STATE OF NEW MEXICO

EDUCATIONAL RETIREMENT BOARD

Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 2011

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The Educational Retirement Board is a Pension Trust Fund of the State of New Mexico

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

A Pension Trust Fund of the State of New Mexico

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2011

Prepared by Staff of the ERB Finance and Investments Divisions

Educational Retirement Board

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EDUCATIONAL RETIREMENT BOARD

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Certificate of Achievement for Excellence in Financial Reporting
Presented to
New Mexico Educational Retirement Board
For its Comprehensive Annual Financial Report for the Fiscal Year Ended
June 30, 2010
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.
President
Executive Director

Public Pension Coordinating Council

Recognition Award for Administration 2011

Presented to

New Mexico Educational Retirement Board

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

STATE OF NEW MEXICO
Educational Retirement Board
701 CAMINO DE LOS MARQUEZ
P.O. Box 26129
SANTA FE, NEW MEXICO 87502-0129
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Letter of Transmittal
December 15, 2011

TO THE BOARD OF TRUSTEES AND PLAN MEMBERS OF THE EDUCATIONAL RETIREMENT BOARD

We are pleased to present this Comprehensive Annual Financial Report of the New Mexico Educational Retirement Board for the fiscal year ended June 30, 2011. This report is a demonstration of the commitment of our Board and staff to timely, complete and accurate reporting of the activities and soundness of our membership's retirement plan.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The Educational Retirement Board for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the second consecutive year the Board has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The content, accuracy, and presentation of this report are the responsibility of agency management. To the best of our knowledge and judgment this report represents an accurate presentation in all material respects of the financial and actuarial position and the results of operations of the plan.

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 and disability benefits for employees of the State of New Mexico public schools, institutions of higher learning and educational agencies. Please see Note 2 to the financial statements on page 39 for further discussion of the background, membership, and provisions of the plan.

SUMMARY OF FINANCIAL INFORMATION

The following table shows plan additions and deductions for the fiscal years ended June 30, 2011, 2010, and 2009.

	June 30, 2011	June 30, 2010	June 30, 2009
Total Additions <Decreases>	$ 2,104,304,938	$ 1,815,371,982	$(1,000,328,799)
Total Deductions	748,265,431	696,500,248	656,063,540
Net Change	$ 1,356,039,507	$ 1,118,871,734	$(1,656,392,339)

Additions increased by $288,932,956 from FY2010 to FY2011 and by $2,815,700,781 from FY2009 to FY2010 due in part to increased contributions from FY2009 to FY2010, but mostly to significant recovery in financial markets and good investment returns. Deductions increased by $51,765,183 from FY2010 to FY2011 and by $40,436,708 from FY2009 to FY2010, due mostly to increased benefit payments to retirees caused by an increase in the number of retirees each year and higher benefit amounts caused by increasing salaries of retiring members.

Additional financial highlights can be found in the Management's Discussion and Analysis immediately preceding the Audited Financial Statements.

ACTUARIAL PLAN STATUS

The funding objective of the Educational Retirement Board is to meet long term benefit promises to current and future members through member and employer contributions and investment earnings. Information relating to progress in meeting this objective is presented on page 74. The unfunded actuarial accrued liability (UAAL) is a measure of the currently unfunded part of future benefit obligations. The UAAL increased from $4,922,187,834 in FY2010 to $5,650,842,751 in FY2011. This is caused, in part, by the significant investment losses incurred in fiscal years 2008 and 2009. To smooth the effects of short term investment results they are figured into the UAAL calculation on a rolling five year basis, so the investment losses recorded during fiscal years 2008 and 2009 continue to have a negative impact on the change from year to year. In addition, in FY2011 the Board voted to change its assumed rate of return on the Fund's investments from 8% to 7.75%. The Board also made these significant changes to the ERB's actuarial assumptions: changing the funding method to traditional individual entry age normal; revising post-retirement mortality to reflect slightly longer life expectancy; changing retirement rates at ages 65 and 69 and with 25 or more years of service; decrease to salary increases for members with 10 or more years of service; and, a decrease in membership growth assumptions. The combined effect of the changes in actuarial assumptions, including to the 7.75% assumed investment return rate, increased the UAAL by $426.1 million.

The funding period is an estimate of the time it will take to amortize the UAAL and achieve full funding, based on actuarial assumptions which are described in detail in the actuarial section of this report. The funding period increased from 62.5 years at June 30, 2010 to Infinite at June 30, 2011. The Board has been working to address the funding status for several years. In 2005 the

State Legislature passed Senate Bill 181, which gradually increased both employer and employee contribution rates over a period of time. Originally scheduled for full implementation in 2012, the scheduled FY 2011 increase in employer contributions was postponed by the legislature. When fully implemented the total combined contribution rate will be 21.8% of payroll. In the 2009 Legislative session, several changes to plan design were adopted that will reduce the Normal Cost Percentage. These included changing retirement eligibility from: 25 years of service; age plus years of service equaling 75 (Rule of 75); or age 65 with 5 years of service;, to 30 years of service; age plus years of service equaling 80 (Rule of 80); or age 67 with 5 years of service. A lower Normal Cost Percentage means less of the contributions received will be needed to fund current Normal Costs and more will work toward reducing the UAAL. A change affecting funding was also implemented, requiring employers of ERB retirees working under the Return to Work program to contribute to the fund an amount equal to the employer share plus the employee share. In the 2011 Legislative session, the responsibility for paying the employee share of the contribution was transferred to the Return to Work retiree although no additional retirement benefits will accrue to that member for the additional contributions. Furthermore, those employee contributions are nonrefundable. In addition, the Board has approved and submitted to the Legislature's Investment and Pension Oversight Committee (IPOC) in December 2011 recommendations for consideration by the 2012 Legislature with the objective of achieving 80% (+-2%) funding by 2030 and 95% funding (+-5%) by 2040. On December 2, the IPOC endorsed the Board's recommendation.

INVESTMENT ACTIVITY

Recognizing the perpetual nature of the Fund and the fiduciary responsibilities of the Board, the primary goal in investing the assets is 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 is to earn the actuarial rate of return. As of June 30, 2011, the board reduced the actuarial rate of return from 8% to 7.75% to better reflect actual and anticipated returns.

ERB's investment portfolio produced a total gross return of 19.7% for the year ended June 30, 2011. The policy benchmark return for the same period was 18.1%. The portfolio outperformed its benchmark by 1.6%. The investment staff believes that ERB's diversified portfolio in a robust range of assets is poised to continue to outperform its benchmark indices as the financial markets recover.

ERB investments are tracked daily by ERB Investments Division staff. The Board receives formal reports on an ongoing basis and the Board's Investment Committee meets monthly to review performance. External investment managers who are underperforming are expected to explain to the Board remedial actions they plan to take and are placed on a "watch list", with contract termination an option if performance does not improve.

Additional information regarding investment results for the year is included in the investments section of this report.

LEGISLATIVE ACTION IN FY2011

Several pieces of legislation affecting ERB were enacted during the 2011 legislative session. These are described below.

Chapter 6 Laws of 2011 - HB 129 – amends Section 22-11-25.1 to require retired members who return to employment with a local administrative unit ("LAU") pursuant to Subsections A, B or F of that Section to pay contributions to the Educational Retirement Fund equal to the member contributions that non-retired employees make pursuant to Section 22-11-21. The contributions will not be refundable to the retired member. LAUs will continue to make the employer contributions as specified by statute.

Chapter 178 Laws of 2011 - HB 628 – changes contributions rates for all members of the Educational Retirement Fund whose full time equivalent annual salary is greater than $20,000 during Fiscal Year 2012 (July 1, 2011 to June 30, 2012; "Fiscal Year 12"). In addition, those contribution rates may continue in effect during Fiscal Year 13 (July 1, 2012 to June 30 2013; "Fiscal Year 13"), as well. For employees whose full time equivalent annual salary is greater than $20,000, the employee contribution rate will be 11.15% and the employer contribution rate will be 9.15%. This is an increase of 1.75% from the employee contribution rate in Fiscal Years 2010 (July 1, 2009 to June 30, 2010) and 2011 (July 1, 2010 to June 30, 2011). For employees who full time equivalent annual salary is $20,000 or less, the employee contribution rate will remain at 7.9% and the employer rate at 12.4%.

The Fiscal Year 12 contribution rates for employees whose full time equivalent annual salary is greater than $20,000 will continue in FY 13 (July 1, 2012, to 2013) if the Secretary of the Department of Finance and Administration ("DFA") certifies that:

- general fund revenues in Fiscal Year 12 will not be at least $100 million more than forecast to be in the Fiscal Year 12 budget; and,
- total state reserve funds at the end of Fiscal Year 12 will be less than 5% of general fund appropriations in Fiscal Year 12.

The DFA Secretary will make the certification to the LFC, ERB and PERA based on the last consensus revenue forecast issued before the regular 2012 legislative session. If the certification is not made, employee contributions rates for employees whose annual salary is greater than $20,000 would be 9.4% in Fiscal Year 13 and employer contribution rates would be 10.9%.

Under HB 628, contribution rates for all employees, regardless of annual salary, would be 7.9% beginning in Fiscal Year 2014 (July 1, 2013 to June 30, 2014; "Fiscal Year 14")). Employer contribution rates would be 13.15% in Fiscal Year 14 and beginning July 1, 2014 would increase to 13.9%.

Chapter 122 Laws of 2011 - Senate Bill 119 - amends the Educational Retirement Act to allow retired members who are receiving pension benefits under Option A (Straight Life Benefit) because of the death of a named beneficiary to exercise a one-time irrevocable option to designate another individual as the beneficiary under either Option B (Joint 100% Survivor Benefit) or Option C (Joint 50% Survivor Benefit).

In addition, SB 119 allows a retired member receiving pension benefits under either Options B or C who has a living designated beneficiary other than a current or former spouse to exercise a one-time irrevocable option to deselect that beneficiary and designate another beneficiary or to receive future pension benefits under Option A. PERA retirees also have the same options of designating a new beneficiary upon the death of a named beneficiary or deselecting living beneficiary who is neither a spouse nor former spouse.

Chapter 157 Laws of 2011 - Senate Bill 269 - Allow the ERB to directly contract for custodial bank services and allows the ERB to contract for legal services on contingency fee basis.

Chapter 160 Laws of 2011 - Senate Bill 329 – authorizes the State Treasurer and the Secretary of Public Education to each appoint a designee to serve on the ERB. The designees must be New Mexico residents, current employees of the State Treasurer's Office or the Public Education Department, respectively, and possess experience relevant to the financial or fiduciary aspects of pension or investment fund management. Designee will have the same responsibilities, duties, liabilities and immunities as the ex officio Board member appointing them, including the indemnification provided by Section 22-11-13(H). Appointment of a designee will not relieve the ex officio Board members of their responsibilities, duties, liabilities and immunities as a Board member and the ex officio member will be fully responsible and liable for the actions of the designee while serving on the Board. Allowing qualified designees to serve when the two ex officio members cannot because of their other duties helps assure the Board of having sufficient members present to carry out its statutory duties. In addition, the SB 329 requires the two governor's appointees to have a background in investments, finance or pension fund administration. This requirement also will bring additional strength to the ERB.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND FRAUD PREVENTION

ERB management has established and maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded, and financial reports are materially accurate and timely. Internal control over financial reporting cannot provide absolute assurance of achieving these financial reporting objectives because of its inherent limitations in internal control. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Our Internal Audit staff provides an ongoing fraud risk assessment and review of internal controls and operating procedures and regularly reports to the Audit Committee of the Board of Trustees. The committee reviews audit findings and recommendations and management's actions to implement recommendations and reports to the full board any concerns they may have.

INDEPENDENT AUDIT

The annual audit of ERB's financial statements was performed by Moss Adams LLP. ERB received an unqualified audit opinion. The auditor's report is included in the financial section of this report.

ACKNOWLEDGEMENTS

We would like to acknowledge and thank the staff of ERB's accounting and investment divisions, our actuaries Gabriel, Roeder & Smith, our independent auditors Moss Adams LLP, and our Investments consultant NEPC for their contributions to and hard work on this report.

Sincerely,

Mary Lou Cameron

Mary Lou Cameron
ERB Board Chairman

Jan Goodwin
ERB Executive Director

Robert K. Westervelt
ERB Chief Financial Officer

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 member’s 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 constantly building the skills capacities and competencies of our employees in order to provide our members caring and quality service.

NM EDUCATIONAL RETIREMENT BOARD OF TRUSTEES
As of June 30, 2011

Mary Lou Cameron,
Chairwoman
NEA

Term Expires
June 30, 2013

Dr. Beulah Woodfin
Secretary
AAUP

Term Expires
June 30, 2012

Russell Goff,
Vice Chairman
NMEAR

Term Expires
June 30, 2012

Bradley Day
Member
Governor
Appointment

Term Expires
June 30, 2015

Hanna Skandera
Member Designate

Secretary of Public
Education Designate
Ex-Officio

Delman Shirley
Member
Governor
Appointment

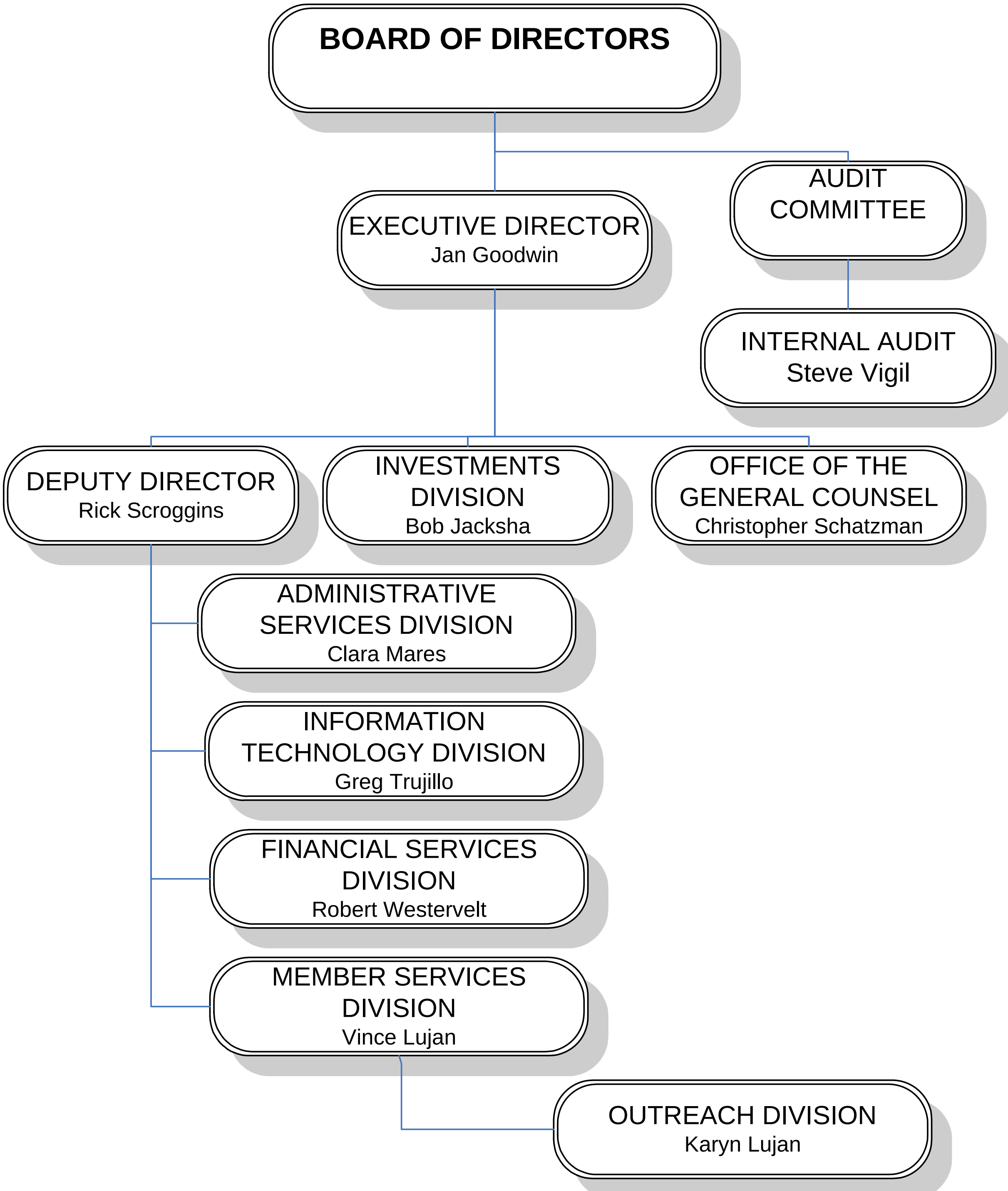
Term Expires
June 30, 2013

James B. Lewis,
Member

State Treasurer
Ex-Officio

NM EDUCATIONAL RETIREMENT BOARD ORGANIZATION CHART

As of June 30, 2011



ERB STAFF as of January 15, 2012

Administration
Jan Goodwin, Executive Director
Rick Scroggins Deputy Director
(Vacant), Internal Auditor
Linda Kissko, Executive Assistant

Program Support
Clara Mares, Administrative Services Manager
Marie Fitzpatrick, HR Payroll and Benefits
Frank Arellano, Records Clerk
Darlene Gibbs, Imaging Clerk
Mary Olague, Imaging Clerk
Kevin Long, Plant/Systems Operator

Office of the General Counsel
Christopher Schatzman, General Counsel
Robert Shulman, Attorney
Anita Tellez, Attorney
Margo Salazar, Paralegal Assistant
Amanda Olsen, Paralegal Assistant

Information Technology
Gregory Trujillo, Information Systems Manager
Jonas Aylward, IT Business Analyst
David Peterson, IT Generalist
Robert Hampton, IT Generalist
Bea Pacheco, IT Business Analyst
Matthew Martinez, Network Administrator
Karyn Lujan, Public Relations Coordinator
(Vacant), Accountant & Auditor
(Vacant) Personal Financial Advisor

Investments
Bob Jacksha, Chief Investment Officer
Steve Neel, Deputy Chief Investment Officer
Mark Canavan, Investment Officer
Kelley Koehler, Financial Analyst
Jude Perez, Investment Officer
Christine Ortega, Financial Analyst
(Vacant) Investment Officer

Financial Services
Bob Westervelt, Chief Financial Officer
Robert Cardon, Accountant and Auditor
(Vacant) Financial Coordinator
Angelina Romero, Accountant and Auditor
Debbi Lucero, Purchasing & Fixed Assets
(Vacant), Financial Specialist
Veronica Chavez, Financial Specialist
(Vacant), Financial Specialist
Stephanie Ortiz, Financial Specialist
Sandy Vigil, Financial Specialist

Member Services
Vincent Lujan, Member Services Manager
Karla Leyba, Financial Advisor
Melinda Marquez, Financial Advisor
Rose Tapia, Financial Advisor
Michelle Duran, Financial Advisor
Barbara Feeney, Financial Advisor
Laura Crawforth, Financial Advisor
Anders Engstrom, Financial Advisor

Pension/Refund Section
Raul Duran, Payroll Administrator
Rosa Weese, Payroll Specialist
(Vacant), Payroll Specialist
Nicole Jaramillo, Refund Administrator
Elizabeth Fischer, Refund Specialist

Customer Service Section
Kathy Webb, Bureau Chief, Customer Services
Cordelia Anaya, Customer Service Rep.
Cynthia Martinez, Customer Service Rep.
Raquel Varela, Customer Service Rep
Jerome Lopez, 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 three investment consultants, and several legal consultants.

Gabriel, 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.

NEPC provides general investment consulting services and advises on private equity and hedge funds.

Courtland Partners provides consulting services related to infrastructure investments.

ORG provides consulting services related to investments in real estate and natural resources.

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.

Legal services are provided to the board by the following firms.

New Mexico Attorney General's Office – principally in the areas of administrative law and litigation.

Groom Law Group – principally in the areas of tax, pension and fiduciary law.

Foster Pepper PLLC – principally in the area of alternative investments

K&L Gates LLP – principally in the area of alternative investments

Freedman Boyd Hollander Goldberg & Ives PA – principally in the area of investment litigation

Pomerantz Haudek Grossman & Gross, LLP – principally in the area of investment litigation

Canepa & Vidal, P.A. – principally in the areas of litigation and administrative law

Cuddy McCarthy LLP – principally in the areas of employment, education, litigation and administrative law

Sutin Thayer & Browne - principally in the area of administrative law

Randall W. Childress, P.C. – administrative hearing officer

Actuary

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

Auditor

Moss Adams LLP
6100 Uptown Blvd. NE, Suite 400
Albuquerque, New Mexico 87110

General Investment Consultant

NEPC
One Main Street
Cambridge, MA 02142

A schedule of fees paid to investment professionals who provide services to the Board is included on page 83 in the Investments section of this report. A schedule of fees paid for other professional services is located on page 73 in the Financial section of this report.

FINANCIAL SECTION

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

Report of Independent Auditors

To the Members of the State of New Mexico
Educational Retirement Board
Santa Fe, New Mexico

We have audited the accompanying Statements of Plan Net Assets and Statements of Changes in Plan Net Assets of the State of New Mexico Educational Retirement Board (the "ERB"), as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. We have also audited the Schedule of Revenues and Expenses – Budget and Actual (Non-GAAP Basis) shown as supplemental information for the year ended June 30, 2011, as listed in the table of contents. These financial statements and schedule are the responsibility of ERB's management. Our responsibility is to express opinions on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ERB's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of ERB are intended to present the net assets and changes in net assets of only that portion of the State of New Mexico which are attributable to the transactions of the Fund administered by ERB. They do not purport to, and do not present fairly, the financial position of the State of New Mexico as of June 30, 2011 and 2010, and the changes in its financial position, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the plan net assets of ERB as of June 30, 2011 and 2010, and the respective changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

To the Members of the State of New Mexico
Educational Retirement Board
Santa Fe, New Mexico

opinion, the Schedule of Revenues and Expenses - Budget and Actual, (Non-GAAP Basis) presents fairly the revenues and expenses on the basis of accounting as described in Note 1, for the year ended June 30, 2011.

