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NEW MEXICO EDUCATIONAL RETIREMENT BOARD

ERB Newsletter

New Mexico Educational Retirement Board
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Cost-of-Living Adjustment:

Good News and Bad News

Under state statute, ERB retirees over age 65 receive a Cost of Living Adjustment (COLA) beginning on July 1 of the year in which they turn 65. The COLA is tied to the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI), a measure that estimates the average price of consumer goods and services purchased by American households over comparable periods of time.

The amount of the COLA depends on the change in CPI. If the change in CPI is less than 2%, the COLA will be the same percent as the change in CPI. If the change in CPI is greater than or equal to 2%, the COLA will be one-half the change in CPI, but no less than 2% and no greater than 4%.

The following examples illustrate the formula:

- If the change in CPI is 1.5%, the COLA is 1.5%.
- If the change in CPI is 3%, the COLA is 2%.
- If the change in CPI is 9%, the COLA is 4%.

During periods of economic growth, however modest, this formula represented a reliable method by which to increase the spending power of New Mexico's education retirees.

But the recession that started in the last quarter of 2008 had an unusual and somewhat unexpected effect on the CPI – for the first time in 54 years, the CPI actually declined. Prior to changes made in the New Mexico Legislature's 2010 regular session, the COLA statute required a negative adjustment if the change in CPI were negative. In other words, ERB retirees over 65 were not only not going to receive an annual COLA increase but would have seen an average annual decrease of $69 in their pension benefit. That's the bad news.

Now for the good news – the Legislature passed legislation to amend the cost of living adjustment provision of the Educational Retirement Act to prohibit a decrease in the retirement benefits of retired members over the age of 65 if there is a decrease in the CPI. Sponsored by Rep. Rick Miera, HB 239 was passed by the Legislature and signed into law by Gov. Bill Richardson.

This legislation brings the New Mexico statute in line with federal Social Security Administration policy that states that if the CPI decreases from one year to the next, retiree benefits are not decreased but remain the same from the previous year.

Although the change adds about $15 million more to the benefits the ERB will pay to retirees than it would had the law remained unchanged, legislators who supported the bill cited the difficulties of living on a fixed income at a time when the cost of healthcare and groceries, for example, are not declining.

The bottom line for ERB retirees this year is that benefits will remain the same as last year.

Retiremen

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Employer Contribution Increase Delayed One Year

New Mexico state legislators faced many challenges during the 2010 legislative session as the economic downturn continued to ripple through state capitals across the country, bringing lower-than-expected revenues from taxes without an accompanying decrease in obligated spending.

Senate Bill 91, which was proposed by the Legislative Finance Committee (LFC) and passed by both the House and the Senate, was in response to New Mexico's state budget woes. SB 91 delays the scheduled 0.75% increase in the employer contribution to the Educational Retirement Board (ERB) Fund by one year. As a result, the employer contribution rate for FY 2011 will remain at 10.90% for employees making $20,000 or more and 12.40% for employees making less than $20,000 annually.

In 2005, concerns about the ERB Fund's solvency resulted in legislation to increase both the employer and employee contributions to the Fund. The employer contribution was set to increase by 0.75% per year over seven years, or 5.25% by 2012, raising it from 8.65% in FY 2005 to 13.9%. At the same time, contributions by educators and other employees at ERB-covered entities toward their retirement increased 0.075% per year over a four-year period, capping at 7.9% in FY 2009.

In a concerted effort to balance the state budget in the 2010 session, neither the LFC nor the Governor's budget recommendations included funding for the statutory 0.75% increase in employer contributions. Without SB 91, this would have meant that ERB-affiliated employers would have had to absorb the approximately $18.3 million required to fund the employer contribution increase from their already-strained operating budgets.

SB 91 has a short-term impact – just one year – and preserves the 0.75% increase scheduled for FY 2012. The actual cost of delaying the $18.3 million in contributions to the ERB Fund will depend on investment returns over the next few years.

The table below compares the provisions in current law with the provisions in SB 91.

Fiscal Year	2006	2007	2008	2009	2010*	2011*	2012	2013**
2005 Law: Employer Contribution	9.40%	10.15%	10.90%	11.65%	10.90%*	11.65%*	13.90%	13.90%
SB 91 Changes: Employer Contribution						10.90%	13.15%	13.15%
Current Law: Employee Contribution	7.675%	7.750%	7.825%	7.900%	9.400%*	9.400%*	7.900%	7.900%

*Indicates years for which the 1.5 percent employer/employee swap is in effect.
**And years following.

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Investment Committee Meetings:

Thursday, July 8, 2010

Thursday, August 19, 2010

Thursday, Sept. 19, 2010

ERB Investment Fund Returns 40.4% for 12 Months Ended March 31, 2010

Investments by the New Mexico Educational Retirement Board (ERB) realized an impressive 40.4% return for the 12 months ended March 31, 2010, netting $2.34 billion to the ERB Fund that pays retirement benefits for retired teachers and educational employees.

The Fund increased from $6.21 billion on March 31, 2009, to $8.55 billion on March 31, 2010, and ranked in the ninth percentile of public funds with over $1 billion in assets, according to NEPC, the ERB Fund's primary investment advisor. This means the ERB Fund outperformed 91% of the more than 52 public funds in its peer group.

"Our statutory mission to provide secure retirement and disability benefits to our members has remained unchanged throughout the volatility in the financial markets over the last 18 months," said ERB Executive Director Jan Goodwin. "We continue to follow prudent policies designed to minimize risk and maximize returns." Ms. Goodwin praised the Investments Division for its carefully considered strategies for riding out the global economic downturn.

"While there are a number of factors that contributed to the recent improvement in the Fund's absolute and relative returns, much of the improvement can be credited to the impact of the Board-approved diversification strategy which has systematically reduced the Fund's reliance on volatile equity market returns as the primary driver of Fund results," said Bruce F. Malott, Chairman of the ERB Board of Trustees.

The Fund's significant allocations to domestic equities, representing 26.6% of the Fund's value, returned 49.9% over the 12-month period ended March 31, 2010. Over the same period, emerging market equities (12% of the total Fund) returned 85.8%; credit opportunity strategies (6.6% of the total Fund) returned 52.1%; core fixed income (25.7% of the total Fund) returned 22.3%; and real estate investment trusts (REITs), representing 3.8% of the Fund, returned 113.5%. "These allocations not only contributed to the strong annual results, but also position the Fund well for the future," Mr. Malott said.

Monthly Investment Committee meetings are open to the public, and the agendas and minutes of those meetings are posted on the ERB website at www.nmerb.org. The ERB's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009, is also available online at http://www.nmerb.org/pdfs/nmerbcafr2009.pdf.

ERB Retirement Timeline

Thinking about retiring from the classroom? As you plan ahead for your retirement, remember to allow adequate time for your application to be processed by the Educational Retirement Board (ERB). The effective date of retirement for nine-month employees completing the academic school year is July 1; otherwise, the effective date of retirement may be the first day of the month following termination of employment or following receipt of the retirement application by the ERB, whichever is later.

Here is a recommended timeline to retirement for nine-month employees.

January

You should complete page 1 of your application for retirement and give the form to your employer to complete page 2.

February/March

Your employer mails the completed application to ERB.

ERB reviews your application and mails you a retirement packet that includes:

1. an information memorandum,
2. computation of your retirement benefit,
3. a selection of benefit form, and
4. a direct deposit authorization form.

March/April

You complete the selection of benefit and direct deposit authorization forms and return them to the ERB.

May

The ERB places you on its benefits payroll.

May

Your first benefit payment is posted to your bank on the last working day of the month.

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