	512
1988	11,375	663
1990	12,741	767
1992	14,107	846
1993	15,001	890
1994	15,814	966
1995	16,593	976
1996	17,381	1,011
1997	18,317	1,055
1998	19,244	1,104
1999	20,109	1,139
2000	21,186	1,228
2001	22,191	1,274
2002	23,052	1,315
2003	24,085	1,376
2004	24,947	1,420
2005	26,100	1,466
2006	28,539	1,472

History of Contribution Rates

Fiscal Year Beginning July 1	Employee Rate %	Employer Rate %	Total Rate %
(1)	(2)	(3)	(4)
1984	7.6%	7.6%	15.20%
1986	7.6%	7.6%	15.20%
1988	7.6%	7.6%	15.20%
1990	7.6%	7.6%	15.20%
1992	7.6%	7.6%	15.20%
1993	7.6%	7.6%	16.25%
1994	7.6%	8.65%	16.25%
1995	7.6%	8.65%	16.25%
1996	7.6%	8.65%	16.25%
1997	7.6%	8.65%	16.25%
1998	7.6%	8.65%	16.25%
1999	7.6%	8.65%	16.25%
2000	7.6%	8.65%	16.25%
2001	7.6%	8.65%	16.25%
2002	7.6%	8.65%	16.25%
2003	7.6%	8.65%	16.25%
2004	7.6%	8.65%	16.25%
2005	7.6%	8.65%	16.25%
2006	7.675%	9.400%	17.050%

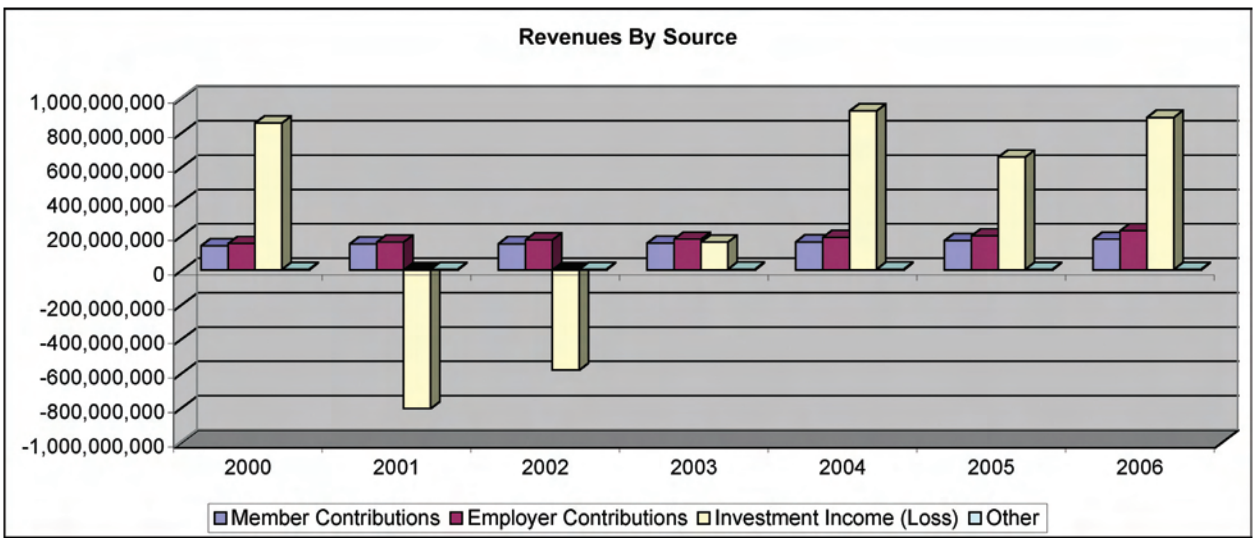
Expenses by Type

Year Ended June 30	Pension Benefits	Refunds of Contributions	Administrative Expenses	Total
6/30/2000	311,813,766	35,152,631	2,543,933	#REF!
6/30/2001	340,595,679	36,633,912	3,517,803	349,510,330
6/30/2002	367,494,870	28,508,035	3,622,362	380,747,394
6/30/2003	396,081,755	28,338,456	4,287,345	399,625,267
6/30/2004	422,418,366	26,385,013	2,583,048	428,707,556
6/30/2005	454,983,452	27,214,675	5,320,667	451,386,427
6/30/2006	494,096,614	28,305,856	5,230,635	487,518,794
				527,633,105



Revenues by Source

Year Ended June 30	Member Contributions	Employer Contributions	Investment Income (Loss)	Other	Total
6/30/2000	139,179,503	153,260,317	853,377,794	3,484,423	1,149,302,037
6/30/2001	150,068,398	161,524,340	(807,706,751)	3,689,430	(492,424,583)
6/30/2002	151,378,455	173,863,363	(582,712,628)	3,450,064	(254,020,746)
6/30/2003	154,427,006	179,010,098	160,929,270	4,344,038	498,710,412
6/30/2004	162,118,792	189,324,788	923,928,365	4,200,818	1,279,572,763
6/30/2005	169,099,212	197,872,532	656,111,614	4,028,602	1,027,111,960
6/30/2006	178,220,782	226,479,332	887,217,751	3,827,873	1,295,745,738



Schedule of Actuarial Value of Assets, Accrued Liabilities and UAAL

Year Ended June 30	Actuarial Value of Assets	Actuarial Accured Liabilites	Unfunded Actuarial Accured Liability (UAAL)
6/30/1999	5,988,547,319	6,971,667,593	983,120,274
6/30/2000	6,835,842,591	7,460,619,599	624,777,008
6/30/2001	7,418,311,093	8,070,335,294	652,024,201
6/30/2002	7,595,590,780	8,747,971,400	1,152,380,620
6/30/2003	7,518,163,450	9,266,626,972	1,748,463,522
6/30/2004	7,487,979,776	9,927,058,567	2,439,078,791
6/30/2005	7,457,547,183	10,591,808,489	3,134,261,306
6/30/2006	7,813,888,383	11,436,324,190	3,622,435,807