The Management's Discussion and Analysis on pages 22 to 29 and Required Supplementary Schedules of Funding Progress and of Employer Contributions on pages 74 to 75 are not a required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements of ERB taken as a whole. The Schedules of Cash Accounts, Fees Paid for Professional Services Other Than Investment Professionals, and Administrative Expenses, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Introductory, Investment, Actuarial and Statistical Sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Moss Adams LLP

Albuquerque, New Mexico
December 8, 2011

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2011, 2010 and 2009

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 years ended June 30, 2011 ("FY11"), 2010 ("FY10") and 2009 ("FY09"). For more detailed information of the Board's FY11 and FY10 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 $1.4 billion, or 16.5% in FY11 compared to an increase of $1.1 billion, or 15.7%, in FY10 and a decrease of $1.7 billion, or 18.9%, in FY09. A significant downward trend in financial markets in FY08 and the early part of FY09 reversed toward the end of FY09 and the Board experienced strong returns on its investment portfolio in FY10 and continuing through FY11.

- Investment advisor and custodial fees increased $3.4 million, or 10.8% in FY11 compared to an increase of $15.0 million, or 89.6%, in FY10 and a decrease of $3.6 million, or 17.8% in FY09. These fees are based on investment returns and portfolio balance, so strong returns and an increasing portfolio balance lead to increasing advisor and custody fees. The magnitude of the increase is less in FY11 for several reasons. One is a significant portion of the management fees are based on a manager's performance exceeding a benchmark. Thus, while a manager may have a strong positive performance, it may not result in a performance fee if the benchmark also exhibits positive performance. The fee is based on performance relative to the benchmark. There were also more favorable fee schedules negotiated with several of the fund managers. Finally, several contracts were renegotiated to allow fees to be deducted from assets under management instead of paid directly by the Board, thus are not reflected in the expense categories in the financial statements. As an offset, this change results in a lower reported investment return for these investment categories. These arrangements are common industry practice for the investment categories where they were utilized.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2011, 2010 and 2009

- Total cash and cash equivalents increased $202.0 million as of June 30, 2011, compared to an increase of $49.5 million in FY10 and a $44 million decrease in FY09. It is normal for the cash balance as of a specific date to fluctuate somewhat as the Board adjusts holdings. On June 30, 2011, the Board held cash of approximately $559 million, or 6.0% of total investments. This was slightly in excess of the target allocation ranges established by the Board. The cash was raised in anticipation of funding newly approved managers. It was anticipated that these managers would draw down the cash prior to June 30, but various circumstances delayed the funding. The Board held $357 million in cash and cash equivalents, or 4.4% of investments, at the end of FY10, and $307 million, or 4.1% of investments, at the end of FY09. These prior two years were within the Board’s investment policy that targets cash holdings of 5% or less.

- Investment holdings increased $1.2 billion, or 14.8% in FY11, compared to an increase of $602 million, or 8.0%, in FY10 and a decrease of $2.05 billion, or 21.4%, in FY09, primarily due to the weak performance of domestic and foreign equity markets continuing into FY09, then turning around and strengthening through FY10 and FY11.

- Total receivables decreased by $2.1 million in FY11 compared to a decrease of just over $30 million in FY10 and a decrease of $161 million in FY09, with the majority of the changes showing in investment broker sales proceeds. A decrease indicates a smaller volume of investments were sold at or near fiscal year end, and remained outstanding on June 30. 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. There was an increase of $1.3 million in “other receivables” in 2011, which is a 273% increase over the prior year. This reflects the refunds receivable which is discussed in Note 3 to the financial statements. Other receivables in FY10 totaled $475 thousand and in FY09 totaled $68 thousand; both amounts are considered insignificant to the financial statements taken as a whole.

- Capital assets decreased $2.0 million, or 32.4% in FY11, compared to a decrease of $2.0 million, or 24.4%, in FY10 and a decrease of $1.9 million, or 18.7%, in FY09. These decreases in net value reflect the large depreciation costs, mostly on the pension administration system capitalized in FY08 with a relatively short depreciation period, combined with minimal new asset additions during each of these years. See Notes 2 and 8 for additional information on capital asset activity and depreciable life expectancies. The Board does not have any debt activity.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2011, 2010 and 2009

- Accounts payable decreased $7.5 million, or 79.25% in FY11 compared to an increase of $5.3 million, or 127%, in FY10 and a decrease of $1.3 million, or 24.1%, in FY09, primarily due to changes in the amount of investment advisor fees due at each respective year-end.

- Investment purchases payable-brokers increased by $41.1 million in FY11 compared to a decrease of $27.9 million in FY10 and a decrease of $143 million in FY09. An increase indicates that a larger volume of investments were purchased at or near fiscal year end and remained outstanding on June 30. 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.

- Employer and member contributions decreased $8.2 million, or 1.5% in FY11 compared to an increase of $28.2 million, or 5.3%, in FY10 and an increase of $42.9 million, or 8.7%, in FY09. Prior year increases were attributed to an increase in active member contribution rates and salary increases. The current year decrease is statistically insignificant and may be attributable to limited hiring or limited salary increases by the employers. There was no change in total employer plus employee contribution rates in FY11. Benefit payments to retirees increased in FY11 by $45.2 million, or 7.0%; increased by $38.5 million, or 6.2%, in FY10, and increased by $38.9 million, or 6.7%, in FY09. These increases are due to the increase in the number of retirees each year, as well as the compounding cost of living adjustments paid to retirees. Refunds and interest to terminated members increased by $6.3 million, or 21.9% in FY11 compared to a decrease of $907 thousand, or 3.1%, in FY10 and an increase of $211 thousand or 0.7%, in FY09. These FY11 refund figures include the receivable for the overpayments discussed in Note 3 to the financial statements.

- The Plan’s total membership increased by 1,258, or 1.0% to 130,141 members as of June 30, 2011 compared to an increase in FY 10 of 1,988, or 1.6%, to 128,883 members, and an increase of 2,023, or 1.6%, to 126,895 members in FY09.

ACTUARIAL PLAN STATUS

The funding objective of the Board is to meet long term benefit promises to current and future members through member and employer contributions and investment earnings. Information relating to progress in meeting this objective is presented on page 60. The unfunded actuarial accrued liability (UAAL) is a measure of the currently unfunded part of future benefit obligations. The UAAL increased from $4,922,187,834 in FY2010 to $5,650,842,751 in FY 2011. This is primarily caused by the significant investment losses incurred in FY 2008 and FY 2009. To smooth the effects of short term investment results investment earnings or losses are figured into the UAAL calculation on a rolling five year

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2011, 2010 and 2009

basis. As such the investment losses recorded during FY 2008 and 2009 continue to have a negative impact on the change from year to year.

The Board has been working to address the funding status for several years. In 2005 the State Legislature passed Senate Bill 181, which gradually increased both employer and employee contribution rates over a period of time. Originally scheduled for full implementation in 2012, the scheduled FY 2011 increase in employer contributions was postponed by the legislature. When fully implemented the total combined contribution rate will be 21.8% of payroll. In the 2009 Legislative session, several changes to plan design were adopted that have significantly reduced the Normal Cost Percentage. These included changing retirement eligibility from either 25 years of service or age plus years of service equaling 75 (rule of 75), to 30 years of service or age plus years of service equaling 80 (rule of 80). A lower Normal Cost Percentage means less of the contributions received will be needed to fund current Normal Costs and more will work toward reducing the UAAL. A change affecting funding was also implemented, requiring employers of ERB retirees working under the Return to Work program to contribute to the fund an amount equal to the employer share, and the employee share. In the 2011 Legislative session, the responsibility for paying the employee share of the contribution was transferred to the Return to Work retiree although no additional retirement benefits will accrue to that member for the additional contributions. Furthermore, those employee contributions are nonrefundable. In addition, the Board has approved and is submitting to the Legislature's Investment and Pension Oversight Committee in December 2011 recommendations for consideration by the 2012 Legislature with the objective of achieving 80% (+-2%) funding by 2030 and 95% funding (+-5%) by 2040.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2011, 2010 and 2009

CONDENSED FINANCIAL INFORMATION

Statements of Plan Net Assets

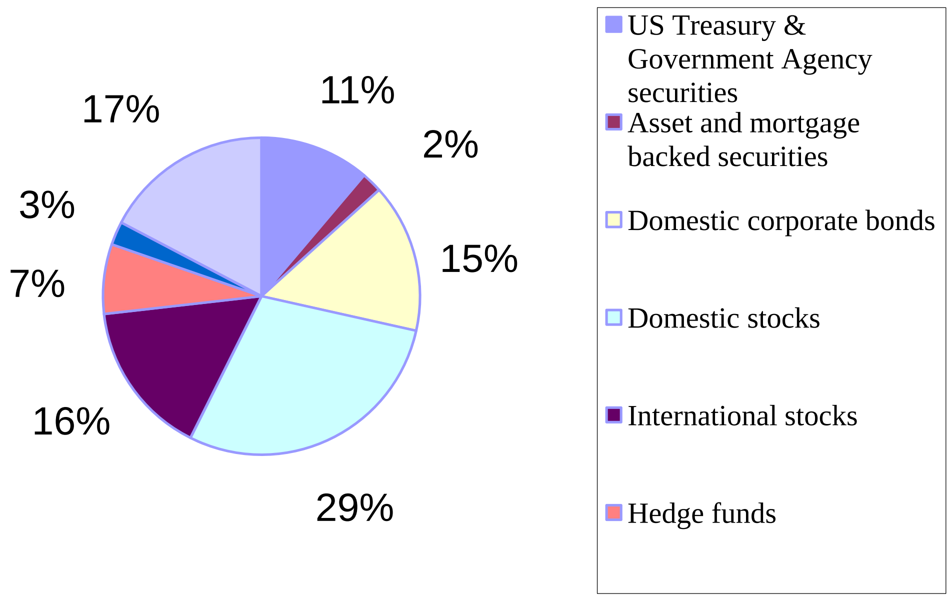
	FY11	FY10	FY09
Cash and short-term investments	$ 552,278,318	$ 344,561,297	$ 289,479,681
Receivables	191,498,873	193,577,375	223,723,966
Investment in State General Fund Investment Pool	6,346,596	12,081,842	17,627,763
Investments—at fair value	9,328,773,209	8,125,244,790	7,523,202,286
Capital assets (net of accumulated depreciation)	4,201,681	6,217,017	8,226,741
Total assets	10,083,098,677	8,681,682,321	8,062,260,437
Current liabilities	494,307,120	448,957,805	948,409,876
Long-term liabilities (compensated absences)	228,616	201,082	198,861
Total liabilities	494,535,736	449,158,887	948,608,737
Net assets held in trust for pension benefits	$ 9,588,562,941	$ 8,232,523,434	$ 7,113,651,700

Statements of Changes in Plan Net Assets

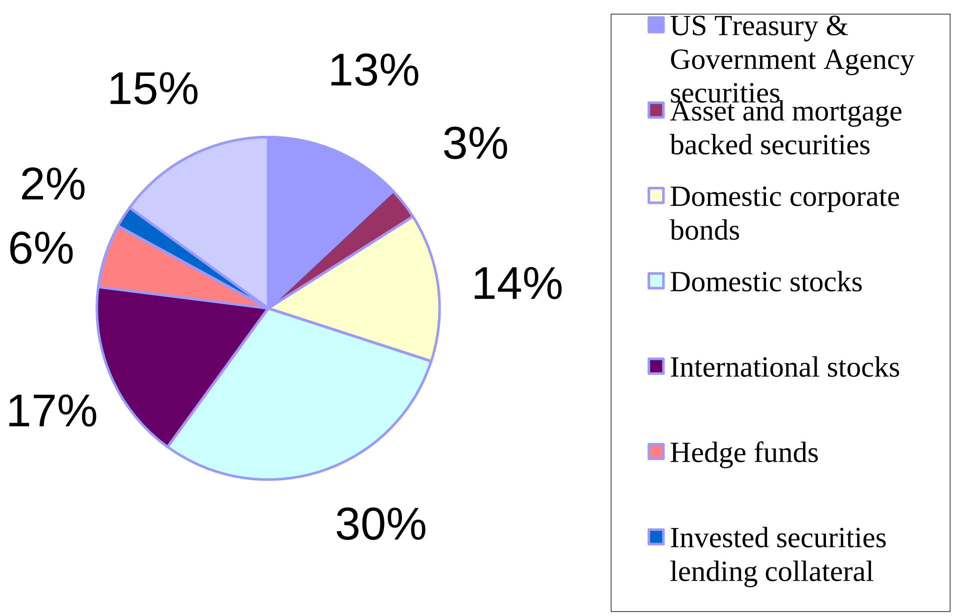
	FY11	FY10	FY09
Contributions	$ 555,775,940	$ 563,942,946	$ 535,699,520
Investment income less investment expenses	148,016,532	153,062,596	185,177,492
Net appreciation (depreciation) in the fair value of investments	1,396,479,035	1,095,257,890	(1,724,901,896)
Other income	4,033,431	3,108,550	3,696,085
Total additions (deductions)	2,104,304,938	1,815,371,982	(1,000,328,799)
Benefit payments	701,771,592	656,232,670	617,705,038
Refunds	35,086,806	28,779,655	29,686,510
Administrative expenses	11,407,033	11,487,923	8,671,992
Total deductions	748,265,431	696,500,248	656,063,540
Increase (Decrease) in net assets	1,356,039,507	1,118,871,734	(1,656,392,339)
Net assets held in trust for pension benefits:			
Beginning of year	8,232,523,434	7,113,651,700	8,770,044,039
End of year	$ 9,588,562,941	$ 8,232,523,434	$ 7,113,651,700

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2011, 2010 and 2009

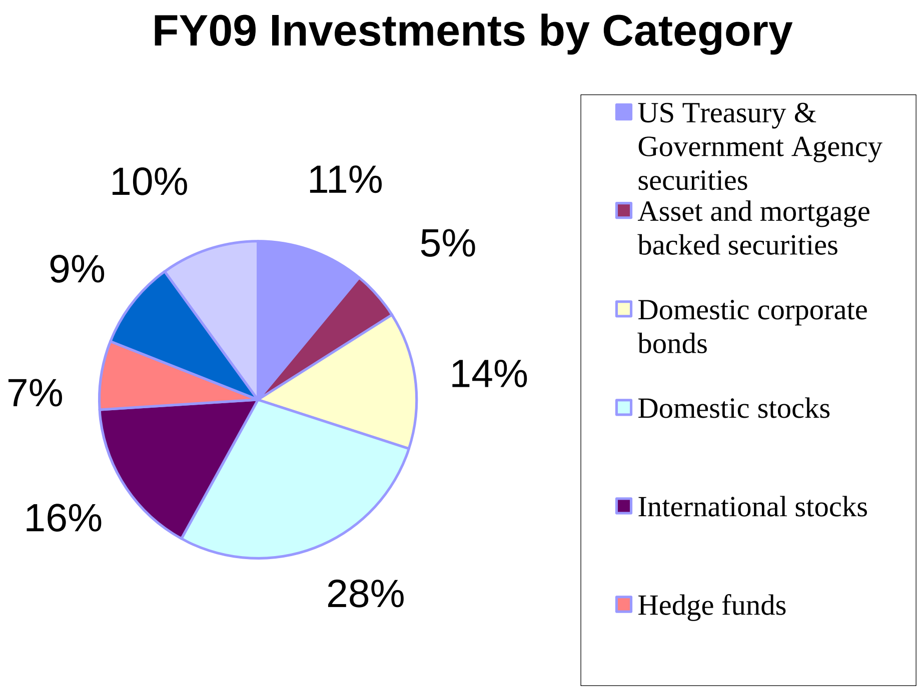
FY11 Investments by Category



FY10 Investments by Category



STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2011, 2010 and 2009



BUDGETARY HIGHLIGHTS

A major portion of the Board's contractual services fees 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 may be adjusted throughout the year, based on market performance, to arrive at a final budget. In FY11, the Board's initial budget was increased by $10.5 million from $26.9 million to $37.2 million. In FY10, the budget was increased by $20.5 million from $28.6 million to $49.1 million. In FY09, the Board's budget was increased by $530 thousand from $32.4 million to $32.9 million. Changes in the corpus of the fund generally drive changes in income and expenses. The Board had savings over budgeted amounts in the three expense categories totaling $7.5 million during the 2011 fiscal year compared with savings of $7.9 million in fiscal year 2010 and savings of $9.6 million in fiscal year 2009.

LONG-TERM DEBT

The only long-term liability activity relates to compensated absences reported in Note 10.

INFRASTRUCTURE

ERB has no infrastructure assets to report.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2011, 2010 and 2009

CAPITAL ASSETS

The net investment in Capital Assets at June 30, 2011, 2010 and 2009, is as follows:

Description	Cost	Accumulated Depreciation	Book Value
2011			
Land	$ 248,172	$ -	$ 248,172
Depreciable land improvements	19,361	(4,322)	15,039
Integrated Retirement Information System	9,156,963	(7,448,865)	1,708,098
Building and building improvements	3,365,714	(1,401,117)	1,964,597
Furniture and equipment	1,122,920	(857,145)	265,775
Total	$ 13,913,130	$ (9,711,449)	$ 4,201,681
2010			
Land	$ 248,172	$ -	$ 248,172
Depreciable land improvements	19,361	(3,623)	15,738
Integrated Retirement Information System	9,156,963	(5,617,473)	3,539,490
Building and building improvements	3,365,714	(1,264,065)	2,101,649
Furniture and equipment	1,134,761	(822,793)	311,968
Total	$ 13,924,971	$ (7,707,954)	$ 6,217,017
2009			
Land	$ 248,172	$ -	$ 248,172
Depreciable land improvements	19,361	(3,111)	16,250
Integrated Retirement Information System	9,156,963	(3,786,081)	5,370,882
Building and building improvements	3,365,714	(1,126,826)	2,238,888
Furniture and equipment	1,139,019	(786,470)	352,549
Total	$ 13,929,229	$ (5,702,488)	$ 8,226,741

FINANCIAL CONTACT

Any questions regarding the financial statements of ERB should be directed to the ERB Chief Financial Officer at (505) 476-6132 or by mail at 701 Camino de los Marquez Santa Fe, New Mexico 87505.

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BASIC FINANCIAL STATEMENTS
AND ACCOMPANYING NOTES

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
STATEMENTS OF PLAN NET ASSETS
June 30, 2011 and 2010

	2011	2010
Assets		
Cash	$ 11,915	$ 6,092
Short term Investments	552,266,403	344,555,205
Receivables		
Contributions	71,938,279	68,233,170
Investment sales proceeds-brokers	86,433,723	94,497,269
Interest and dividends	31,350,765	30,371,094
Other	1,776,106	475,842
Total receivables	191,498,873	193,577,375
Interest in State General Fund Investment Pool	6,346,596	12,081,842
Investments, at fair value		
U.S. Treasury securities	597,060,723	554,294,917
Government agency securities	451,764,467	510,939,793
Asset and mortgage backed securities	200,365,752	242,937,602
Domestic corporate bonds	1,419,705,812	1,099,340,868
Domestic stocks	2,698,482,870	2,423,224,608
International stocks	1,473,098,558	1,367,105,988
Private equity	398,411,954	241,336,795
Hedge Funds	663,541,830	499,102,188
Private real estate	119,497,509	80,872,114
Other investments	1,093,388,583	914,462,725
Invested securities lending collateral	213,455,151	191,627,192
Total investments	9,328,773,209	8,125,244,790
Capital assets, at cost, net of accumulated depreciation of $9,711,449 and $7,707,954, respectively	4,201,681	6,217,017
Total assets	$ 10,083,098,677	$ 8,681,682,321
Liabilities		
Accounts payable	$ 1,964,740	$ 9,470,796
Accounts payable school contributions	327,151	14,463
Accrued payroll and employee benefits	123,474	179,210
Accrued compensated absences	228,616	201,082
Refunds payable	672,751	1,213,339
Investment purchases payable	277,238,076	236,142,568
Funds held for others	190,801	848,955
Securities lending collateral	213,790,127	201,088,474
Total liabilities	494,535,736	449,158,887
Net assets held in trust for pension benefits	$ 9,588,562,941	$ 8,232,523,434

See Accompanying Notes to Financial Statements.

See also the "Schedule of Funding Progress" in the "Required Supplimentary Information" section of this report.

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
STATEMENTS OF CHANGES IN PLAN NET ASSETS
Years Ended June 30, 2011 and 2010

	2011	2010
Additions		
Contributions		
Employer	$ **308,367,952**	$ 313,276,296
Member	**247,407,988**	250,666,650
Total contributions	**555,775,940**	563,942,946
Investment income from investing activities		
Net change in fair value of investments	**1,396,479,035**	1,095,257,890
Interest income	**84,798,251**	109,220,628
Dividend income	**97,206,639**	73,935,003
Total investing activity gain	**1,578,483,925**	1,278,413,521
Investing activity expenses:		
Investment advisor fees	**(34,192,522)**	(30,555,537)
Custody fees	**(1,055,194)**	(1,246,558)
Total investing activity expenses	**(35,247,716)**	(31,802,095)
Net gain from investing activities	**1,543,236,209**	1,246,611,426
From securities lending activities		
Securities lending income	**1,071,109**	1,798,532
Securities lending expenses:		
Borrower rebates	**(377,434)**	(154,676)
Agent fees	**189,185**	244,148
Total securities lending (income) expenses	**(188,249)**	89,472
Net income from securities lending activities	**1,259,358**	1,709,060
Total net investment gain	**1,544,495,567**	1,248,320,486
Miscellaneous income		
Penalties	**3,093**	5,673
Interest on restoration of service	**3,273,298**	2,900,360
Other	**757,040**	202,517
Total miscellaneous income	**4,033,431**	3,108,550
Total additions	**2,104,304,938**	1,815,371,982
Deductions		
Refunds to terminated members	**29,286,820**	24,573,831
Interest on refunds	**5,799,986**	4,205,824
Administrative expenses	**11,407,033**	11,487,923
Age and service benefit payments	**694,153,334**	648,962,031
Disability benefit payments	**7,618,258**	7,270,639
Total deductions	**748,265,431**	696,500,248
Net increase	**1,356,039,507**	1,118,871,734
Net assets held in trust for pension benefits		
Beginning of the year	**8,232,523,434**	7,113,651,700
End of the year	$ **9,588,562,941**	$ 8,232,523,434

See Accompanying Notes to Financial Statements.

See also the "Schedule of Funding Progress" in the "Required Supplimentary Information" section of this report.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010

NOTE 1. 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 New Mexico General Appropriation Act establishes the modified accrual basis of accounting for governmental funds as the budgetary basis for the State. 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. The budget for this State Agency is adopted on the modified accrual basis of accounting, except for accounts payable accrued at the end of the fiscal year that do not get accrued by the statutory deadline per Section 10-6-4 NMSA 1978, that must be paid out of the next year's budget.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

Only administrative expenses and a small portion of interest income are budgeted, while significant revenues and non-administrative expenses are not. The budget is prepared on a non-GAAP basis, as it recognizes encumbrances and capital expenses as current expenses, excludes depreciation expense, and recognizes revenue when cash is received. Budgetary comparisons for the Plan are presented in the schedule of revenues and expenses**—**budget and actual (non-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"), a division of the Department of Finance and Administration (DFA), and the Legislative Finance Committee ("LFC"), an interim committee of the New Mexico Legislature, and included in the General Appropriations Act. The Board is required to periodically report to the SBD and the LFC on these performance measures.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The original budget was amended during the fiscal year. One Budget Adjustment Request (BAR) was approved for the addition of $8.65 million to contractual services expense and addition of $1.35 million in other administrative expenses. A second BAR was approved for an additional $500 thousand in contractual services. The additional expenses were approved to be funded from earnings on invested fund balance, as are all of the fund's expenses.

The Board follows these procedures in establishing the annual budget:

(1) By August 31, the Board's staff prepares a Budget Appropriation Request for the Board's approval 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 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 during the Legislature's interim period. Recommendations and adjustments are made prior to presenting the Budget Appropriation Request to the Legislature.

(5) Both the DFA's and the LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget. The final budget approved by the Legislature is then sent to the Governor's office for final approval.

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

(7) Per Section 9 of the General Appropriation Act of 2010, all agencies, including legislative agencies, may request category transfers among personal services and employee benefits, contractual services and other. Therefore, the legal level of budgetary control would be the appropriation program level (A-Code, P-Code, R-Code, and Z-Code). The A-Code pertains to capital outlay appropriations (general obligation/severance tax or state general fund). The P-Code pertains to operating funds. The R-Code pertains to American Recovery & Reinvestment Act (ARRA) funds. The Z-Code pertains to special appropriations.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments**—**Investments are recorded at fair value. The estimated fair value of investments is based on quoted market prices, except for certain alternative investments for which quoted market prices are not available. The estimated fair value of these alternative investments is based on the most recent valuations provided by the external investment managers, adjusted for cash receipts, cash disbursements, and securities distributions through June 30, 2011.

The Board believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

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 geographic markets.

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.

The Board's investments in limited partnerships are valued at estimated fair value based on their proportionate share of the partnership's fair value as recorded in the partnership's financial statements. The limited partnerships allocate gains, losses and expenses to the partners based on the ownership percentage as described in the partnership agreements. At June 30, 2011, the Board had commitments for additional future contributions to the limited partnerships totaling $801.8 million.

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.

Other investments, as presented in the Statements of Plan Net Assets, include investments in swap agreements, distressed debt, option agreements, real estate investment trusts, and timber partnerships.

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 Section 12-6-10 NMSA 1978, is to include all assets with a useful life of more than one year and costing $5,000 and greater. Assets with original cost less than $5,000 but categorized as sensitive, primarily IT equipment, are also capitalized for tracking and control purposes. All additions are capitalized at historical cost as of the

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, service credit is recorded in the member's individual account and revenue is recognized in the appropriate revenue accounts for contributions, return of interest previously withdrawn, or interest charged on restoration of service.

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

***Funding Policy*—**Funding of the retirement plan is accomplished through member and employer contributions and the investment earnings on these contributions. 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. Under the entry age method, a calculation is made to determine the average uniform and constant percentage rate of employer contribution which, if applied to the compensation of each new participant during the entire period of his or her

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

anticipated covered service, would be required in addition to the contributions of the participant to meet the cost of all benefits payable on their behalf. Part of the normal cost is paid from the employees' own contributions. The local employers pay the balance from their contributions. In the calculation of the normal cost, the benefit provisions applicable to future new members were used.

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 the assets.

The balance of the employers' contribution - 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.

Active member payroll was projected to increase 3.75% a year for the purpose of determining the funding period. This estimate is consistent with the base rate of increase in salaries used to calculate actuarial present values.

The actuarial valuation of assets used for funding purposes is derived as follows: 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 or (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.

As required under GASB Statement Number 50, *Pension Disclosures (an amendment of GASB 25 and 27),* the following is a Schedule of Funding Progress using the entry age normal funding method to illustrate the funding status of the retirement plan.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funded status of the ERB plan at June 30, 2011 is as follows (dollar amounts in millions):

Actuarial Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
(a)	(b)	(b) - (a)	(a)/(b)	(c)	((b-a)/c)
$9,642.2	$15,293.1	$5,650.8	63.0%	$2,523.8	223.9%

The required Schedule of Funding Progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 2. EDUCATIONAL RETIREMENT BOARD OVERVIEW

Plan Description—The State of New Mexico Educational Retirement Board ("Board") ("ERB") 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	82
Special schools	4
State agencies	11
	201

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 2. EDUCATIONAL RETIREMENT BOARD OVERVIEW (CONTINUED)

***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 that 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, charter 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.

The Board serves 201 employers in the State and has an active and inactive membership of 130,141 and 128,883 at June 30, 2011 and 2010, respectively. The status and number of all participants at June 30, 2011 and 2010 consisted of the following:

	2011	**2010**
(1) Retirees and beneficiaries of deceased retirees receiving benefits	35,457	33,749
(2) Inactive members	33,011	31,837
(3) Current active members	61,673	63,297
	130,141	128,883

Benefit Provisions - A member's retirement benefit is determined by a formula which includes three component parts: the member's final average salary ("FAS"), the number of years of service credit, and a 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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 2. EDUCATIONAL RETIREMENT BOARD OVERVIEW (CONTINUED)

A brief summary of Plan coverage provisions follows:

For members employed before July 1, 2010, 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 is at least sixty-five years of age and has five or more years of earned service credit.
- The member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then becomes reemployed after that date is as follows:

- The member's age and earned service credit add up to the sum of 80 or more.
- The member is at least sixty-seven years of age and has five or more years of earned service credit.
- The member has service credit totaling 30 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 a sum equal to the prevailing combined contributions of the member and the local administrative unit in effect at the time the contributory employment is acquired, which was 20.3% as of June 30, 2010, times the average annual 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 plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 2. EDUCATIONAL RETIREMENT BOARD OVERVIEW (CONTINUED)

(3) *Benefit Options* - There are three benefit options available.

Option A - Single Life annuity - 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 plus interest less benefits paid.

Option B - The single life annuity monthly benefit is reduced to provide for a 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 back the amount by which the benefit was reduced at retirement due to the election of Option B retroactively to the time of retirement.

Option C - The single life annuity 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 retroactively to the time of retirement.

(4) *Cost of Living Adjustment* - Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment ("COLA") to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. 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, but never less than zero. 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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 2. EDUCATIONAL RETIREMENT BOARD OVERVIEW (CONTINUED)

(5) *Disability Benefit*:

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 then applied.

(6) *Disability 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.

(7) 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, or those on deposit for less than one year.

Alternative Retirement Plan - The New Mexico legislature established the Alternative Retirement Plan ("ARP") through the enactment of NMSA 1978, Sections 22-11- 47 through 52. In contrast to the regular defined benefit plan administered by the Educational Retirement Board ("ERB"), the ARP is a defined contribution plan. Beginning on July 1, 1991 at the State's six institutions of higher education, and July 1, 1999 at the State's eight community colleges (the colleges and universities are referred to as the "qualifying state educational institutions"), certain faculty and professional employees in eligible positions have the option of electing to participate in the ARP in lieu of participating in the regular defined benefit plan. Information about the ARP is provided to eligible employees by their employers.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 2. EDUCATIONAL RETIREMENT BOARD OVERVIEW (CONTINUED)

Eligible employees must make the election to participate in the ARP within 90 days of employment; those who do not elect to participate in the plan become members of the regular defined benefit plan. Except as described in Section 22-11-47(D), which allows an employee participating in the ARP the option of switching to the defined benefit retirement plan after 7 years of ARP participation, the decision to elect to participate in the ARP is irrevocable. ARP benefits are payable in accordance with the terms of the applicable contracts with vendors; provided, however, that retirement benefits shall, at the option of the employee, be paid in the form of a lifetime income, if held in an annuity contract; payments for a term of years; or a single-sum cash payment. Benefits are based upon contributions made and earnings on those contributions. Retirement, death, and other benefits, including disability benefits, cannot be paid from the Educational Retirement Fund and the ERB does not calculate or determine what benefits can be paid from an ARP account.

For the year ended June 30, 2011, employees participating in the ARP contributed 9.4% of their gross annual salaries. The colleges and universities are required to contribute 7.9% of participating employees' gross annual salary to the ARP vendor on behalf of the participant and 3% of gross annual salary to the Educational Retirement Fund to help offset the impact of the ARP on the defined benefit plan. Employees participating in the ARP do not accrue any right to benefits in the defined benefit plan as a result of that contribution being made to the Fund. The 3% fee remitted to ERB for the years ended June 30, 2011 and 2010 were $4,042,339 and $4,252,523, respectively. The colleges and universities are responsible for submitting the employers' and the employees' contributions directly to the ARP vendors annuity carriers. ARP participants are completely vested in all contributions made to their accounts.

Prior to August 31, 2011, the two vendors approved to offer ARP plans to the participants were Teachers Insurance and Annuity Association/College Retirement Equities Fund ("TIAA-CREF"), and Variable Annuity Life Insurance Company ("VALIC" or "AIG VALIC," now known as "AIG Retirement"). The ERB began a process to select new ARP vendors in the fall of 2010 and on April 29, 2011 selected TIAA-CREF and Fidelity Investments as the ARP vendors. New contracts with those vendors became effective September 1, 2011. Employees are normally allowed to transfer between vendors once each year; however, after the award of new APR contracts employees were allowed an additional period in the fall of 2011 to transfer vendors.

In 2009, the New Mexico legislature created the Retirement Systems Solvency Task Force to study New Mexico public retirement plans and prepare solvency plans and

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

recommendations. The Task Force asked the ERB to develop recommendations for changes to the defined benefit retirement plan to achieve an eighty percent (80%) funding level within thirty (30) years as recommended by the Governmental Accounting Standards Board. The ERB submitted recommendation changes to that plan to the New Mexico Legislature for consideration during its regular 2011 session. Because the changes might have had a material effect on the decisions of those ARP participants who elected to switch to the defined benefit plan pursuant to Section 22-11-47 (D), on December 12, 2010, the ERB adopted a resolution allowing those ARP participants that had elected to switch to the defined benefit plan pursuant to Section 22-11-47 (D) the option of electing to either return to the ARP during a 120 day period from May 1, 2011 to August 29, 2011 or to remain in the defined benefit plan. The 120 day period began on the first day of the month following the last day in April on which the Governor could take action on any legislation passed in the 2011 regular legislative session. In that same resolution the ERB also extended the 120 period that ARP participants who were then or would become eligible to elect to become members of the defined benefit plan under Section 22-11-47 (D) on or before April 30, 2010 to run from May 1, 2011 to August 29, 2011 so that those ARP participants would be informed as to any changes to the defined benefit plan that might become law when there were considering whether to switch to the defined benefit plan.

NOTE 3. REFUND OVERPAYMENTS

In June 2010, the Board adopted a revised method for computing interest due on refunds of contributions to members that have terminated employment and elected to withdraw their contributions and on refunds paid to a beneficiary of a deceased member, with an effective date of July 1, 2010. During implementation, a programming error resulted in 834 individuals receiving overpayments ranging from less than one dollar to $306,264. The total amount over paid was $1,691,929. IRS regulations require that every reasonable effort be made to recover these funds and that interest be assessed on the overpayments. The agency has sent materials to all members overpaid by five dollars or more informing them of the overpayment, the interest due, and a summary of the tax consequences of the overpayment and subsequent repayment. The tax information was general in nature and individuals were advised in the letters sent by the agency to seek the advice of their own tax advisor about their particular tax situation. The Board accrued as of June 30, 2011 a receivable for the total amount overpaid. Since it is impossible at this time to estimate the timing or success of recovery efforts, no allowance for uncollectable amounts for these overpayments has been established. Also due to the uncertainty of the timing of collections and the total amount of interest that will finally be assessed, no receivable for interest due has been established. The Board will recognize interest in current year revenue when realized, and will charge any write-offs directly to expense in the year they occur.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 4. INTEREST IN STATE GENERAL FUND INVESTMENT POOL AND CASH DEPOSITS

Investment in State General Fund Investment Pool

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. Accordingly, the investments of the Department consist of an interest in the investment pools managed by the New Mexico State Treasurer's Office.
All repurchase agreements are collateralized by the U.S. Treasury securities held by the New Mexico State Treasurer's custodian bank. The amount deposited as of June 30, 2011 and 2010 with the New Mexico State Treasurer's Office was $6,346,596 and $12,081,842, respectively.

Interest Rate Risk - The State Investment Pool does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The New Mexico State Treasurer pools are not rated. For additional GASB 40 disclosure information regarding cash held by the State Treasurer, the reader should see the separate audit report for the State Treasurer's Office for the fiscal year ended June 30, 2011.

Cash Deposits

In addition to the overnight investment at the New Mexico State Treasury, the Board invests in the Short-Term Investment Fund ("STIF"), held by J.P. Morgan. 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 portfolio are swept into the STIF at the end of each day. STIF investments and cash of $552,278,318 and $344,561,297 as of June 30, 2011 and 2010, respectively, are considered cash equivalents and are reported as cash and short term investments balances in the statements 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, 2011 and 2010, there were no cash balances exposed to custodial credit risk. All cash is invested in a mutual fund consisting of 100% U.S. Treasury securities.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 5. 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.

Investments of the Board as of June 30, is as follows:

Investment Description	**2011**	**2010**
Investments:		
(held by the Board's agent in the Board's name)		
U.S. government and agency securities	$ 909,257,503	$ 1,055,613,784
Asset- and mortgage-backed securities	200,365,752	242,937,602
Domestic corporate bonds	1,417,079,705	1,098,504,281
Domestic stocks	2,634,642,147	2,241,803,445
International stocks	1,470,790,233	1,365,737,297
Hedge fund of funds	663,541,830	499,102,188
Private equity	398,411,954	241,336,795
Private real estate	119,497,509	80,872,114
Infrastructure	89,490,761	49,560,584
Timber	22,146,962	11,793,471
Distressed senior credit	454,829,219	412,386,606
Other investments	526,921,641	440,722,064
Total	8,906,975,216	7,740,370,231
Investments held by broker/dealers under securities loans with cash collateral:		
U.S. government and agencies securities	139,567,687	9,620,926
Domestic corporate bonds	2,626,107	836,587
Domestic stocks	63,840,723	181,421,163
International equities	2,308,325	1,368,691
Securities lending collateral investments	213,455,151	191,627,192
Total	421,797,993	384,874,559
Total Investments	$ 9,328,773,209	$ 8,125,244,790

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 5. INVESTMENTS (CONTINUED)

***Foreign Currency Risk*—**Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. Foreign currency risk is present in the Board's investment in foreign equity securities. Managers of these assets are given discretion to hedge this risk. The Board's exposure to foreign currency risk as of June 30, 2011 was $1,347,083,133. The Board's exposure to foreign currency risk as June 30, 2010 was $1,431,175,890.

Exposure to foreign currency risk as of June 30, 2011 is as follows:

Currency	Equity Securities	Cash (overdraft)
Australian Dollar	$ 28,437,326	$ 25,365
Brazilian Real	80,675,847	2,312,715
British Pound Sterling	135,287,105	708,947
Canadian Dollar	7,896,804	99,410
Czech Koruna	3,874,872	178,326
Danish Krone	5,838,569	12,288
Egyptian Pound	1,700,681	27,649
Euro	240,973,759	7,344,875
Hong Kong Dollar	167,794,244	355,526
Indian Rupee	69,036,169	851,255
Indonesian Rupiah	23,000,058	(26,096)
Israeli Shekel	3,347,138	14,209
Japanese Yen	99,529,425	263,605
Malaysian Ringgit	9,634,878	-
Mexican Peso	9,501,106	41,425
New Taiwan Dollar	98,308,214	2,141,187
NewTurkish Lira	33,665,458	31,901
Norwegian Krone	5,946,471	250,246
Philippine Peso	30,938	-
Polish Zloty	13,836,958	68,111
Singapore Dollar	13,357,750	74,282
South African Rand	52,150,809	189,359
South Korean Won	184,212,855	45,982
Swedish Krona	5,023,172	85,903
Swiss Franc	31,414,578	39,448
Thai Baht	7,472,217	(186)
Total foreign exposure	1,331,947,401	15,135,732
Investments not subject to foreign currency risk	7,996,825,808	537,130,671
Total Investments	$ 9,328,773,209	$ 552,266,403

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 5. INVESTMENTS (CONTINUED)

Exposure to foreign currency risk as of June 30, 2010 is as follows:

Currency	Equity Securities	Cash (overdraft)
Australian Dollar	$ 27,034,136	$ 20,149
Brazilian Real	82,138,510	(188,975)
British Pound Sterling	119,497,770	242,078
Canadian Dollar	7,753,122	30,785
Czech Koruna	-	96,832
Denmark Krone	6,623,703	148,131
Egyptian Pound	6,796,161	(299,458)
Euro	133,563,733	(381,224)
Hong Kong Dollar	187,888,163	(440,499)
Hungarian Forint	1,076,936	25,815
Indian Rupee	38,606,488	226,385
Indonesian Rupiah	25,143,767	(280,740)
Japanese Yen	102,454,646	78,643
Malaysian Ringgit	12,399,003	-
Mexican Peso	8,486,046	892,061
New Israeli Shekel	4,628,130	124,488
New Taiwan Dollar	52,138,107	52,049
Norwegian Krone	5,239,514	19,968
Polish Zloty	6,424,761	113,618
Singapore Dollar	12,849,717	95,458
South African Rand	55,575,920	(630,135)
South Korean Won	147,140,198	475,714
Swedish Krona	3,807,732	23,164
Swiss Franc	27,866,177	45,328
Thai Baht	10,655,188	7
Turkish Lira USD	26,937,749	960,586
Total foreign exposure	1,112,725,377	1,450,228
Investments not subject to foreign currency risk	7,012,519,413	343,104,977
Total Investments	$ 8,125,244,790	$ 344,555,205

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 5. INVESTMENTS (CONTINUED)

***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.

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.

All investments except securities lending collateral are held by J.P. Morgan (Dallas, Texas). Investments in securities lending collateral are held by ClearLend Securities, a division of Wells Fargo Bank (Los Angeles, California).

***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, the Board's exposure to interest rate risk is summarized as:

Investment Type	Amount 2011	Amount 2010	Duration (In Years) 2011	2010
U.S. Treasury Securities	$ 394,315,801	$ 457,392,402	6.08	6.91
U.S. Government & Agency Obligations	65,124,227	402,735,873	5.07	3.58
Corporate Obligations	1,082,050,140	823,419,995	4.68	4.07
Asset & Mortgage-Backed Securities	640,922,004	224,248,227	3.05	3.01
Guaranteed Fixed Income	-	5,823,295	N/A	1.96
Short-Term Investments	185,380,241	344,561,296	0.00	0.45
Overall	$ 2,367,792,413	$ 2,258,181,088	5.06	4.53

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

***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 noncash, 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 at of June 30, 2011 and 2010, is summarized below. The investments were rated and categorized according to Standard & Poor's rating standards.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 5. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/11

Investment Type	Rating	Fair Market Value
Asset Backed Securities	A	$ 1,263,637
	A-	3,362,571
	A+	662,156
	AA	367,925
	AA+	975,635
	AAA	10,015,854
	B	667,338
	B-	1,762,797
	B+	707,674
	BB	1,160,703
	BB-	1,065,699
	BB+	4,200,423
	BBB	1,477,731
	BBB-	2,603,956
	BBB+	10,578,881
	CCC	4,129,686
	CCC-	109,628
	D	6,181
	N/R	251,281
Commercial Mortgage-Backed	A	6,729,812
	A-	2,614,333
	A+	15,544,392
	AA	2,214,857
	AA-	2,679,999
	AA+	258,113
	AAA	76,599,015
	B+	332,201
	BB-	734,891
	BBB	2,105,803
	BBB-	751,520
	BBB+	9,140,942
	CCC+	624,290
	D	1,817,406
Mortgage-Backed Securities	AAA	372,924,234
Total Asset & Mortgage Backed Securities		540,441,564

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 5. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/11 (continued)

Investment Type	Rating	Fair Market Value
Collateralized Debt/Loan Obligations	A	2,647,168
	A+	453,160
	AA	299,530
	AA	714,401
	AA+	83,579
	AAA	4,473,439
	B	1,676,197
	B-	1,425,929
	BB	723,482
	BBB-	2,333,384
	BBB+	2,617,381
	C	134,162
	CC	625,238
	CC	700,941
	CCC	7,090,766
	CCC+	416,774
	D	1,035,204
	N/R	8,991,152
Collateralized Bonds	AAA	7,030,338
Total Collateralized Debt Obligations		43,472,225
Corporate Bonds	A	77,888,713
	A-	74,439,159
	A+	22,627,472
	AA	12,333,850
	AA-	23,866,005
	AA+	18,763,646
	AAA	224,547
	B	68,048,963
	B-	82,557,719
	B+	60,696,486
	BB	14,857,058
	BB-	18,375,020
	BB+	18,605,874
	BBB	99,380,248
	BBB-	62,610,875
	BBB+	58,205,888
	C	6,365,532
	CC	1,693,481
	CCC	14,313,990
	CCC-	4,007,579
	CCC+	16,911,595
	N/R	74,094,140
Corporate Convertible Bonds	BB-	2,424,889
	CC	4,851,484
	CCC+	1,154,991
Common Stock	N/R	36,571,152
Preferred Stock	N/R	228,446
Total Domestic Corporate Securities		876,098,802

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 5. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/11 (continued)

Investment Type	Rating	Fair Market Value
Bank Loans	B	32,086,816
	B-	6,092,637
	B+	31,465,800
	BB	6,373,861
	BB-	10,641,131
	CCC	28,926,584
	CCC+	3,353,260
	N/R	23,807,545
Total Bank Loans		142,747,634
Agency Bonds	AA-	1,114,190
	AAA	38,023,942
Municipal/Provincial Bonds	A	247,610
	A-	2,588,977
	A+	3,168,198
	AA	251,723
	AA-	392,343
	AA+	128,553
	AAA	505,782
	N/R	4,061,784
Total Government Agencies		50,483,102
Government Bonds	AAA	797,815
Government Bonds Sovereign Debt	BBB	4,366,065
International Authority	AAA	4,955,548
Total US Government Securities		10,119,428
Other Investments Not Rated	N/R	1,261,544
Other Investments Not Subject To Credit Risk		7,664,148,910
TOTAL		$ 9,328,773,209

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 5. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/10

Investment Type	Rating	Fair Market Value
Short Term Investment Funds	A	$ 4,752,608
	N/R	156,471,219
Total Short Term Investment Funds		161,223,827
Asset Backed Securities	A	238,643
	A-	68,599
	AA-	1,162,339
	AAA	2,683,142
	AAA	10,310,584
	B-	662,931
	B+	415,144
	BB	991,120
	BB-	884,985
	BBB	85,524
	BBB-	594,472
	BBB+	2,814,367
	CC	13,515
	CCC	217,500
	CCC	3,779,800
	CCC+	117,141
Commercial Mortgage-Backed	A	1,713,996
	A	4,740,384
	A-	8,303,594
	A+	7,943,475
	AA	1,083,706
	AA-	6,592,879
	AA+	257,057
	AAA	16,500,382
	AAA	74,086,802
	B-	452,653
	B+	143,227
	BB-	1,062,411
	BBB	861,236
	BBB-	2,634,898
	BBB+	4,165,049
	D	1,537,890
Non-Government Backed C.M.O.s	A	2,899,910
	A-	339,455
	A+	433,147
	AA	781,700
	AA	631,401
	AA+	97,718
	AAA	6,082,775
	B	349,438
	B-	1,667,298
	BB	437,723
	BBB	98,608
	BBB+	3,672,363
	CC	935,408
	CC	5,658,433
	CCC	136,049
	CCC	14,407,957
	D	537,588
	N/R	1,463,564
Total Asset & Mortgage Backed Securities		197,749,980

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011and 2010 (CONTINUED)

NOTE 5. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/10 (continued)

Investment Type	Rating	Fair Market Value
Collateralized Debt/Loan Obligations	A	2,093,091
	A-	5,055,773
	A+	3,106,389
	AA	2,143,820
	AA-	3,437,454
	B-	577,013
	B+	612,915
	BB	1,505,500
	BB-	227,030
	BB+	9,814,855
	BBB	82,681
	BBB-	62,384
	BBB	792,515
	BBB-	6,771,020
	BBB+	8,434,429
	CCC-	225,000
	D	245,757
Collateralized Bonds	BBB+	790,629
Total Collateralized Debt Obligations		45,978,255
Bank Loans	B	18,045,783
	B-	3,325,000
	B	40,581,842
	B-	18,250,438
	B+	13,203,418
	B+	24,624,461
	BB	307,485
	BB+	638,675
	BB+	275,115
	BBB-	2,947,457
	BBB-	2,928,251
	C	5,526,418
	CCC+	1,095,875
	CCC+	18,656,366
	D	1,411,850
	D	10,057,393
	N/R	20,628,380
Total Bank Loans		182,504,207
Government Agencies	A	748,046
	AA	2,549,142
	AAA	7,370,673
	AAA	42,134,032
	BBB	4,114,228
Government Mortgage Backed Securities	AAA	351,063,282
Municipal/Provincial Bonds	A-	3,012,945
	A+	1,009,758
	AAA	3,272,188
	AAA	1,808,550
Total Government Agencies		417,082,844

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010(CONTINUED)

NOTE 5. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/10 (continued)

Investment Type	Rating	Fair Market Value
Corporate Bonds	A	95,935,953
	A-	53,249,505
	A+	23,750,793
	AA	12,365,267
	AA-	18,884,797
	AA+	18,437,957
	AAA	2,074,647
	B	73,301,298
	B-	30,897,572
	B+	55,727,679
	Ba3	1,659,561
	BB	22,308,134
	BB-	28,309,654
	BB+	10,244,369
	BBB	1,264,360
	BBB	82,362,403
	BBB-	68,065,982
	BBB+	77,092,551
	C	880,884
	C	5,590,700
	C2	64,839
	Caa1	580,500
	CC	185,625
	CCC	8,203,175
	CCC	9,490,425
	CCC+	2,801,750
	CCC+	29,456,196
	D	2,911,078
	D	8,264,518
	N/R	22,813,126
Corporate Convertible Bonds	N/R	4,168,688
Guaranteed Fixed Income	AAA	5,823,295
Common Stock	B+	3,305,281
Preferred Stock	BB-	798,431
	C	39,890
Other Fixed Income	Not Rated	59,610
Total Domestic Corporate Securities		781,370,493
Government Bonds	AAA	430,307,061
	BBB	3,885,907
Index Linked Government Bonds	AAA	23,199,434
Total US Government Securities		457,392,402
Other Investments Not Rated		183,042,568
Other Investments Not Subject to Credit Risk		5,698,900,214
TOTAL		$ 8,125,244,790

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010(CONTINUED)

NOTE 5. INVESTMENTS (CONTINUED)

***Cash Balances*—**The Board earns interest on all monies held at the custodial agent bank. When a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date the cash remains with custodial agent bank. When this occurs, the Board's money is invested overnight in a Short-Term Investment Fund (STIF).

***Concentration Risk*—**Concentration risk is identified by the amount of investment in any one issuer that represents 2% or more of plan net assets. As of June 30 2011 and 2010, with the exception of U.S. Government and Agency securities, the Board was not exposed to any concentration risk greater than 2%.

NOTE 6. DERIVATIVE INSTRUMENTS

Derivatives are generally defined as contracts or securities whose value depend on, or derive from, the value of an underlying asset, reference rate, or index.

The Board has adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of derivative instruments. This note describes the Board's investment derivative instruments measured at fair value in the Statements of Net Assets and Statements of Changes in Net Assets.

The Board's investment policies do allow for certain portfolio managers to trade in certain derivatives for hedging purposes. Golden Tree Asset Management and Beach Point Capital did so in fiscal year 2011. The amounts held in hedging derivatives were not material during the year and at year end.

The notional or contractual amounts of derivatives indicate the extent of the Board's involvement in the various types and uses of derivative financial instruments and do not measure the Board's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and other terms of the derivatives.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 6. DERIVATIVE INSTRUMENTS (CONTINUED)

The following table summarizes the aggregate notional or contractual amounts for the Board's derivative financial instruments as of June 30, 2011 and 2010.

	(Dollar Amounts in Thousands)	
	2011	2010
Futures contracts - long:	13,200	32,039
Futures contracts-short:	(56,900)	(44,287)
Foreign exchange forward contracts, net	4,920	(17,738)
Options - call purchased	-	187
Options - calls sold	-	(169)
Options - puts sold	-	(3)
Swaps - credit default swap	16,927	8,514
Swaps - interst rate swap	13,415	19,285
Swaps - zero coupon	5,870	-

The fair values of derivative instruments outstanding as of June 30, 2011 and 2010 are classified by type and by the changes in fair value of the derivative instrument in the following table.

Dollar Amounts in Millions

	Unrealized Gain/(Loss) as of June 30, 2011		Fair Value at June 30, 2011	
Derivative Type	Classification	Gain/(Loss)	Classification	Amount
Futures	Investment Income	$ (106)	Investment	$ (106)
Total return type swaps	Investment Income	51	Investment	(120)
Swaps - credit default swap index	Investment Income	6	Investment	16
Swaps - interest rate swaps	Investment Income	(1,541)	Investment	(1,541)
Swaps - zero coupon	Investment Income	379	Investment	379
Swaps - index	Investment Income	(18)	Investment	162
Foreign exchange contracts	Investment Income	(363)	Investment	(355)

	Unrealized Gain/(Loss) as of June 30, 2010		Fair Value at June 30, 2010	
Derivative Type	Classification	Gain/(Loss)	Classification	Amount
Futures	Investment Income	$ 1,513	Investment	$ 1,513
Total return type swaps	Investment Income	(576)	Investment	(576)
Swaps - credit default swap index	Investment Income	(58)	Investment	(58)
Swaps - loan default swap index	Investment Income	10	Investment	10
Options	Investment Income	(67)	Investment	(67)
Foreign exchange contracts	Investment Income	215	Investment	215

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 6. DERIVATIVE INSTRUMENTS (CONTINUED)

Risks—There are certain risks inherent in investments in derivatives. The Board is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The fund managers that are authorized to invest in derivatives are given specific parameters as to the types of derivatives invested in and ratings of the counterparties they are allowed to enter into contracts with to ensure transactions are entered into with only high quality institutions. The board is exposed to market risk; the risk that changes in market conditions may make an investment less valuable. Exposure to market risk is managed within risk limits set by management through buying and selling of specific instruments or by entering into offsetting positions. As discussed in Note 5, foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. Managers of these assets are given discretion to hedge this risk.

The Plan invests in the following types of Derivative Instruments.

Asset Backed Securities**—**In accordance with investment policy and fiduciary principles, the Plan invests in various forms of asset backed securities that fit the previous definition of derivative securities. These securities are held for investment purposes. The assets are as follows:

	2011	2010
Asset backed securities	**$ 33,221,315**	$ 25,039,803
Collateralized mortgage obligations	**32,848,421**	46,900,978
Commercial mortgage backed securities	**122,147,575**	132,079,638
Collateralized debt/loan obligations	**13,990,725**	45,978,255

Foreign Currency Exchange Contracts**—**The Board may enter into forward contracts to purchase and sell foreign currencies in the normal course of its investing activities to manage the currency exposure associated with the Board's foreign equity and fixed income investments. The terms of these contracts generally do not exceed one year. The credit risk associated with these contracts is minimal as they are entered into with a limited number of highly rated counterparties.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 6. DERIVATIVE INSTRUMENTS (CONTINUED)

The following tables summarize the System's foreign exchange contracts by currency as of June 30, 2011 and 2010:

(Dollar Amounts in Thousands)
Fiscal Year Ending 6/30/2011

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Brazilian real	382	2	-	-
British pound sterling	96	-	(1,328)	15
Canadian dollar	369	5	(6,624)	(67)
Egyptian pound	-	-	(79)	-
Euro	-	-	(9,605)	(311)
US dollar	22,483	-	(773)	-
Total	23,330	7	(18,409)	(363)

Fiscal Year Ending 6/30/2010

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
British pound sterling	2,923	1	(4,355)	(31)
Euro	32,854	(18)	(49,159)	(166)
Total	35,777	(17)	(53,514)	(197)

Futures Contracts—The Board enters into futures contracts in the normal course of its investing activities to manage market risk associated with the Plan's equity and fixed income investments and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the Statements of Plan Net Assets. The credit risk associated with these contracts is minimal as they are traded on organized exchanges and settled daily.

During 2011 and 2010, the Board was a party to futures contracts held for trading purposes for U.S. Treasury bonds and 90 day Euro dollar fixed income futures. Upon entering into a futures contract, the Board is required to deposit either in cash or securities an amount ("initial margin") equal to a certain percentage of the nominal value of the contract. Subsequent payments are then made or received by the Board, depending on the daily fluctuation in the value of the underlying contracts. Cash Collateral in the amount of $1,800,000 as of June 30, 2011 was held in a Money Market fund by the custodial bank. U.S. Treasury Securities owned and included in the investments of the Board with a value of approximately $564,000, as of June 30, 2010, were held by the Plan's broker as performance security on futures contracts.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 6. DERIVATIVE INSTRUMENTS (CONTINUED)

FY 11
Summary of Outstanding Futures Contracts

	No. of Contracts	Notional Amount
Futures Contracts - Long	132	$ 13,200,000
Futures Contracts - Short	541	$ 56,900,000

	Fair Value
Margin Deposit	$ 1,800,000

FY 10
Summary of Outstanding Futures Contracts

	No. of Contracts	Notional Amount
Futures Contracts - Long	129	$ 129,000,000
Futures Contracts - Short	358	$ 44,287,461

	Fair Value
Margin Deposit	$ 564,000

Options**—**An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from (“call option”), or sell to (“put option”), the writer of a designated instrument at a specified price within a specified period of time. Both written and purchased options were used by the Board during 2011. When the Board purchases or writes an option, an amount equal to the premium paid or received by the plan is recorded as an asset or liability and is subsequently adjusted to the current market value of the option purchased or written. Gain or loss is recognized when the option contract expires or is closed. As of June 30, 2011, no written or purchased options remained open. As of June 30, 2010, the value of open written and purchased options was approximately $172,306 and $187,109, respectively.

Swap Contracts**—**Swap contracts are executed on a number of different bases. The two types employed by the Board on June 30, 2011 and June 30 2010, were interest rate swap contracts and credit default swap contracts. An interest rate swap contract is an agreement between two parties to exchange periodic interest payments. One party agrees to make payments to the other based on a fixed rate of interest in exchange for payments based on a variable rate. The Board employs interest rate swap contracts to adjust fixed income portfolio durations. A credit default swap contract is similar to an insurance policy, with the credit risk of an individual issuer or a basket of issuers (the “reference asset”) the insured factor. Under such a contract, two parties enter into an agreement whereby the first

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 6. DERIVATIVE INSTRUMENTS (CONTINUED)

party pays the second party a fixed periodic payment for the specified life of the contract (analogous to an insurance premium). The other party makes no payment unless a credit event related to the reference asset occurs. If such an event takes place, the second party is obligated to make a payment to the first party. The size of the payment is linked to the decline in the reference asset's market value following determination of the occurrence of a credit event.

Hedge Funds**—**The use of other derivatives is allowed under the Hedge Fund Investment Policy. These investments are under the management of the Hedge Fund managers and are included in the classification "Hedge Funds" on the Statements of Plan Net Assets.

NOTE 7. 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 net 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 $1,259,358 and $1,709,060 for the fiscal years ended June 30, 2011 and 2010, respectively. The collateral information as of June 30, 2011 and 2010 is summarized as follows:

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 7. SECURITIES LENDING (CONTINUED)

Securities on Loan	Fair Value Lent	Collateral Held	Fair Value Collateral Held
2011:			
Lent for cash collateral:			
U.S. Government & Agency Sec.	$ 139,567,687	$ 143,441,906	$ -
U.S. Equities	63,840,723	65,182,221	-
Int'l Equities	2,308,325	2,466,000	-
U.S. Corporate Obligations with Variable Rates	2,626,107	2,700,000	213,455,151
	$ 208,342,842	$ 213,790,127	$ 213,455,151

Securities on Loan	Fair Value Lent	Collateral Held	Fair Value Collateral Held
2010:			
Lent for cash collateral:			
U.S. Government & Agency Sec.	$ 9,620,926	$ 9,848,835	$ -
U.S. Equities	181,421,163	188,935,639	-
Int'l Equities	1,368,691	1,440,000	-
U.S. Corporate Obligations with Variable Rates	836,587	864,000	162,703,152
Asset-Backed Sec. with Variable Rates	-	-	28,924,040
Repurchase Agreements	-	-	-
	$ 193,247,367	$ 201,088,474	$ 191,627,192

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.

At its June 10, 2011 meeting, the Board voted to discontinue the securities lending program upon the expiration of the existing contract with the securities lending agent, ClearLend. The contract expired September 30, 2011. All securities lending transactions were unwound prior to the expiration date.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 8. 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. Depreciation expense was $2,068,829 and $2,083,713 for the years ended 2011 and 2010, respectively. Capital asset activity for the years ended June 30, 2011 and 2010 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
2011:				
Land	$ 248,172	$ -	$ -	$ 248,172
Depreciable land improvements	19,361	-	-	19,361
Building and building improvements	3,365,714	-	-	3,365,714
Furniture and equipment	1,104,261	57,000	68,841	1,092,420
Other assets (Art in Public Places)	30,500	-	-	30,500
Integrated Retirement Information System (IRIS)	9,156,963	-	-	9,156,963
Total	13,924,971	57,000	68,841	13,913,130
Accumulated depreciation:				
Depreciable land improvements	3,623	699	-	4,322
Building and building improvements	1,264,065	137,052	-	1,401,117
Furniture and equipment	822,793	99,686	65,334	857,145
Integrated Retirement Information System (IRIS)	5,617,473	1,831,392	-	7,448,865
Total	7,707,954	2,068,829	65,334	9,711,449
Capital assets—net	$ 6,217,017	$ (2,011,829)	$ 3,507	$ 4,201,681

	Beginning Balance	Additions	Deletions	Ending Balance
2010:				
Land	$ 248,172	$ -	$ -	$ 248,172
Depreciable land improvements	19,361	-	-	19,361
Building and building improvements	3,365,714	-	-	3,365,714
Furniture and equipment	1,108,519	75,894	80,152	1,104,261
Other assets (Art in Public Places)	30,500	-	-	30,500
Integrated Retirement Information System (IRIS)	9,156,963	-	-	9,156,963
Total	13,929,229	75,894	80,152	13,924,971
Accumulated depreciation:				
Depreciable land improvements	3,111	699	187	3,623
Building and building improvements	1,126,826	137,052	(187)	1,264,065
Furniture and equipment	786,470	114,570	78,247	822,793
Integrated Retirement Information System (IRIS)	3,786,081	1,831,392	-	5,617,473
Total	5,702,488	2,083,713	78,247	7,707,954
Capital assets—net	$ 8,226,741	$ (2,007,819)	$ 1,905	$ 6,217,017

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 9. DUE TO EMPLOYERS AND OTHER STATE AGENCIES

This account represents the amount due to various participating public employers for over remittances of employer contributions during the fiscal years ended June 30, 2011 and 2010. Over remittances can be applied to future reporting periods or refunded, at the option of the administrative unit, in the next fiscal year. There were no amounts due to other state agencies as of June 30, 2011 or 2010.

NOTE 10. 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 the 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, 2011 and 2010.

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, of the change in accrued compensated absences. Funds used to liquidate this liability will come from the ERB Retirement Plan.

	2011	2010
Balance payable—beginning of fiscal year	**$ 201,082**	$ 198,861
Additions	**347,422**	273,482
Deletions	**(319,888)**	(271,261)
Balance payable—end of fiscal year	**$ 228,616**	$ 201,082
Amount due within one year, estimated at 97%	**$ 221,758**	$ 195,050

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 11. LEASES

The Board leases mailing and copier equipment, office space, and storage space under operating leases. Operating leases do not give rise to property rights or lease 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 summarizes the Board's future minimum lease payments:

Years Ending June 30,	
2012	$ 69,609
2013	12,480
2014	10,905
2015	725
Total	$ 93,719

Lease expense was $81,899 and $80,436 for the fiscal years ended June 30, 2011 and 2010, respectively.

NOTE 12. RETIREMENT PLANS

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

Public Employees Retirement Association (PERA). Certain full-time employees elect to participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 12. RETIREMENT PLANS (CONTINUED)

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. The Board is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Board are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The plan members and Board's contributions to PERA for the fiscal years ending June 30, 2011, 2010, and 2009 were $648,196, $568,722, and $590,423, respectively, which equal the amount of the required contributions for each fiscal year.

Educational Retirement Board. Certain full-time employees elect to participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members (certified teachers, and other employees of State public school districts, colleges and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's website at www.nmerb.org.

Funding Policy. Effective July 1, 2009, plan members were required by statute to contribute 7.9% of their gross salary if they earned $20,000 or less annually on a full time equivalent basis, and plan members earning more than $20,000 annually on a full time equivalent basis were required to contribute 9.4% of their gross salary. The Board was required to contribute 12.4% of the gross covered salary for employees earning $20,000 or less on a full time equivalent basis, and 10.9% of the gross covered salary of employees earning more than $20,000 annually on a full time equivalent basis. The employer contribution was scheduled to increase by .75% each year until effective July 1, 2011, the employer contribution would be 13.9% of the gross covered salary, however these increases were postponed by 2011 House Bill 628. The contribution requirements of plan members and the Board are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Board's contributions to ERB for the fiscal years ending June 30, 2011, 2010, and 2009 were $11,792, $23,741, and $13,915, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

***Plan Description*:** The Board contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: (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 RHCA plan on the person's behalf, unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employee's effective date, and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post employment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107 or viewed on their website at www.nmrhca.state.nm.us.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13, NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or a former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

The Retiree Health Care Act (Section 10-7C-15, NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2011, the statute required each participating employer to contribute 1.67% of each participating employee's annual salary; each participating employee was required to contribute .83% of their salary. In the fiscal years ending June 30, 2012 through June 30, 2013 the contribution rates for employees and employers will rise as follows:

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
FY12	1.834%	.917%
FY13	2.000%	1.000%

Employers joining the program after 1/1/1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Board's contributions to the RHCA for the years ending June 30, 2011, 2010 and 2009 were $46,063, $32,476, and $31,468 for employer contributions and $23,031, $16,238, and $15,734 in employee contributions, respectively, which equal the required contributions for each year.

NOTE 14. 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 for only a small deductible payment in amounts that vary according to the type of claim.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 15. STATUTORY DISCLOSURES

Section 2.2.2.10P(2) of the Audit Rule 2011, 2.2.2 NMAC entitled, "Appropriations to Agencies" requires that state agencies disclose all special, deficiency, and specific appropriations. The Board received the following specific appropriations:

ERB LAND & BUILDING PROJECT

Laws of 2009, Chapter 125, Section 41		
Appropriation	$	2,500,000
Expended in FY2010		(17,936)
Outstanding Encumbrance at end of FY2010		(75,972)
Un-encumbered balance rebudgeted in FY2011	$	2,406,092
Un-encumbered balance carried forward	$	2,406,092
Outstanding encumbrance from FY2010 added back in		75,972
Expended in FY2011		(26,761)
Outstanding Encumbrance at end of FY2011		(103,305)
Un-encumbered balance rebudgeted in FY2012	$	2,351,998

IRIS ENHANCEMENT PROJECT

Laws of 2011, Chapter 179, Section 7, Item 3		
Appropriation	$	3,500,000
Expended in FY2011		-
Outstanding Encumbrance at end of FY2011		-
Un-encumbered balance rebudgeted in FY2012	$	3,500,000

NOTE 16. INVESTMENT PLACEMENT AGENTS

Placement agents act as intermediaries on behalf of investment managers to solicit investments in a fund. Other terms used to describe the function performed by placement agents include finder, solicitor, marketer, consultant, and broker. Large investment managers may have in-house marketing or placement agent groups, while smaller investment managers may forgo the overhead associated with maintaining such operations and retain independent firms or individuals as placement agents as needed. Some placement agents are part of a large corporation and represent that corporation's investment managers, as well as independent managers. Other placement agents are independent firms or individuals.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010 (CONTINUED)

NOTE 16. INVESTMENT PLACEMENT AGENTS(CONTINUED)

NMSA 1978, Section 22-11-54 requires recipients of investments by the ERB to disclose the identity of, and the fee, commission, or retainer paid to, any third-party marketer or placement agent who rendered services on behalf of the recipient in obtaining the investment. The disclosure requirements do not apply to investments in publicly traded equities or fixed-income securities. Any person who knowingly withholds the required disclosure is guilty of a fourth degree felony, punishable by a fine of not more than $20,000, imprisonment for a definite term not to exceed eighteen months, or both. The ERB informs all investment managers and placement agents soliciting investments of the disclosure requirement and the penalty for failing to disclose. The ERB adopted a policy regarding placement agent disclosures in December 2009. In September 2011, the ERB adopted an Amended and Restated Policy Regarding Placement Agent Disclosures. A copy of this policy can be found at ERB's website:

(http://www.nmerb.org/pdfs/placementagentpolicy.pdf).

The ERB does not have any direct contractual relationships with placement agents and has not directly paid fees for such services. In addition, the ERB's investment consultants and advisors do not receive any compensation other than advisory fees paid by the ERB and do not accept compensation from investment fund managers or their placement agents.

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REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF FUNDING PROGRESS

(Unaudited)

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)
2006	7,813.9	11,436.3	3,622.4	68.3%	2,219.4	163.2%
2007	8,591.4	12,190.1	3,598.7	70.5%	2,341.1	153.7%
2008	9,272.8	12,967.0	3,694.2	71.5%	2,491.7	148.3%
2009	9,366.3	13,883.3	4,517.0	67.5%	2,585.7	174.7%
2010	9,431.3	14,353.5	4,922.2	65.7%	2,575.8	191.1%
2011	9,642.2	15,293.1	5,650.8	63.0%	2,523.8	223.9%

Note: Dollar amounts are in millions.
An expanded version of this table and additional discussion of changes in actuarial assumptions is included in the Actuarial section of this report

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Unaudited)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2006	$ 299,967,996	75.5%
2007	$ 364,128,448	70.3%
2008	$ 368,196,682	79.0%
2009	$ 375,430,722	86.2%
2010	$ 357,220,043	87.7%
2011	$ 377,884,749	81.6%

NOTE: An expanded version of this table and additional discussion of changes in actuarial assumptions is included in the Actuarial section of this report

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011 and 2010
(Unaudited)

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:

	2011	**2010**
Valuation date	June 30, 2011	June 30, 2010
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	30 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.75%	8.00%
Projected salary increases*	4.75% 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.

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OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF REVENUES AND EXPENSES—BUDGET AND ACTUAL (NON-GAAP BASIS)
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance— Final Budget Favorable (Unfavorable)
REVENUES:				
Other state funds	$ 26,908,300	37,208,300	37,208,300	-
TOTAL BUDGETED REVENUE	$ 26,908,300	37,208,300	37,208,300	-
EXPENSES:				
Personal services and employee benefits	$ 4,197,400	4,197,400	4,087,075	110,325
Contractual services	21,826,700	30,976,700	24,276,385	6,700,315
Other costs	884,200	2,034,200	1,468,538	565,662
TOTAL EXPENSES	$ 26,908,300	37,208,300	29,831,998	7,376,302

RECONCILIATION OF GAAP BASIS TO BUDGETARY BASIS:

Revenue GAAP basis	$ 2,104,304,938
Net appreciation in investment value	1,396,479,035
Investment advisor and custody fees (a)	(35,247,716)
Current-year revenue not needed for budgeted expenses	(3,428,327,957)
Revenue (non-GAAP) budgetary basis	$ 37,208,300
Expenses GAAP basis—administrative (b)	$ 11,407,033
Capital outlay	(57,000)
Depreciation expense	(2,068,829)
Investment advisor and custody fees (a)	20,550,794
Expenses (non-GAAP) budgetary basis	$ 29,831,998

(A) Certain fund managers deduct their fees directly from the earnings reported, while others are paid directly. The total is shown as a reconciling item for revenues above, but only the amount paid directly is budgeted and showing in the expense reconciliation above. The amount deducted from earnings in 2011 was $14,696,922.
(B) Significant revenues and non-administrative expenses are not budgeted (see Note 1).

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF CASH ACCOUNTS
As of June 30, 2011 and 2010

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

	2011	2010
Petty cash	**$ 100**	$ 100
Qualified Excess Benefit Arrangement Trust		
Checking Account at Wells Fargo Bank	**11,815**	5,992
Short-term investment accounts:		
Overnight repurchase agreement pool—State Treasurer	**6,346,596**	12,081,842
Short-Term Investment Fund—STIF	**552,266,403**	344,555,205
Balance per financial statements	**$ 558,624,914**	$ 356,643,139
Pledged collateral for Wells Fargo demand deposit account:		
Total amount on deposit at June 30	**$ 11,815**	$ 5,992
Less Federal Deposit Insurance Corporation coverage	**(11,815)**	(5,992)
Total uninsured public funds	**$ -**	$ -

SCHEDULE OF FEES PAID FOR PROFESSIONAL SERVICES OTHER THAN INVESTMENT PROFESSIONALS
As of June 30, 2011 and 2010

	2011	2010
Legal Services	$ 1,240,581	$ 798,229
Medical Review Board	18,825	18,803
Actuarial Services	309,483	134,621
Audit Services	87,081	82,800
Other Professional Services	33,725	21,613
Total	$ 1,689,695	$ 1,056,066

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF ADMINISTRATIVE EXPENSES
As of June 30, 2011 and 2010

	2011	2010
Personnel expenses	$ 4,087,075	$ 3,626,679
Depreciation Expense	2,068,829	2,083,713
Information Systems equipment and maintenance	849,240	832,494
Professional Services	1,689,695	1,056,066
Building Maintenance & Utilities	146,620	146,913
All other charges	2,565,574	3,742,058
Total	$ 11,407,033	$ 11,487,923

INVESTMENT SECTION

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
REPORT ON INVESTMENT ACTIVITY
JUNE 30, 2011

Members & Retirees of NMERB:

Fiscal Year 2011 marked another profitable year for the NMERB investment portfolio as the recovered in capital markets continued. The total Fund posted a return of 19.7%, for investment gains of $1.6 billion. The Fund's investment performance ranked in the 83rd percentile nationally in ERB's peer group of U.S. public pension funds with assets of $1 billion or more. Given ERB's relatively low allocation to public equities, this result is within expectations during a year of very strong equity performance. Our allocation plan is designed to result in a lower volatility of returns than the average pension fund. This means we expect to lag those funds somewhat when equity markets move up sharply. We also expect to exceed the returns on those same funds when the equity markets have very small gains or losses. In short, we are seeking to mute the extreme differences in returns from one year to the next.

The 19.7% portfolio return outperformed the fund's policy index by 1.6%. Most importantly, the fund exceeded the actuarially required rate of 7.75% by a wide margin of 11.9%.

The major positive contributor to performance for the fiscal year was strong equity market performance across all geographic markets. The S&P 500 index returned 30.7% for the fiscal year. The EAFE index for developed foreign equity markets returned 30.4%, while the MSCI Emerging Markets Equity index was up 27.8%. In the fixed income sector, markets were not as strong, but were also positive. The Barclays Capital Aggregate index representing the U.S. investment grade bond market posted a 3.9% return for the year, while in the high yield bond space, the Merrill Lynch BB-B constrained High Yield index returned 14.6%. ERB's portfolio is a combination of managers operating in markets related to those two indices. Our portfolio trailed the benchmark, but still returned a healthy 11.3%. In subsequent sections of this report, you will see the performance of the various major components of ERB's investment portfolio. This includes a comparison of the aforementioned indices and others to the components of ERB's portfolio.

In the longer term, performance results continue to improve. ERB's three-year total Fund return of 5.3% exceeded its policy target return of 3.4% by 1.9%. 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. This did fall short of the 7.75% target mentioned earlier. The three-year return did, however, rank in the top 18% of ERB's peer group. Thus our portfolio did well on a relative basis compared to other funds and to the conditions prevailing in the markets in the time period. In evaluating this period, one must keep in mind the dramatic plunge in stock market values that took place in 2007-08, with the S&P 500 large capitalization U.S. index losing 53% of its value in an 18-month period. We are happy to report that the capital markets are continuing to recover from these low points.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
REPORT ON INVESTMENT ACTIVITY
JUNE 30, 2011 (CONTINUED)

ERB's five-year total Fund return was 5.2% annually, outperforming its benchmark of 4.1%. The Fund performance ranked in the top 23% of its peer group for this period. Thus, while the five-year return does not meet the target of 7.75%, it is a good result on a relative basis, once again given the market conditions.

ERB's ten-year total Fund return was 5.5% which was 30 basis points (0.30%) above its policy return of 5.2% and below the actuarial rate of 7.75%. The fund ranked just slightly better than the bottom 35% of its peer group for the period. Thus, the ten year period showed mixed results, but has been improved by actions ERB has taken in more recent time periods. This time period encompassed two major stock market declines, the 2007-08 period mentioned earlier and the 2000-02 "internet bubble", which resulted in a decline of 47% in the S&P 500. Volatile periods, indeed. The experience of this period has led to a change in strategy discussed previously and in the next paragraph.

In October 2007, the Board adopted new asset allocation targets designed to mute the volatility in returns for the portfolio. In October 2010, these targets were further refined. The details of the 2010 allocation plan are more fully discussed in the "INVESTMENTS OVERVIEW" section of this report. Most notably, the new allocation reduced the amount invested in equities to 40%, from the previous allocation of 45% in 2007, and added opportunistic credit and emerging market debt as new asset classes. Allocations to these two categories are in process. As we saw in the 2007-08 and 2000-02 periods discussed earlier, stock markets can be extremely volatile. The goal of the new allocation is to further diversify the Fund and place less reliance on the public equity markets by seeking alternative sources of investment return, thereby decreasing the volatility of investment returns for the total portfolio.

The investment performance reported in this letter is based on time weighted rates of return calculated using the market value of assets as of June 30, 2011, with the exception of private equity, real estate and real assets. Due to the nature of these asset classes, we report performance based on the more appropriate dollar-weighted method. Performance shown for periods longer than one year has been annualized.

Sincerely,

Bob Jacksha

Bob Jacksha
Chief Investment Officer

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENTS OVERVIEW
JUNE 30, 2011

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 is to earn the actuarial rate of return, currently set at 7.75%.

The primary goal of the equity investment program is to build a diversified portfolio of stocks. This includes large and small capitalization domestic stocks, as well as international equities. Large capitalization stocks are managed in an S&P 500 index strategy. This portfolio replicates all of the holdings in that index. The other stock portfolios are actively managed by external managers. A portfolio of REITs (real estate investment trusts) provides exposure to real estate through an equity vehicle.

Investment grade fixed income securities are actively managed by external investment managers. The investment grade securities include US Treasury and agency, corporate, and asset backed securities. Additional diversification is achieved through investments in the opportunistic credit allocation which incorporates high yield debt and other credit strategies in both domestic and foreign debt. The Fund also has investments in other alternative investment sectors to further diversify risks. These include investments in private equity, hedge funds/absolute return strategies and real assets in the form of infrastructure and timber assets.

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 statutes and investment guidelines established by the Board, the Investment Division uses both internal and external managers for managing its assets. The S&P 500 equity and REIT index portfolios are managed internally. All other portfolios are managed externally.

The Board has approved an asset allocation plan to guide the Investment Committee and staff in carrying out the investment responsibility. These asset allocation decisions are 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 and staff periodically rebalances among the asset classes. The general guidelines relating to these asset classes are reviewed annually by the Investment Committee and are included in ERB's written Investment Policy Statement available on ERB's website: http://www.nmerb.org/invpolicies.htm

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENTS OVERVIEW
JUNE 30, 2011 (CONTINUED)

The investment activity is governed by the Educational Retirement Act of New Mexico (Chapter 22, Article 11 NMSA 1978). The “prudent investor” standard, as defined in the state statutes (Section 22-11-13 NMSA 1978), 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 the expected risk and market returns of various asset classes, the Board adopted a revised asset allocation plan in October 2010. The targeted asset allocation is shown in Exhibit A. This revision continued the trend established with the 2007 plan to reduce the reliance on public equities due to the volatility and unpredictability of that asset class. The new plan added the category of opportunistic credit and emerging market debt with the goal of further diversifying the investment of the ERB. Implementation of the new asset allocation plan is ongoing and we are transitioning to the new asset allocation targets. Full implementation is expected to be a multi-year process due to the nature of the some of the alternative assets.

State of New Mexico
Educational Retirement Board
Asset Allocation Policy as of June 30, 2011

Asset Class:	Target Weight	Actual
Cash	**1%**	**6%**
Equities		
Domestic Equity	25%	24%
International Equities	15%	16%
Total Equities	**40%**	**40%**
Fixed Income		
Investment Grade Bonds	5%	19%
Emerging Market Debt	2%	0%
Opportunistic Credit	20%	11%
Total Fixed Income	**27%**	**30%**
Alternatives		
Real Estate/REITs	5%	5%
Private Equity	7%	4%
Absolute Return	8%	7%
Real Assets	7%	1%
Global Tactical Asset Allocation	5%	6%
Total Alternatives	**32%**	**23%**

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT PERFORMANCE OVERVIEW
JUNE 30, 2011

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 rebalanced 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 ERB adopted a new asset allocation in October of 2010 and new investment policy in June 2011. As a result, ERB continued the implementation of alternative investment strategies in the current fiscal year, with the goal of further diversifying the assets of the Fund.

III. ERB Portfolio Performance
Fiscal year 2011 marked a positive environment for nearly all asset classes. The continued rebound from previous year's distress in the financial markets resulted in significant gains in all of the major asset allocations in ERB's portfolio and for most other public funds. The median public fund was up over 21% for the year ended June 30. The ERB investment portfolio returned slightly less than that figure with a 19.7% return for the year. Given ERB's long term allocation strategy of lower equity holdings, this is within the expectations in a year when public equity returns were very strong compared to other asset classes. ERB's exposure of 40% to equities is less than the 57% median public fund exposure. The investment portfolio did exceed the policy index return of 18.1% by a wide margin and also exceeded the 7.75% long term return target. Regardless of the various benchmarks, a 19.7% return is a good result.

The domestic equity portfolio gained 31.7%, versus the Russell 3000 return of 32.4%. International stocks were also positive. The MSCI ACWI ex-US Index returned 5.9% for the year. The ERB international developed equity portfolio returned 27.7%. The International equity benchmark index for this category, the MSCI ACWI ex-US, returned 29.7%.

Fixed income also produced positive returns. The ERB core fixed income portfolio produced a 6.2% versus 3.9% for the Barclays Capital Aggregate Bond Index.
The opportunistic credit portfolio returned 11.3% versus the Merrill Lynch High Bond BB/B index return of 14.6%.

The internally managed REIT portfolio returned 35.7%, in line with the Wilshire REIT Index return of 35.5%.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT PERFORMANCE OVERVIEW
JUNE 30, 2011 (CONTINUED)

The private equity investment allocation also turned in a positive return at 16.4%. This trailed the Cambridge Associates index return of 21.3%.

Absolute return hedge fund strategies performed well for the Fund, returning 5.9% versus the benchmark of 2.2%.

Finally, global asset allocation strategies returned 18.8% versus the benchmark index return of 22.7%.

Further detailed performance figures appear in the table on the following page:

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT PERFORMANCE OVERVIEW
JUNE 30, 2011 (CONTINUED)

INVESTMENT RATES OF RETURN

Fiscal Year Ended June 30, 2011

	1 Year 2011	3 Years 2009-11	5 Years 2007-11
Domestic Equity	**31.7%**	**3.2%**	**2.8%**
Russell 3000	*32.4%*	*4.0%*	*3.4%*
Non - US Developed Market Equity	**30.6%**	**(3.6%)**	**1.2%**
MSCI EAFE	*30.4%*	*(1.8%)*	*1.5%*
Non - US Emerging Market Equity	**26.0%**	**3.2%**	**10.4%**
MSCI EMF	*27.8%*	*4.2%*	*11.4%*
Real Estate Inv. Trusts	**35.7%**	**5.1%**	**2.1%**
Wilshire REIT	*35.5%*	*4.9%*	*1.8%*
Core Fixed Income	**19.2%**	**8.1%**	**6.1%**
Barclays Capital Aggregate	*9.5%*	*7.5%*	*5.5%*
Opportunistic Credit/High Yield Bonds	**11.3%**	**9.8%**	**n/a**
Merrill Lynch BB/B	*14.6%*	*10.5%*	*n/a*
Absolute Return	**6.2%**	**(0.9%)**	**n/a**
90 day T-Bills + 2%	*2.2%*	*2.5%*	*n/a*
Global Tactical Aset Allocation	**18.8%**	**n/a**	**n/a**
60% MSCI World Equity/Citi WGBI Bonds	*22.7%*	*n/a*	*n/a*
Private Equity**	**16.4%**	**3.0%**	**(11.4%)**
Cambridge Associates Index	*21.3%*	*4.3%*	*10.4%*
Private Real Estate	**21.9%**	**(1.6%)**	**n/a**
NCREIF property	*16.7%*	*(2.6%)*	*n/a*
Real Assets	**13.7%**	**8.8%**	**n/a**
TOTAL FUND	**19.7%**	**5.3%**	**5.2%**
*POLICY INDEX**	*18.1%*	*3.4%*	*4.1%*

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
LARGEST INVESTMENT HOLDINGS
JUNE 30, 2011

Ten Largest Stock Holdings

Company	Shares	Market Value
EXXON MOBIL CORP COM STK	850,380	$ 69,203,924.40
APPLE INC COM STK	157,938	$ 53,015,048.46
SIMON PROPERTY GROUP INC COM STK	371,067	$ 43,129,117.41
IBM CORP COM STK	209,047	$ 35,862,012.85
CHEVRON CORP COM STK	344,256	$ 35,403,287.04
GENERAL ELECTRIC CO. COM STK	1,821,207	$ 34,642,042.47
MICROSOFT CORP COM STK	1,268,247	$ 32,974,422.00
AT&T INC COM STK	1,013,143	$ 31,822,821.63
SAMSUNG ELECTRONICS CO	40,662	$ 31,458,635.32
JOHNSON & JOHNSON COM STK	468,643	$ 31,174,132.36

Ten Largest Fixed Income Holdings

Issue	Market Value
U.S. TREASURY NOTES 1% DUE 10-31-2011	$ 63,298,291.30
U.S. TREASURY NOTES 0.75% DUE 06-15-2014	$ 51,564,539.29
U.S. TREASURY NOTES 3.125% DUE 05-15-2021	$ 47,880,342.49
U.S. TREASURY NOTES 1.000% DUE 05-15-2014	$ 27,187,557.85
FNMA SINGLE FAMILY MORTGAGE 4.50% 30 YEARS	$ 23,695,909.65
U.S. TREASURY NOTES 1.375% DUE 03-15-2013	$ 17,526,148.48
FHLMC GOLD SINGE FAMILY MORTGAGE 4.50% 30 YEARS	$ 17,136,972.30
GNMAII JUMBO 4.50% 30 YEARS	$ 16,363,887.00
U.S. TREASURY BONDS 4.75% DUE 02-15-2041	$ 15,712,822.64
U.S. TREASURY BONDS TIPS DUE 02-15-.2040	$ 15,109,704.15

Note: Ten Largest Fixed Income Holdings based on the Fund's separately managed portfolios.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF INVESTMENT MANAGEMENT FEES AND COMMISSIONS
JUNE 30, 2011

SCHEDULE OF INVESTMENT MANAGEMENT FEES
AND COMMISSIONS FOR YEAR ENDED JUNE 30, 2011

	Investment Fees	Commissions
Domestic Fixed Income	$ 17,418,947	$ 49,372
Domestic Equities	$ 2,392,634	$ 1,677,271
International Equities	$ 6,735,959	$ 1,946,246
Short Term Investments	$ 18,034	N/A
Total	$ 26,565,574	$ 3,672,889
Custodian Fees	$ 1,037,160	N/A
Consultant Fees	$ 1,566,614	N/A
Grand total	$ 29,169,348	$ 3,672,889

Excludes fees and commissions associated with comingled funds

ACTUARIAL SECTION

GRS

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November 16, 2011

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, 2011

The results of the June 30, 2011 annual actuarial valuation are presented in this report. 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, 2011.

This report was prepared at the request of the Board and is intended for the Board's use and those designated or approved by the Board. This report may be provided to parties other than the ERB only in its entirety and only with the permission of the Board

To the best of our knowledge, this report is based on benefit provisions in effect as of June 30, 2011, 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.

The valuation report is a snapshot of the Plan's estimated financial condition as of the valuation date. The valuation does not predict the Plan's future financial condition or its ability to pay benefits in the future and it also does not provide any guarantee of future financial soundness of the Plan. Over time, the plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of members receiving benefits, the period of time over which benefits are paid, plan expenses, and the amount earned on any assets invested toward the payment of benefits. These amounts and other variable are uncertain and unknowable at the valuation date.

To prepare the valuation report, actuarial assumptions, including those adopted with the June 30, 2010 experience study, are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities; the results based on that single scenario are included in the valuation. The future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material because these results are

Board of Trustees
November 16, 2011
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sensitive to the assumption made, and, in some cases, to the interaction between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a long period of time, no one projection is uniquely "correct" and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future.

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

Financing Objectives

In accordance with HB 628, employer and member contributions are scheduled as follows.

For employees making more than $20,000/less than $20,000 per year:

Fiscal Year End	*Employer Contribution Rate*	*Member Contribution Rate*
2012	9.15%/12.40%	11.15%/7.90%
2013	10.90%/12.40%	9.40%/7.90%
2014	13.15%/13.15%	7.90%/7.90%
2015 and thereafter	13.90%/13.90%	7.90%/7.90%

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.

Progress Toward Realization of Financing Objectives

The funded condition of the plan, as measured by the funded ratio, declined from 2010 to 2011. The decline was due to the continued loss on the actuarial value of assets (a loss of $359 million)

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and a net loss between experience ($226 million dollar gain) and assumption changes ($426 million dollar loss) on the liabilities of $200 million.

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, 2010 was 65.7%, while it is now 63.0%. Five years ago the ratio stood at 68.3%, and ten years ago the ratio was 91.9%. However, if the ratio were calculated using the market value rather than the actuarial value of assets, it would be 62.7% as of June 30, 2011, up from 57.4% as of June 30, 2010. During the last fiscal year, the UAAL increased from $4.9 billion to $5.7 billion.

The plan's funding period as of the valuation date is infinite. This is a theoretical calculation of the period that will be required to amortize the UAAL, assuming that the current year's amortization payment increases at the payroll growth rate (3.75%) each year in the future. The infinite period compares with 62.5 years funding period calculated as of the prior actuarial valuation. An infinite period means that the principal on the UAAL will never be paid down.

This calculation of the funding period is a snapshot as of the valuation date and ignores a number of factors: (i) the scheduled future increases in the employer contribution rates, (ii) the known deferred asset gains and losses that are reflected in the actuarial value of assets and that will be recognized over the next four years, and (iii) the expected future growth in the active membership (0.75%).

Recent Events

In FYE 2009, the financial markets experienced major losses. The equity markets dropped dramatically through early March 2009 before beginning to recover. Many pension trusts lost 30% to 40% through early March 2009 but then rebounded off of those lows. For instance, the market value of the ERB trust was $8.8 billion as of June 30, 2008 and is $9.6 billion as of June 30, 2011. Most of the investment losses from FYE 2008 and FYE 2009 have been recognized in this valuation but some is still being deferred and will be recognized in future valuations. The total amount of deferred losses as of June 30, 2011 is $53.7 million dollars and the plan's funding period has become infinite.

The annual return from 2010 to 2011 on the market value of assets was 19.0% and the annual return from that same period on the actuarial value of assets was 4.2%. The lesser return on the actuarial value of assets reflects the smoothing of gains and losses at work in the asset method- in 2009 not all the losses were recognized at one time in the actuarial value of assets and likewise, for this valuation, not all the gains have been recognized in the actuarial value of assets.

Benefit Provisions

HB 628 was enacted in 2011. This bill extended the 1.50% shift in contributions that was enacted in prior legislation from the employer to the member and added an additional shift of 1.75%. The result is the employer is contributing 9.15% for FYE 2012 and the member is contributing 11.15%. The 1.75% shift will expire June 30, 2012 and the 1.50% shift will expire at June 30, 2013.

Gabriel Roeder Smith & Company

Board of Trustees
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(Members earning less than $20,000 will continue to contribute 7.90% and the employer will contribute 12.40% for FYE 2012 and FYE 2013).

Previous legislation enacted a new "tier" of benefits for members who join ERB after June 30, 2010. This is the first valuation that reflects new members in the plan under the provisions of the new tier. The provisions include later eligibility for retirement and a change in the reduction of benefits for members who take an early retirement.

Assumptions and Methods

An experience study was conducted covering the five year period ending June 30, 2010. The Board adopted a number of assumption changes, to be first implemented in this valuation ending June 30, 2011. These changes include a decrease in the discount rate from 8% to 7.75%, and changes in mortality, retirement and salary increase rates. At the time of the experience study, it was expected that these rates would increase the UAAL by $473 million and the normal cost rate would increase from 12.48% to 14.09%. In fact, the assumption changes increase the UAAL by $426.1 million, and the normal cost came in at 13.83% of pay.

The assumed earnings on member accounts was changed from 6% per year, to 4% per year. This change was made to reflect the change in administrative practice by ERB for the interest crediting to member accounts.

Early in 2011 an audit was conducted, where the auditing actuary recommended a change from the modified entry age normal method (for the determination of normal cost) to the traditional entry age normal method. The modified method, which had been in place for many years, would set the normal cost to a flat number, and balance funding with the accrued liability. The traditional method calculates an individual normal cost for each member, and the plan's normal cost is the sum of each member's normal cost.

We concur with the recommendation to use the traditional entry age normal cost method. We expect that as tier 2 members enter the system, the normal cost will gradually decrease to the cost of the tier 2 benefits. Thus we think it creates greater transparency for the effects of the tier 2 benefits to use the traditional entry age normal cost method.

The three tier licensure program is still in effect for ERB members. We have made no separate adjustment to account for this program; the impact of the three tier licensure program has been accounted for in the salary scale assumptions.

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.

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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, 2011, by the ERB staff. 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.

We provided some of the information used in the Comprehensive Annual Financial Report. Specifically, we provided information used in preparing the schedules of Active Member Valuation Data, Retirants and Beneficiaries, Analysis of Financial Experience, and the Solvency Test that are found in the Actuarial Section; and we provided the Schedule of Funding Progress and the Schedule of Required Contributions in the Financial Section.

Certification

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of New Mexico state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board.

The undersigned are independent actuaries and consultants. Both are Enrolled Actuaries and are Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Both of the undersigned are experienced in performing valuations for large public retirement systems.

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

Sincerely,

J. Christian Conradi   Leslie L. Thompson

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

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

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Gabriel Roeder Smith & Company

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXECUTIVE SUMMARY
JUNE 30, 2011

Executive Summary

Valuation as of:	06/30/2011	06/30/2010
Contribution Rates for Fiscal Year Ending:	06/30/2012	06/30/2011
Membership		
• Number of		
- Active members	61,673	63,295
- Retirees and beneficiaries	35,457	33,747
- Inactive, vested	9,333	9,054
- Inactive, nonvested	23,678	22,782
- Total	130,141	128,878
• Payroll	$ 2.5 billion	$ 2.6 billion
Statutory contribution rates		
• Employer	9.15%	10.90%
• Member	11.15%	9.40%
Assets		
• Market value	$ 9.6 billion	$ 8.2 billion
• Actuarial value	$ 9.6 billion	$ 9.4 billion
• Return on market value	19.0%	17.7%
• Return on actuarial value	4.2%	2.0%
• Employer contributions	$ 308.4 million	$ 313.3 million
• External cash flow %	-2.0%	-1.6%
• Ratio of actuarial to market value	100.6%	114.6%
Actuarial Information		
• Normal cost %	13.83%	12.48%
• Unfunded actuarial accrued liability (UAAL)	$ 5.7 billion	$ 4.9 billion
• Funded ratio	63.0%	65.7%
• Funding period (years)	Infinite	62.5 years
• GASB Annual Required Contribution	14.54%	13.39%
Gains/(losses)		
• Asset experience	$ (358.7) million	$ (561.4) million
• Liability experience	225.8 million	287.7 million
• Benefit changes	-	-
• Assumption/method changes	(426.1) million	-
• Total	$ (559.0) million	$ (273.7) million

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2011

Introduction

Table 1 summarizes the key 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, 16 and 17 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. 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 unfunded actuarial accrued liability (UAAL) and the funding period involves the following steps:

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

- The actuarial present value of future benefits is determined for the present members, including retired members, beneficiaries, inactive members and active members. This amounts to $17.8 billion, 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 $15.3 billion, 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 13.83% of payroll inclusive of member contributions. This is the total (member plus employer) contribution rate needed to pay for the average new member.

- Part of the normal cost is paid by the employee contributions of 11.15%, leaving 2.68% to be funded by the employers. I.e., the current year's employer normal cost is 2.68% of payroll. This is shown in Line 3 of Table 1. The balance of the employer contribution is used as payment on the UAAL. The employer contribution is expected to increase in future years, and this will affect the amount of funding available to amortize the UAAL.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2011 (CONTINUED)

- 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 $5.7 billion as shown in line 8 on Table 1.

- Since the statutory employer contribution rate is 9.15%, and the employer normal cost rate is 2.68%, the difference of 6.47% is used to amortize the UAAL. *(Next year the employer contribution rate is scheduled to be 10.90).* The 3% contribution made on behalf of ARP members is also used to amortize the UAAL.

- Finally, the funding period is calculated by determining how long it will take to reduce the UAAL to zero, assuming that the current year's amortization contribution increases at the 3.75% payroll growth period each year. This period is currently infinite. (Note, however, that this calculation does not reflect the scheduled increases in the employer contribution rate. Further, it tacitly assumes a 7.75% return on the actuarial value of assets, not the market value. More realistic projections show that it will take about 48 years to amortize the UAAL if the trust earns 7.75% each year in the future on market and if the employer contribution rate increases occur as scheduled under current law, and if the membership grows 0.75% per year.)

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 a 7.75% 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 $393.8 million for imputed interest and decreased by $224.2 million because of payments made. This means that the UAAL was expected to increase $169.6 million before recognizing plan experience. The UAAL as of June 30, 2010 was $4.9 billion , and the expected UAAL at June 30, 2011, recognizing actual contributions made, was $5.1 billion.

The plan experienced a liability gain of $225.8 million the vast majority of which is due to a gain from salary increases less than expected. This gain represents 1.5% of the total actuarial accrued liability.

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 some deferred losses from FYE 2008 and FYE 2009.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2011 (CONTINUED)

As expected the plan experienced an actuarial loss on investments of $358.7 million. The investment loss resulted from the fact that the return on the actuarial value of assets, 4.2%, was less than the 8.00% assumed investment return rate used prior to this valuation. This loss was the result of recognizing the remaining 20% of the gain from FYE 2007, 20% of the gains from FYE 2010 and FYE 2011, and 20% of the losses from FYE 2008 and FYE 2009. The market rate of return in FYE 2011 was 19.0%.

There were no material benefit changes adopted since last actuarial valuation. As a result of the most recent experience analysis completed, there were changes made to the actuarial assumptions and methods. The adoption of new assumptions resulted in a $426.1 million increase in UAAL.

As a result of all the experience, the UAAL increased from $4.9 billion to $5.7 billion.

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 began to decrease as the negative investment experience in the 2001 – 2003 fiscal years was phased into the actuarial value of assets. The ratio increased slightly in 2007 and 2008, as some gains from prior years were recognized. Finally, due to the poor returns of the financial markets for FYE 2008 and FYE 2009, the ratio decreased to 63.0% as of 2011.

Table 6b shows a fourteen-year comparison of (a) the employer contributions actually received, with (b) the GASB 25 ARC. Note that this shows that 81.6% of the ARC was contributed during FYE 2011, since the 10.90% employer contribution rate in FYE 2011 was less than the 30-year contribution calculated in last year’s valuation (13.39%). For FYE 2012, the financial reports prepared for ERB will show that only approximately 63% of the ARC was contributed. This is because the 9.15% statutory rate is less than the calculated 30-year contribution rate of 14.54%.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2011 (CONTINUED)

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, June 30, 2005 and June 30, 2011.

- The legislative changes made by HB 573, HB 631, and HB 854 in 2009 were recognized at June 30, 2009 and the changes made by SB 91 in 2010 were recognized at June 30, 2010. The changes made by HB 628 were recognized at June 30, 2011.

- There is a contribution deficiency of 5.39% as of June 30, 2011, and this is compared to a contribution deficiency of 2.49% as of June 30, 2010. The 5.39% deficiency is the difference between the 14.54% ARC for FYE 2012, as shown on Table 4a, and the 9.15% statutory employer contribution for that year.

Benefit Provisions
A summary of the provisions of ERB is presented in the Statistical Section of this report. 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.

HB 628 was enacted in 2011. This bill extended the 1.50% shift in contributions that was enacted in prior legislation from the employer to the member and added an additional shift of 1.75%. The result is the employer is contributing 9.15% for FYE 2012 and the member is contributing 11.15%. The 1.75% shift will expire June 30, 2012 and the 1.50% shift will expire at June 30, 2013. (Members earning less than $20,000 will continue to contribute 7.90% and the employer will contribute 12.40% for FYE 2012 and FYE 2013).

In Section 16 of HB 628, there is a provision that could modify the FYE 2013 contribution rates. The employer and employee contribution rates will continue for the period July 1, 2012 through June 20, 2013 if the secretary of finance and administration certifies that (1) general fund revenues in fiscal year 2012 will be less than one hundred million dollars more than the general fund revenue forecast reflected in the fiscal year 2012 state budget; and (2) at the end of fiscal year 2012, the total amount in the state reserve funds will be less than five percent of the total general fund appropriations for fiscal year 2012. For purposes of projections we have assumed that the contribution rates will return from the employer rate of 9.15%, employee rate of 11.15%, to an employer rate for FYE 2013 of 12.40% and an employee rate of 9.40%.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2011 (CONTINUED)

HB 129 changes the payment of the member-plus-employer contribution made on behalf of retired retirees. Under prior law, the employer paid the total contribution rate, while under HB 129, the employer and employee each pay their own share. SB 119 allows for certain post-retirement beneficiary option designations. Neither of these two bills have a material impact on the valuation.

Impact of the Second Tier "Tier 2" Benefits
For members hired after June 30, 2010, their plan membership will be under the Tier 2 benefit provisions. These benefits have a later date of retirement and a lower cost to the plan. In the course of the year, approximately 5,214 new members entered the system and were covered under this second tier. These tier 2 members have an average age of 38.3, average service of 0.8 years and average pay of $34,230.

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 2010 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. A Statement of Actuarial Methods and Assumptions follows Table 14b.

The most significant changes of assumptions are as follows:

- Decrease investment return assumption from 8.00% to 7.75%
- Revisions to post-retirement mortality to reflect slightly longer life expectancy
- Changes to retirement rates at ages 65 to 69 and with 25 or more years of service
- Decrease to salary increases for members with 10 or more years of service
- Change the funding method to traditional individual entry age normal
- Decrease the membership growth assumption for projections to 0.75%. (this assumption is only used in the projections)

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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2011 (CONTINUED)

Assets

ERB assets are held in trust. The ERB staff has 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 43% of the assets are now held in traditional equities, about the same as last year. 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 for FYE 2011 and the plan's market value, adjusted for contributions received and benefits and refunds paid. In future years, the expected return will be determined based on the 7.75% assumption. Both the actual and expected returns are computed net of investment and administrative expenses.

Note that the actuarial value is currently 100.6% of the market value. The dollar amount of the difference between the actuarial value and market value is the value of the deferred losses, and totals $53.7 million dollars. 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 FYE 2011 on market value was 19.0%, while it was 4.2% 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, 2.0% 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, non-retired 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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2011 (CONTINUED)

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. Table 17 is a reconciliation that tracks changes in the plan population from last year to this year.

The number of active members decreased 2.6% since last year, from 63,295 to 61,673.

Total payroll decreased 2.0% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2010-2011 member pay). However, this figure is increased by one year's pay increase to determine the member's rate of pay at July 1, 2011. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 0.6% since last year. Average pay for members active in both this valuation and the last year's valuation increased 0.9%. 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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011

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ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 1 - Actuarial Information

	June 30, 2011 (1)	June 30, 2010 (2)
1. Payroll		
a. Supplied by System (annualized)	$ 2,523,816,000	$ 2,575,789,471
b. Adjusted for one-year's pay increase	2,678,376,300	2,753,518,949
2. Actuarial present value of future pay	$ 18,332,502,820	$ 18,806,725,197
3. Normal cost rate (payable monthly)		
a. Total normal cost rate	13.83%	12.48%
b. Less: member contribution rate	(11.15%)	(9.40%)
c. Employer normal cost rate	2.68%	3.08%
4. Employer normal cost (Item 3c * Item 1b)	$ 71,780,485	$ 84,808,384
5. Actuarial accrued liability for active members		
a. Actuarial present value of future benefits	$ 9,179,336,511	$ 8,939,540,036
b. Less: actuarial present value of future normal costs (Item 3a * Item 2)	(2,478,518,951)	(2,347,079,305)
c. Actuarial accrued liability	$ 6,700,817,560	$ 6,592,460,731
6. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	$ 7,726,559,891	$ 6,933,427,044
b. Inactive members	865,694,973	827,621,648
c. Active members (Item 5c)	6,700,817,560	6,592,460,731
d. Total	$ 15,293,072,424	$ 14,353,509,423
7. Actuarial value of assets	$ 9,642,229,673	$ 9,431,321,589
8. Unfunded actuarial accrued liability (UAAL) (Item 6d - Item 7)	$ 5,650,842,751	$ 4,922,187,834
9. Amortization payment for next fiscal year		
a. Employer contribution rate	9.15%	10.90%
b. Less: Employer normal cost rate (Item 3c)	(2.68%)	(3.08%)
c. Amortization rate	6.47%	7.82%
d. Amortization contribution (Item 9c * Item 1b)	$ 173,290,947	$ 215,325,182
e. Expected ARP contribution	4,209,632	4,411,993
d. Total	$ 177,500,579	$ 219,737,175
10. Funding period based on current 9.15% employer contribution requirement, with payments increasing at assumed payroll growth rate	Infinite	62.5 years

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JUNE 30, 2011 (CONTINUED)

Table 2 - Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

		Year Ending	
	Basis	June 30, 2011	June 30, 2010
	(1)	(2)	(3)
1.	UAAL at prior valuation	$ 4,922.2	$ 4,517.0
2.	Increases/(decreases) due to:		
	a. Interest on UAAL	393.8	361.4
	b. Amortization payments [1]	(224.2)	(229.9)
	c. Liability experience	(225.8)	(287.7)
	d. Asset experience	358.7	561.4
	e. Changes in actuarial assumptions and methods	426.1	-
	f. Benefit change	-	-
	g. Total	$ 728.6	$ 405.2
3.	Current UAAL (1+2g)	$ 5,650.8	$ 4,922.2

Note : Dollar amounts in millions

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

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 3 - Actuarial Present Value of Future Benefits

		June 30, 2011	June 30, 2010
		(1)	(2)
1.	Active members		
	a. Service retirement benefits	$ 8,264,475,122	$ 8,044,206,751
	b. Refunds and deferred termination benefits	731,928,946	715,350,156
	c. Survivor benefits	84,455,810	82,724,853
	d. Disability retirement benefits	98,476,633	97,258,276
	e. Total	$ 9,179,336,511	$ 8,939,540,036
2.	Retired members		
	a. Service retirement	$ 7,317,422,879	$ 6,561,800,212
	b. Disability retirement	73,290,123	68,972,790
	c. Beneficiaries	335,846,889	302,654,042
	d. Total	$ 7,726,559,891	$ 6,933,427,044
3.	Inactive members		
	a. Vested terminations	$ 776,174,841	$ 729,621,449
	b. Nonvested terminations	89,520,132	98,000,199
	c. Total	$ 865,694,973	$ 827,621,648
4.	Total actuarial present value of future benefits	$ 17,771,591,375	$ 16,700,588,728

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 4 - Analysis of Normal Cost

		June 30, 2011	June 30, 2010
		(1)	(2)
1.	Gross normal cost rate (payable monthly)		
	a. Service retirement benefits	9.78%	8.09%
	b. Refunds and deferred termination benefits	3.74%	4.10%
	c. Disability retirement benefits	0.19%	0.18%
	d. Survivor benefits	0.13%	0.11%
	e. Total	13.83%	12.48%
2.	Less: member contribution rate	(11.15%)	(9.40%)
3.	Employer normal cost rate	2.68%	3.08%

Table 5a - Calculation of GASB 25 ARC as Percent of Payroll
(For Following Fiscal Year)

		June 30, 2011	June 30, 2010
		(1)	(2)
1.	GASB 25 funding period (years)	30	30
2.	Amortization contribution percentage		
	a. Amortization payment	$ 321,839,027	$ 288,364,433
	b. Less: expected payment for ARP members	4,209,632	4,411,993
	c. Net (a-b)	$ 317,629,395	$ 283,952,440
	d. Expected payroll	2,678,376,300	2,753,518,949
	e. Amortization contribution percentage (c/d)	11.86%	10.31%
3.	GASB 25 Annual Required Contribution		
	a. Employer normal cost rate	2.68%	3.08%
	b. Amortization percentage	11.86%	10.31%
	c. Total	14.54%	13.39%
	d. Statutory rate	9.15%	10.90%
	e. ARC (greater of (c,d))	14.54%	13.39%

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JUNE 30, 2011 (CONTINUED)

Table 5b - Contributions as Percentage of ARC for Year Ending 06/30/2011

1.	Actual contributions			
	a.	On behalf of ERB members	$	304,310,476
	b.	On behalf of ARP members		4,057,476
	c.	Total	$	308,367,952
2.	Statutory employer contribution rate			10.90%
3.	Imputed fiscal year payroll for ERB members (Item 1a / Item 2)		$	2,791,839,227
4.	GASB 25 Annual Required Contribution			
	a.	Required GASB 25 employer contribution for ERB members as percent of payroll		13.39%
	b.	Required GASB 25 employer contribution for ERB members (Item 4a * Item 3)	$	373,827,273
	c.	GASB 25 ARC (Item 4b + Item 1b)	$	377,884,749
5.	Percentage of ARC contributed (Item 1c / Item 4c)			81.6%

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ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 6a - Schedule of Funding Progress
(As required by GASB #25)

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(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%
June 30, 2007	8,591.4	12,190.1	3,598.7	70.5%	2,341.1	153.7%
June 30, 2008	9,272.8	12,967.0	3,694.2	71.5%	2,491.7	148.3%
June 30, 2009	9,366.3	13,883.3	4,517.0	67.5%	2,585.7	174.7%
June 30, 2010	9,431.3	14,353.5	4,922.2	65.7%	2,575.8	191.1%
June 30, 2011	9,642.2	15,293.1	5,650.8	63.0%	2,523.8	223.9%

Note : Dollar amounts in millions

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 6b - Schedule of Employer Contributions
(As required by GASB #25)

Fiscal Year	Annual Required Contribution	Percentage Contributed
1994	Not computed	N/A
1995	Not computed	N/A
1996	Not computed	N/A
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%
2007	$364,128,448	70.3%
2008	$368,196,682	79.0%
2009	$375,430,722	86.2%
2010	$357,220,043	87.7%
2011	$377,884,749	81.6%

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JUNE 30, 2011 (CONTINUED)

Table 6c - 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, 2011
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*	7.75%
Projected salary increases*	4.75% 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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
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JUNE 30, 2011 (CONTINUED)

Table 7a - Current Membership Data

			June 30, 2011	June 30, 2010
			(1)	(2)
1.	Active members			
	a.	Number	61,673	63,295
	b.	Total payroll supplied by System (annualized)	$ 2,523,816,000	$ 2,575,789,471
	c.	Average salary	$ 40,923	$ 40,695
	d.	Average age	46.8	46.5
	e.	Average service	10.0	9.7
2.	Vested inactive members (excluding pending refunds)			
	a.	Number	9,333	9,054
	b.	Total annual deferred benefits	$ 89,866,163	$ 87,235,208
	c.	Average annual deferred benefit	$ 9,629	$ 9,635
3.	Nonvested inactive members and vested pending refunds			
	a.	Number	23,678	22,782
	b.	Employee assessments with interest due	$ 89,520,132	$ 98,000,199
	c.	Average refund due	$ 3,781	$ 4,302
4.	Service retirees			
	a.	Number	31,974	30,377
	b.	Total annual benefits	$ 665,619,322	$ 617,272,913
	c.	Average annual benefit	$ 20,818	$ 20,320
5.	Disabled retirees			
	a.	Number	774	759
	b.	Total annual benefits	$ 7,418,072	$ 7,132,523
	c.	Average annual benefit	$ 9,584	$ 9,397
6.	Beneficiaries			
	a.	Number	2,709	2,611
	b.	Total annual benefits	$ 37,244,633	$ 34,873,429
	c.	Average annual benefit	$ 13,748	$ 13,356

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

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 7b - Historical Summary of Active Member Data

	Active Members		Covered Payroll		Average Salary			
Year Ending June 30,	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
(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
2007	62,687	1.4%	2,341	5.5%	37,347	4.0%	45.9	9.3
2008	63,698	1.6%	2,492	6.4%	39,118	4.7%	46.1	9.4
2009	63,819	0.2%	2,586	3.8%	40,517	3.6%	46.3	9.6
2010	63,295	-0.8%	2,576	-0.4%	40,695	0.4%	46.5	9.7
2011	61,673	-2.6%	2,524	-2.0%	40,923	0.6%	46.8	10.0

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 8a - Plan Net Assets

(Assets at Market or Fair Value)

		Valuation as of	
	Item	June 30, 2011	June 30, 2010
	(1)	(2)	(3)
1.	Cash and cash equivalents	$ 558,624,914	$ 356,643,139
2.	Receivables:		
	a. Contributions	$ 71,938,279	$ 68,233,170
	b. Investment income	31,350,765	30,371,094
	c. Investment sales proceeds - brokers	86,433,723	94,497,269
	d. Other	1,776,106	475,842
	e. Total receivables	$ 191,498,873	$ 193,577,375
3.	Investments		
	a. U.S. treasury securities	$ 597,060,723	$ 554,294,917
	b. U.S. government agencies	451,764,467	510,939,793
	c. Domestic corporate bonds	1,419,705,812	1,099,340,868
	d. Domestic equities	2,698,482,870	2,423,224,608
	e. International equities	1,473,098,558	1,367,105,988
	f. Mortgage backed securities	200,365,752	242,937,602
	g. Private equities	398,411,954	241,336,795
	h. Hedge funds	663,541,830	499,102,188
	i. Private real estate	119,497,509	80,872,114
	j. Other investments	1,093,388,583	914,462,725
	k. Total investments	$ 9,115,318,058	$ 7,933,617,598
4.	Invested securities lending collateral	$ 213,455,151	$ 191,627,192
5.	Properties : land, building, furniture and equipment (at cost, less accumulated depreciation)	$ 4,201,681	$ 6,217,017
6.	Total assets	$ 10,083,098,677	$ 8,681,682,321
7.	Liabilities		
	a. Accounts payable	$ 2,291,891	$ 9,485,259
	b. Accrued expenses	352,090	380,292
	c. Refunds payable	672,751	1,213,339
	d. Investment purchases payable - brokers	277,566,065	236,142,568
	e. Due to other funds	190,801	848,955
	f. Securities lending collateral	213,462,138	201,088,474
	g. Total liabilities	$ 494,535,736	$ 449,158,887
8.	Total market value of assets available for benefits (Item 6 - Item 7g)	$ 9,588,562,941	$ 8,232,523,434

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JUNE 30, 2011 (CONTINUED)

Table 8b - Allocation of Cash and Investments

		June 30, 2011	June 30, 2010
		(1)	(2)
1.	Cash and short-term equivalents	5.8%	4.3%
2.	U.S. treasury securities	6.2%	6.7%
3.	U.S. government agencies	4.7%	6.2%
4.	Domestic corporate bonds	14.7%	13.3%
5.	Domestic equities	27.9%	29.2%
6.	International equities	15.1%	16.5%
7.	Mortage backed securities	2.1%	2.9%
8.	Private equities	4.1%	2.9%
9.	Hedge funds	6.9%	6.0%
10.	Private real estate	1.2%	1.0%
11.	Other investments	11.3%	11.0%
12.	Total investments	100.0%	100.0%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 9 - Reconciliation of Plan Net Assets

	Year Ending June 30, 2011 (1)	Year Ending June 30, 2010 (2)
1. Value of assets at beginning of year		
a. Value reported in prior valuation	$ 8,232,523,434	$ 7,113,651,700
b. Prior period adjustments	-	(1)
c. Revised value	$ 8,232,523,434	$ 7,113,651,699
2. Revenue for the year		
a. Contributions		
i. Member contributions (including redeposits and service purchases)	$ 250,681,286	$ 253,567,010
ii. Employer contributions	304,310,476	309,023,773
iii. Employer contributions for ARP members	4,057,476	4,252,523
iv. Total	$ 559,049,238	$ 566,843,306
b. Income		
i. Interest, dividends, and other income	$ 184,024,381	$ 185,072,881
ii. Investment expenses	(35,247,716)	(31,802,095)
iii. Net	$ 148,776,665	$ 153,270,786
c. Net realized and unrealized gains	$ 1,396,479,035	$ 1,095,257,890
d. Total revenue	$ 2,104,304,938	$ 1,815,371,982
3. Expenditures for the year		
a. Refunds	$ 35,086,806	$ 28,779,655
b. Benefit payments	701,771,592	656,232,670
c. Administrative and miscellaneous expenses	11,407,033	11,487,922
d. Total expenditures	$ 748,265,431	$ 696,500,247
4. Increase in net assets (Item 2 - Item 3)	$ 1,356,039,507	$ 1,118,871,735
5. Value of assets at end of year (Item 1 + Item 4)	$ 9,588,562,941	$ 8,232,523,434

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 10a - Determination of Excess Earnings to be Deferred

Year ended :	June 30, 2008 (1)	June 30, 2009 (2)	June 30, 2010 (3)	June 30, 2011 (4)
1. MVA at beginning of year	$ 9,455,795,854	$ 8,770,044,039	$ 7,113,651,700	$ 8,232,523,434
2. Net new investments				
a. Contributions	$ 496,206,270	$ 538,793,240	$ 566,843,306	$ 559,049,238
b. Benefits and refunds paid	(608,250,782)	(647,391,550)	(685,012,325)	(736,858,398)
c. Subtotal	$ (112,044,512)	$ (108,598,310)	$ (118,169,019)	$ (177,809,160)
3. MVA at end of year	$ 8,770,044,039	$ 7,113,651,700	$ 8,232,523,434	$ 9,588,562,941
4. Net MVA earnings (3 - 1 - 2c)	$ (573,707,303)	$ (1,547,794,029)	$ 1,237,040,753	$ 1,533,848,667
5. Assumed investment return rate	8.00%	8.00%	8.00%	8.00%
6. Expected return	$ 751,981,888	$ 697,259,591	$ 564,365,375	$ 651,489,508
7. Excess return (4 - 6)	$ (1,325,689,191)	$ (2,245,053,620)	$ 672,675,378	$ 882,359,159
8. Excess return deferral percent	20%	40%	60%	80%
9. Amount deferred	$ (265,137,838)	$ (898,021,448)	$ 403,605,227	$ 705,887,327

Note : MVA is market value of assets.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 10b - Development of Actuarial Value of Assets

1.	Market value of assets as of valuation	$	9,588,562,941
2.	Deferred amounts for fiscal year ending June 30,		
	a. 2011	$	705,887,327
	b. 2010	$	403,605,227
	c. 2009	$	(898,021,448)
	d. 2008	$	(265,137,838)
	e. Total	$	(53,666,732)
3.	Actuarial value of assets (1 - 2e)	$	9,642,229,673
4.	Actuarial value as percent of market value		100.6%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 11a - Estimation of Yields

		Year Ending	
		June 30, 2011	June 30, 2010
		(1)	(2)
A.	Market value yield		
	1. Beginning of year market assets	$ 8,232,523,434	$ 7,113,651,700
	2. Investment income (including realized and unrealized gains and losses)	$ 1,545,255,700	$ 1,248,528,675
	3. End of year market assets	$ 9,588,562,941	$ 8,232,523,434
	4. Estimated dollar weighted market value yield	19.0%	17.7%
B.	Actuarial value yield		
	1. Beginning of year actuarial assets	$ 9,431,321,589	$ 9,366,271,312
	2. Actuarial return	$ 388,717,244	$ 183,219,296
	3. End of year actuarial assets	$ 9,642,229,673	$ 9,431,321,589
	4. Estimated actuarial value yield	4.2%	2.0%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 11b - 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%
2007	16.7%	11.6%
2008	-6.0%	9.3%
2009	-17.7%	2.2%
2010	17.7%	2.0%
2011	19.0%	4.2%
Average Returns		
Last 5 years	4.8%	5.8%
Last 10 years	5.3%	4.0%
Last 15 years	6.8%	7.2%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 12a - Investment Experience Gain or Loss

Item	Year Ending June 30, 2011	Year Ending June 30, 2010
(1)	(2)	(3)
1. Actuarial assets, beginning of year	$ 9,431,321,589	$ 9,366,271,312
2. Total contributions during year	$ 559,049,238	$ 566,843,306
3. Benefits and refunds paid	$ (736,858,398)	$ (685,012,325)
4. Assumed net investment income at 8%		
a. Beginning of year assets	$ 754,505,727	$ 749,301,705
b. Contributions	22,361,970	22,673,732
c. Benefits and refunds paid	(29,474,336)	(27,400,493)
d. Total	$ 747,393,361	$ 744,574,944
5. Expected actuarial assets, end of year (Sum of items 1 through 4)	$ 10,000,905,790	$ 9,992,677,237
6. Actual actuarial assets, end of year	$ 9,642,229,673	$ 9,431,321,589
7. Asset gain (loss) for year (Item 6 - Item 5)	$ (358,676,117)	$ (561,355,648)

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 12b - Total Experience Gain or Loss

Item	Year Ending June 30, 2011	Year Ending June 30, 2010
(1)	(2)	(3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	$ 4,922,187,834	$ 4,517,001,770
2. Normal cost for the previous year	$ 343,639,165	$ 345,889,321
3. Less: contributions for the year	$ (559,049,238)	$ (566,843,306)
4. Interest at 8 %		
a. On UAAL	$ 393,775,027	$ 361,360,142
b. On normal cost	13,745,567	13,835,573
c. On contributions	(22,361,970)	(22,673,732)
d. Total	$ 385,158,624	$ 352,521,983
5. Expected UAAL (Sum of Items 1 - 4)	$ 5,091,936,385	$ 4,648,569,768
6. Actual UAAL	$ 5,650,842,751	$ 4,922,187,834
7. Total gain (loss) for the year (Item 5 - Item 6)	$ (558,906,366)	$ (273,618,066)
B. Source of gains and losses		
8. Asset gain (loss) for the year	$ (358,676,117)	$ (561,355,648)
9. Liability experience gain (loss) for the year	$ 225,834,501	$ 287,737,582
10. Assumption change	(426,064,750)	N/A
11. Benefit change	$ -	$ -
12. Total	$ (558,906,366)	$ (273,618,066)

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 13 - History of Cash Flow

		Expenditures						
Year Ending June 30,	Contributions[1]	Benefit Payments	Refunds	Administrative Expenses	Total	External Cash Flow for the Year[2]	Market Value of Assets	External Cash Flow as Percent of Market Value
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2001	315.2	(340.6)	(36.6)	(3.5)	(380.7)	(65.5)	6,667.0	-1.0%
2002	328.6	(367.5)	(28.5)	(5.8)	(401.8)	(73.2)	6,011.2	-1.2%
2003	337.9	(396.1)	(28.3)	(4.3)	(428.7)	(90.8)	6,083.4	-1.5%
2004	355.6	(422.4)	(26.4)	(2.6)	(451.4)	(95.8)	6,911.5	-1.4%
2005	371.0	(455.0)	(27.2)	(5.3)	(487.5)	(116.5)	7,451.1	-1.6%
2006	408.5	(494.1)	(28.3)	(5.2)	(527.6)	(119.1)	8,219.3	-1.4%
2007	449.5	(540.1)	(27.5)	(5.6)	(573.2)	(123.7)	9,455.8	-1.3%
2008	496.2	(578.8)	(29.5)	(6.1)	(614.4)	(118.2)	8,770.0	-1.3%
2009	538.8	(617.7)	(29.7)	(8.7)	(656.1)	(117.3)	7,113.7	-1.6%
2010	566.8	(656.2)	(28.8)	(11.5)	(696.5)	(129.7)	8,232.5	-1.6%
2011	559.0	(701.8)	(35.1)	(11.4)	(748.3)	(189.3)	9,588.6	-2.0%

Amounts in $ millions

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

[2] Column (7) = Column (2) + Column (6).

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 14 - Solvency Test

	June 30, 2011	June 30, 2010
	(1)	(2)
1. Actuarial accrued liability (AAL)		
a. Active member contributions	$ 2,189,058,132	$ 2,434,760,057
b. Retirees and beneficiaries	7,726,559,891	6,933,427,044
c. Active and inactive members (employer financed)	5,377,454,401	4,985,322,322
d. Total	$ 15,293,072,424	$ 14,353,509,423
2. Actuarial value of assets	$ 9,642,229,673	$ 9,431,321,589
3. Cumulative portion of AAL covered		
a. Active member contributions	100%	100%
b. Retirees and beneficiaries	96%	100%
c. Active and inactive members (employer financed)	0%	1%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 15 - Historical Retired Participants' Data

Year Ending June 30,	Number	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
2007	29,969	1,523
2008	31,192	1,566
2009	32,496	1,607
2010	33,747	1,628
2011	35,457	1,669

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

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 16 - Distribution of Active Members by Age and by Years of Service

As of 06/30/2011

	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	283	349	165	76	33	17	0	0	0	0	0	0	923
	$15,803	$22,882	$21,588	$18,462	$20,131	$22,787	$0	$0	$0	$0	$0	$0	$20,016
25-29	375	732	683	612	466	652	7	0	0	0	0	0	3,527
	$25,512	$29,434	$29,376	$31,015	$32,929	$33,209	$18,770	$0	$0	$0	$0	$0	$30,419
30-34	331	631	544	601	544	2,150	389	3	0	0	0	0	5,193
	$28,033	$30,382	$30,573	$32,258	$34,559	$40,671	$39,426	$32,955	$0	$0	$0	$0	$35,846
35-39	929	960	730	822	817	2,203	1,627	264	1	0	0	0	8,353
	$24,426	$29,353	$32,610	$33,349	$35,987	$39,935	$47,482	$46,368	$32,889	$0	$0	$0	$36,992
40-44	251	477	454	543	495	2,309	1,795	1,159	224	6	0	0	7,713
	$28,744	$34,551	$35,602	$33,545	$33,916	$39,757	$45,020	$50,356	$47,667	$45,173	$0	$0	$41,071
45-49	243	440	427	500	489	2,182	1,839	1,359	962	176	2	0	8,619
	$27,986	$39,390	$33,114	$32,052	$35,414	$36,151	$41,644	$47,877	$51,928	$51,782	$29,602	$0	$40,756
50-54	215	396	388	435	416	2,072	2,055	1,709	1,311	657	155	3	9,812
	$33,097	$43,259	$36,293	$32,169	$33,055	$37,444	$41,111	$45,305	$53,753	$57,878	$57,176	$36,485	$43,114
55-59	168	334	348	391	357	1,830	1,812	1,625	1,371	634	350	84	9,304
	$31,705	$43,969	$39,782	$37,243	$37,285	$39,300	$42,481	$46,228	$54,283	$60,572	$64,655	$57,855	$45,793
60-64	92	195	227	238	231	1,292	1,153	837	805	410	232	138	5,850
	$37,394	$41,554	$43,017	$35,434	$36,477	$41,277	$43,915	$48,457	$53,847	$65,146	$72,698	$69,879	$47,736
65 & Over	41	100	102	108	116	776	364	257	206	115	94	100	2,379
	$33,369	$33,359	$30,537	$33,598	$35,660	$37,620	$39,867	$49,555	$54,576	$68,477	$73,511	$84,586	$44,771
Total	2,928	4,614	4,068	4,326	3,964	15,483	11,041	7,213	4,880	1,998	833	325	61,673
	$26,392	$33,366	$33,228	$32,835	$34,798	$38,763	$43,177	$47,360	$53,309	$60,259	$66,419	$70,989	$40,923

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

Table 17a - Reconciliation of Members by Status for Year Ending June 30, 2011

		Inactive, Non-retired Members		Annuitants			
	Active Members	Vested	Non-vested	Service Retirees	Disabled Retirees	Beneficiaries	Grand Total
Number at beginning of year	63,295	9,054	22,782	30,377	759	2,611	128,878
Refund paid (non-death)	(1,414)	(334)	(1,607)				(3,355)
Refund due	(3,323)		3,323				0
Deferred terminations	(2,515)	2,515					0
Retirements (nondisabled)	(758)	(1,481)	(56)	2,295			0
Disabled retirements	(24)	(20)			44		0
New Alternate Payee				50			50
Death before retirement - refund	(26)	(8)	(8)				(42)
Death before retirement - annuity	(19)					19	0
Death of annuitant - survivor benefit due				(193)	(6)	199	0
Death of annuitant - no further benefits due				(542)	(23)	(120)	(685)
New hires	5,295						5,295
Reemployments	1,162	(393)	(756)	(13)			0
Adjustments and corrections							0
Number at end of year	61,673	9,333	23,678	31,974	774	2,709	130,141

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2011 (CONTINUED)

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Table 17b - History of Member Reconcilliation by Status

Years Ending June 30

	2006	2007	2008	2009	2010	2011
Number at beginning of year	114,890	120,318	122,598	124,872	126,895	128,878
Refund Paid (non death)	*	(5,511)	(5,452)	(3,841)	(3,372)	(3,355)
New Alternate Payee	*	-	-	-	-	50
Death before retirement - refund	*	(7)	26	51	14	(42)
Death after retirement - refund	*	-	(50)	(53)	(92)	(685)
Death of annuitant - no further benefits due	*	(622)	-	-	-	-
Payments ceased - certain period ended	*	-	(609)	(602)	(614)	-
New hires	*	8,329	8,355	6,462	6,053	5,295
Adjustments and corrections	5,428	91	4	6	(6)	-
Number at end of year	120,318	122,598	124,872	126,895	128,878	130,141

*detail prior to fiscal year 2007 is not available

The numbers above include retiree's currently receiving a benefit, as follow:

	Added to Rolls		Removed from Rolls		Rolls, End of Year		% Increase in	
Year Ended	No.	Annual Allowance*	No.	Annual Allowance*	No.	Annual Allowance*	Annual Allowance	Average Annual
6/30/2006	3,226	$55,433	787	$10,637	28,539	$504,004	9.76%	$17,660
6/30/2007	2,206	$54,542	776	$10,791	29,969	$547,755	8.68%	$18,277
6/30/2008	2,043	$50,190	820	$11,911	31,192	$586,034	6.99%	$18,788
6/30/2009	2,124	$53,008	820	$12,488	32,496	$626,553	6.91%	$19,281
6/30/2010	2,067	$45,722	816	$12,997	33,747	$659,279	5.22%	$19,536
6/30/2011	2,607	$64,813	897	$13,810	35,457	$710,282	7.74%	$20,032

* Amounts in 000's. Annual Allowance added to rolls include cost-of-living increases for continuing retirees and beneficiaries.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2011

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 employees and for the employers. The funding period is determined, as described below, using the Entry Age Normal actuarial cost method.

The Individual 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. Then 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. Under the entry age method, a calculation is made to determine the average uniform and constant percentage rate of employer contribution which, if applied to the compensation of each new participant during the entire period of his anticipated covered service, would be required in addition to the contributions of the participant to meet the cost of all benefits payable on their behalf. Part of the normal cost is paid from the employees' own contributions. The local 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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2011 (CONTINUED)

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: 7.75%, compounded annually, net of expenses. This is made up of a 3.00% inflation rate and a 4.75% real rate of return.

2. Salary increase rate: Inflation rate of 3.00% plus productivity increase rate of 1.75% plus step-rate/promotional as shown:

Years of Service	Annual Step-Rate/Promotional Component Rates of Increase	Total Annual Rate of Increase
0	8.75%	13.50%
1	3.00%	7.75%
2	2.00%	6.75%
3	1.50%	6.25%
4	1.25%	6.00%
5	1.00%	5.75%
6	0.75%	5.50%
7	0.50%	5.25%
8	0.50%	5.25%
9	0.50%	5.25%
10 or more	0.00%	4.75%

3. 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.

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

5. Contribution accumulation: Member contributions are assumed to have grown at 5.50% per year, with 4.00% interest, compounded annually, applicable to the account balances in the past as well as the future.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2011 (CONTINUED)

B. Demographic Assumptions

1. Mortality after termination or retirement -

   a. Healthy males - 90% of RP-2000 Combined Mortality Table with White Collar Adjustment for males, set back one year, projected to 2010

   b. Healthy females - 90% of RP-2000 Combined Mortality Table with White Collar Adjustment for females, set back one year, projected to 2010

   c. Disabled males and females - 1981 Disability Table

   d. To account for future mortality improvement, the tables selected for nondisabled annuitants were chosen so that the assumed mortality rates are smaller than the rates observed in the most recent experience study, covering experience for FYE 2005 – FYE 2010. The ratio of the actual number of deaths occurring during this period to the expected number based on the selected assumptions was:

      i. 114% for nondisabled male annuitants
      ii. 109% for nondisabled female annuitants.

   No mortality improvement assumption was made for disabled retirees or active members.

   See sample rates below:

	Deaths per 100 Lives		
Age	Healthy Males	Healthy Females	Disabled Males and Females
40	.07	.05	1.76
45	.10	.07	2.08
50	.14	.11	2.42
55	.22	.19	2.83
60	.38	.36	3.29
65	.76	.66	3.76
70	1.34	1.16	4.36
75	2.32	1.95	5.62
80	4.28	3.25	8.84
85	7.87	5.57	12.95

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2011 (CONTINUED)

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

	Deaths per 100 Members	
Age	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):

	Occurrences of Disability per 100 Members	
Age	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

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2011 (CONTINUED)

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

Retirement Per 100 Members – Members Hired Before July 1, 2010

	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	15.00
50	0.00	0.00	0.00	0.00	0.00	18.00
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	30.00	45.00	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	15.00
50	0.00	0.00	0.00	0.00	0.00	18.00
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	40.00	40.00	45.00	45.00
70	100.00	100.00	100.00	100.00	100.00	100.00

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2011 (CONTINUED)

Retirement Per 100 Members – Members Hired On or After July 1, 2010

	Males - Years of Service						
Age	0-4	5-9	10-14	15-19	20-24	25-29	30+
45	0.00	0.00	0.00	0.00	0.00	0.00	N/A
50	0.00	0.00	0.00	0.00	0.00	0.00	30.00
55	0.00	0.00	0.00	0.00	0.00	5.00	40.00
60	0.00	0.00	0.00	0.00	20.00	25.00	40.00
62	0.00	0.00	0.00	40.00	35.00	35.00	40.00
67	0.00	25.00	40.00	45.00	45.00	45.00	45.00
70	100.00	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	25-29	30+
45	0.00	0.00	0.00	0.00	0.00	0.00	N/A
50	0.00	0.00	0.00	0.00	0.00	0.00	30.00
55	0.00	0.00	0.00	0.00	0.00	6.00	43.00
60	0.00	0.00	0.00	0.00	15.00	30.00	45.00
62	0.00	0.00	0.00	35.00	35.00	40.00	45.00
67	0.00	35.00	35.00	35.00	35.00	35.00	35.00
70	100.00	100.00	100.00	100.00	100.00	100.00	100.00

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2011 (CONTINUED)

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.

.STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2011 (CONTINUED)

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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2011 (CONTINUED)

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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
GLOSSARY OF ACTUARIAL TERMS
JUNE 30, 2011

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.

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:

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
GLOSSARY OF ACTUARIAL TERMS
JUNE 30, 2011 (CONTINUED)

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, non-retired 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

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
GLOSSARY OF ACTUARIAL TERMS
JUNE 30, 2011 (CONTINUED)

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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
GLOSSARY OF ACTUARIAL TERMS
JUNE 30, 2011 (CONTINUED)

Funding Period or ***Amortization Period:*** The term "Funding Period" is used in 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.

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STATISTICAL SECTION

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INTRODUCTION TO STATISTICAL SECTION
JUNE 30, 2011

This statistical section of the report is intended to provide additional information about the entities that employ members of the Educational Retirement Plan. A complete listing of employers is provided, as well as the number of members and the percent of the total represented by the ten largest employers of the plan.

We also provide additional schedules provided to give more history on the changes in plan assets than is provided in the basic financial statements, and a summary of historical actuarial data. A history of member and employer contribution rates is provided to assist the reader in understanding how members and employers have contributed to their plan. A breakdown of benefit payments by type (regular retirement benefits and disability payments) as of June 30, 2011, is provided for several benefit levels with information on the number of recipients receiving benefits and the average years of service for each level of benefits. A report is presented on certain performance measures deemed important by the board. Finally, a summary of plan provisions is provided to give more information on the plan including the year established, fiscal year, plan administration, and details of plan participation, contribution requirements, and benefits.

Data for this section was generated from prior annual reports, current and prior actuarial studies, and data maintained in our Integrated Retirement Information System (IRIS). For the tables showing average benefit payments by benefit level and by years of service, we imported data from IRIS as of June 30, 2011 into Microsoft Excel and sorted, summarized, and averaged the data in groupings we felt would be useful to the reader.

We hope the readers of this report find this information useful.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
PARTICIPATING EMPLOYERS
JUNE 30, 2011

PUBLIC SCHOOLS

ALAMOGORDO PUBLIC SCHOOLS
ALBUQUERQUE PUBLIC SCHOOLS
ANIMAS PUBLIC SCHOOLS
ARTESIA PUBLIC SCHOOLS
AZTEC MUNICIPAL SCHOOLS
BELEN CONSOLIDATED SCHOOLS
BERNALILLO PUBLIC SCHOOLS
BLOOMFIELD SCHOOLS
CAPITAN MUNICIPAL SCHOOLS
CARLSBAD MUNICIPAL SCHOOLS
CARRIZOZO MUNICIPAL SCHOOLS
CENTRAL CONSOLIDATED SCHOOLS
CHAMA VALLEY SCHOOLS
CIMARRON MUNICIPAL SCHOOLS
CLAYTON MUNICIPAL SCHOOLS
CLOUDCROFT MUNICIPAL SCHOOLS
CLOVIS MUNICIPAL SCHOOLS
COBRE CONSOLIDATED SCHOOLS
CORONA PUBLIC SCHOOLS
CUBA INDEPENDENT SCHOOLS
DEMING PUBLIC SCHOOLS
DES MOINES MUNICIPAL SCHOOLS
DEXTER CONSOLIDATED SCHOOLS
DORA CONSOLIDATED SCHOOLS
DULCE INDEPENDENT SCHOOLS
ELIDA MUNICIPAL SCHOOLS
ESPANOLA PUBLIC SCHOOLS
ESTANCIA MUNICIPAL SCHOOLS
EUNICE PUBLIC SCHOOLS
FARMINGTON MUNICIPAL SCHOOLS
FLOYD MUNICIPAL SCHOOLS
FORT SUMNER MUNICIPAL SCHOOLS
GADSDEN INDEPENDENT SCHOOLS
GALLUP MCKINLEY CTY SCHOOLS
GRADY MUNICIPAL SCHOOLS
GRANTS-CIBOLA COUNTY SCHOOLS
HAGERMAN MUNICIPAL SCHOOLS
HATCH VALLEY MUNICIPAL SCHOOLS
HOBBS MUNICIPAL SCHOOLS
HONDO VALLEY PUBLIC SCHOOLS
HOUSE MUNICIPAL SCHOOLS
JAL PUBLIC SCHOOLS
JEMEZ MOUNTAIN SCHOOL DISTRICT
JEMEZ VALLEY PUBLIC SCHOOLS
LAKE ARTHUR MUNICIPAL SCHOOLS
LAS CRUCES SCHOOL DISTRICT
LAS VEGAS CITY SCHOOLS
LAS VEGAS WEST
LOGAN MUNICIPAL SCHOOLS
LORDSBURG MUNICIPAL SCHOOLS
LOS ALAMOS SCHOOLS
LOS LUNAS SCHOOLS
LOVING MUNICIPAL SCHOOLS
LOVINGTON MUNICIPAL SCHOOLS
MAGDALENA MUNICIPAL SCHOOLS
MAXWELL MUNICIPAL SCHOOLS
MELROSE SCHOOLS
MESA VISTA CONSOLID SCHOOLS
MORA INDEPENDENT SCHOOLS
MORIARTY MUNICIPAL SCHOOLS
MOSQUERO MUNICIPAL SCHOOLS
MOUNTAINAIR PUBLIC SCHOOLS
PECOS INDEPENDENT SCHOOLS
PENASCO INDEPENDENT SCHOOLS
POJOAQUE VALLEY SCHOOLS
PORTALES MUNICIPAL SCHOOLS
QUEMADO INDEPENDENT SCHOOL DISTRICT #2
QUESTA INDEPENDENT SCHOOLS
RATON PUBLIC SCHOOLS
RESERVE INDEPENDENT SCHOOLS
RIO RANCHO PUBLIC SCHOOLS
ROSWELL INDEPENDENT SCHOOLS
ROY MUNICIPAL SCHOOLS
RUIDOSO MUNICIPAL SCHOOLS
SAN JON SCHOOLS
SANTA FE PUBLIC SCHOOLS
SANTA ROSA CONSOLID SCHOOLS
SILVER CONSOLIDATED SCHOOLS
SOCORRO CONSOLIDATED SCHOOLS
SPRINGER MUNICIPAL SCHOOLS
TAOS MUNICIPAL SCHOOLS
TATUM MUNICIPAL SCHOOLS
TEXICO MUNICIPAL SCHOOLS
TRUTH OR CONSEQUENSES MUNICIPAL SCHOOLS

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
PARTICIPATING EMPLOYERS
JUNE 30, 2011 (CONTINUED)

PUBLIC SCHOOLS (CONTINUED)

TUCUMCARI MUNICIPAL SCHOOLS
TULAROSA MUNICIPAL SCHOOLS
VAUGHN SCHOOLS
WAGON MOUND PUBLIC SCHOOLS
ZUNI PUBLIC SCHOOL DISTRICT

UNIVERSITIES & COLLEGES

CENTRAL NM COMMUNITY COLLEGE
CLOVIS COMMUNITY COLLEGE
EASTERN NEW MEXICO UNIVERSITY
ENMU-ROSWELL
LUNA COMMUNITY COLLEGE
MESALANDS COMMUNITY COLLEGE
NEW MEXICO HIGHLANDS UNIVERSITY
NEW MEXICO JUNIOR COLLEGE
NEW MEXICO STATE UNIVERSITY
NM INSTITUTE OF MINING & TECH
NORTHERN NM COMM COLLEGE
SAN JUAN COLLEGE
SANTA FE COMMUNITY COLLEGE
UNIVERSITY OF NEW MEXICO
WESTERN NEW MEXICO UNIVERSITY

STATE AGENCIES

CENTRAL REGIONAL ED COOP #5
DEPARTMENT OF FINANCE & ADMINISTRATION
HIGH PLAINS REGIONAL EDUCATION COOP #3
LEA REGIONAL EDUCATION COOP #7
NEW MEXICO ACTIVITIES ASSOC
NORTHEAST REGIONAL EDUCATION COOP #4
PECOS VALLEY REGIONAL EDUCATION COOP #8
REGIONAL EDUCATION COOP #6
REGION IX EDUCATIONAL COOP #9
SOUTHWEST REC #10
NW REGIONAL EDUCATION COOP #2

Educational Employees at the following additional agencies are covered by ERB

NM DEPARTMENT OF CORRECTIONS
NM PUBLIC EDUCATION DEPARTMENT
NM DEPARTMENT OF HEALTH
NEW MEXICO DEPARTMENT OF VOCATIONAL REHABILITATION
NM EDUCATIONAL RETIREMENT BOARD
NMCYFD

SPECIAL SCHOOLS

NEW MEXICO MILITARY INSTITUTE
NEW MEXICO SCHOOL FOR THE DEAF
NM SCH FOR VISUALLY HANDICAP
UNIVERISITY HOSPITAL

CHARTER SCHOOLS

ABQ INSTIUTE FOR MATH AND SCIENCE AT UNM (formerly High Tech High)
ABQ TALENT DEV. SECONDARY CHARTER
ACE LEADERSHIP HIGH SCHOOL
ACADEMY OF TRADES & TECHNOLOGY (formerly Youth Build Community School)
ALBUQUERQUE SCHOOL OF EXCELLENCE
ALDO LEOPOLD HIGH SCHOOL
ALICE KING COMMUNITY SCHOOL (Formerly North Albuquerque Community Charter)
ALMA D'ARTE CHARTER
AMY BIEHL CHARTER HIGH
ANANSI CHARTER SCHOOL
ANTHONY CHARTER
BATAAN CHARTER SCHOOL
CAREER ACADEMIC TECHNICAL ACADEMY
CARINOS DE LOS NINOS
CESAR CHAVEZ COMMUNITY SCHOOL
CIEN AGUAS INTERNATIONAL SCHOOL
CHRISTINE DUNCAN COMMUNITY SCHOOL
CORRALES INTERNATIONAL SCHOOL
COTTONWOOD CLASSICAL PREP SCHOOL
COTTONWOOD VALLEY CHARTER
CREATIVE ED PREP #1
GILBERT L SENA CHARTER HIGH SCHOOL (formerly Creative Prep #2)
DEMING CESAR CHAVEZ

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
PARTICIPATING EMPLOYERS
JUNE 30, 2011 (CONTINUED)

CHARTER SCHOOLS (CONTINUED)

DIGITAL ARTS AND TECH. ACADEMY (formerly Abq Charter Vo Tec High)
EAST MOUNTAIN HIGH SCHOOL
GORDON BERNELL CHARTER SCHOOL
HORIZON ACADEMY SOUTH
HORIZON ACADEMY WEST
J. PAUL TAYLOR ACADEMY
JEFFERSON MONTESSORI ACADEMY
LA ACADEMIA DE ESPERANZA
LA ACADEMIA DE LENGUA Y CULTURA
LA ACADEMIA DOLORES HUERTA (formerly La Academia De Idiomas Y Cultura)
LA PROMESA EARLY LEARNING CENTER
LA RESOLANA LEADERSHIP ACADEMY
LAS MONTANES CHARTER SCHOOL
LEARNING COMMUNITY CHARTER
LINDRITH AREA HERITAGE SCHOOL
LOS PUENTES
MEDIA ARTS COLLABORATIVE CHARTER
MIDDLE COLLEGE HIGH SCHOOL
MONTE DEL SOL CHARTER SCHOOL
MONTESSORI ELEMENTARY
MONTESSORI OF THE RIO GRANDE CHARTER
MORENO VALLEY HIGH SCHOOL
MOSAIC ACADEMY CHARTER
MOUNTAIN MAHOGONY COMMUNITY
NATIVE AMERICAN COMMUNITY ACADEMY
NEW MEXICO SCHOOL FOR THE ARTS
NORTH VALLEY ACADEMY (formerly Horizon Academy Northwest)
NUESTROS VALEROS CHARTER SCHOOL
PUBLIC ACADEMY FOR PERFORMING ARTS
RALPH J. BUNCHE ACADEMY
RED RIVER VALLEY CHARTER
ROBERT F KENNEDY CHARTER
ROOTS AND WINGS COMMUNITY
SAN DIEGO RIVERSIDE CHARTER
SCHOOL OF DREAMS ACADEMY
SCHOOL FOR INTEGRATED ACAD & TECH
SIDNEY GUTIERREZ MIDDLE CHARTER
SOUTH VALLEY CHARTER HIGH
SW INTERMEDIATE LEARNING CENTER (formerly La Luz Del Monte Learning Center)
SOUTHWEST PRIMARY LEARNING CENTER
SOUTHWEST SECONDARY LEARNING
TAOS ACADEMY CHARTER SCHOOL
TAOS INTEGRATED SCHOOL OF THE ARTS
TAOS MUNICIPAL CHARTER SCHOOL
THE ALBUQUERQUE SIGN LANGUAGE ACADEMY
THE ASK ACADEMY
THE GREAT ACADEMY
THE INTERNAT'L SCH AT MESA DEL SOL
THE MASTERS PROGRAM
THE NEW AMERICA SCHOOL, NM
THE NEW MEXICO INTERNATIONAL SCHOOL
TIERRA ADENTRO OF NEW MEXICO
TIERRA ENCANTADA CHARTER HIGH (formerly Charter School #37)
TURQUOISE TRAIL CHARTER SCHOOL
TWENTY-FIRST CENTURY CHARTER
VILLAGE ACADEMY
VISTA GRANDE HIGH SCHOOL
WALATOWA

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
TEN LARGEST PARTICIPATING EMPLOYERS
JUNE 30, 2011 (CONTINUED)

Ten Largest Employers with Employee Count
Fiscal Years Ending June 30, 2006 to June 30, 2011

EMPLOYER	EMPLOYEE COUNT June 30, 2006		EMPLOYEE COUNT June 30, 2007		EMPLOYEE COUNT June 30, 2008		EMPLOYEE COUNT June 30, 2009		EMPLOYEE COUNT June 30, 2010		EMPLOYEE COUNT June 30, 2011	
Albuquerque Public Schools	12,306	20%	12,535	20%	12,706	20%	12,824	20%	13,090	21%	12,801	20%
University of New Mexico	8,035	13%	7,513	12%	7,807	12%	7,270	11%	7,261	11%	7,240	11%
New Mexico State University	4,790	8%	4,779	8%	4,622	7%	4,486	7%	4,439	7%	4,312	7%
Las Cruces School District	3,967	6%	3,978	6%	3,530	6%	3,514	6%	3,543	6%	3,538	6%
Gallup McKinley County Schools	2,194	4%	2,197	4%	2,148	3%	2,165	3%	2,175	3%	2,163	3%
Rio Rancho Public Schools	1,503	2%	1,774	3%	1,877	3%	1,911	3%	2,125	3%	2,122	3%
Gadsden independent schools	1,994	3%	2,010	3%	2,116	3%	2,104	3%	2,015	3%	1,943	3%
Central NM Community College	1,702	3%	1,904	3%	1,758	3%	1,816	3%	1,871	3%	1,863	3%
Santa Fe Public Schools	1,714	3%	1,728	3%	1,719	3%	1,704	3%	1,697	3%	1,667	3%
Farmington Public Schools	1,301	2%	1,286	2%	1,264	2%	1,298	2%	1,322	2%	1,260	2%
All Others	22,323	36%	22,983	36%	24,151	38%	24,730	39%	23,759	38%	24,388	39%
Total Active Members	61,829		62,687		63,698		63,822		63,297		63,297	

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STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
CHANGES IN PLAN NET ASSETS - LAST TEN FISCAL YEARS

YEAR ENDED JUNE 30	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Additions										
Contributions										
Employer	$ 173,863,363	$ 179,010,098	$ 189,324,788	$ 197,872,532	$ 226,479,332	$ 255,853,194	$ 290,846,065	$ 323,685,497	$ 313,276,296	$ 308,367,952
Member	151,378,455	154,427,006	162,118,792	169,099,212	178,220,782	189,391,152	201,916,230	212,014,023	250,666,650	247,407,988
Net Investment Income	(582,712,628)	160,929,270	923,928,365	656,107,462	887,217,751	1,360,224,241	(567,837,271)	(1,539,724,404)	1,248,320,486	1,544,495,567
Miscellaneous Income	3,450,064	4,344,038	4,200,818	4,032,754	3,866,927	4,331,489	3,662,453	3,696,085	3,108,550	4,033,431
Total Additions	(254,020,746)	498,710,412	1,279,572,763	1,027,111,960	1,295,784,792	1,809,800,076	(71,412,523)	(1,000,328,799)	1,815,371,982	2,104,304,938
Deductions										
Benefit Payments										
Age & Service	362,446,592	390,931,959	416,862,335	449,036,895	487,912,505	533,923,520	572,191,714	610,664,369	648,962,031	694,153,334
Disability	5,048,278	5,149,796	5,556,031	5,946,557	6,184,110	6,220,203	6,583,897	7,040,669	7,270,639	7,618,258
Refunds to Terminated Member	20,103,972	21,132,480	21,859,555	23,444,332	24,062,559	23,335,088	23,729,865	24,051,878	24,573,831	29,286,820
Interest On Refunds	8,404,063	7,205,976	4,525,458	3,770,343	4,243,297	4,190,043	5,745,306	5,634,632	4,205,824	5,799,986
Administrative Expenses	3,622,362	4,287,345	2,583,048	5,320,667	5,230,633	5,625,343	6,088,509	8,671,992	11,487,923	11,407,033
Total Deductions	399,625,267	428,707,556	451,386,427	487,518,794	527,633,104	573,294,197	614,339,291	656,063,540	696,500,248	748,265,431
Net Assets Held in Trust										
Beginning of Year	6,667,001,941	6,013,355,928	6,083,358,784	6,911,545,120	7,451,138,286	8,219,289,974	9,455,795,853	8,770,044,039	7,113,651,700	8,232,523,434
End of Year	$ 6,013,355,928	$ 6,083,358,784	$ 6,911,545,120	$ 7,451,138,286	$ 8,219,289,974	$ 9,455,795,853	$ 8,770,044,039	$ 7,113,651,700	$ 8,232,523,434	$ 9,588,562,941

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF ACTUARIAL VALUE OF ASSETS, ACCRUED LIABILITIES, AND UAAL
JUNE 30, 2011

Year ended June 30	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liability (UAAL)
2002	7,595,590,780	8,747,971,400	1,152,380,620
2003	7,518,163,450	9,266,626,972	1,748,463,522
2004	7,487,979,776	9,927,058,567	2,439,078,791
2005	7,457,547,183	10,591,808,489	3,134,261,306
2006	7,813,888,383	11,436,324,190	3,622,435,807
2007	8,591,417,402	12,190,080,577	3,598,663,175
2008	9,272,828,135	12,966,995,130	3,694,166,995
2009	9,366,271,312	13,883,273,082	4,517,001,770
2010	9,431,321,589	14,353,509,423	4,922,187,834
2011	9,642,229,673	15,293,072,424	5,650,842,751

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
HISTORY OF CONTRIBUTION RATES
JUNE 30, 2011

Fiscal Year Beginning July 1	Employee Rate %	Employer Rate %	Total Rate %
1984	7.600%	7.600%	15.200%
1986	7.600%	7.600%	15.200%
1988	7.600%	7.600%	15.200%
1990	7.600%	7.600%	15.200%
1992	7.600%	7.600%	15.200%
1993	7.600%	7.600%	15.200%
1994	7.600%	8.650%	16.250%
1995	7.600%	8.650%	16.250%
1996	7.600%	8.650%	16.250%
1997	7.600%	8.650%	16.250%
1998	7.600%	8.650%	16.250%
1999	7.600%	8.650%	16.250%
2000	7.600%	8.650%	16.250%
2001	7.600%	8.650%	16.250%
2002	7.600%	8.650%	16.250%
2003	7.600%	8.650%	16.250%
2004	7.600%	8.650%	16.250%
2005	7.600%	8.650%	16.250%
2006	7.675%	9.400%	17.075%
2007	7.825%	10.150%	17.975%
2008	7.900%	10.900%	18.800%
2009	7.900%	11.650%	19.550%
2010 & 2011 FTE earnings >= $20,000	9.400%	10.900%	20.300%
2010 & 2011 FTE earnings < $20,000	7.900%	12.400%	20.300%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
AVERAGE MONTHLY BENEFIT PAYMENTS BY BENEFIT AMOUNT
JUNE 30, 2011

Range of Monthly Pension Amount	Number of Members	Average Years Service	Average Monthly Benefit
REGULAR RETIREMENTS			
$0 - $499	5,153	10.64	$298.69
$500 - $999	6,480	17.56	$741.78
$1,000 - $1,499	5,892	21.19	$1,244.86
$1,500 - $1,999	5,687	24.35	$1,748.52
$2,000 - $2,499	4,506	26.44	$2,235.67
$2,500 - $2,999	2,863	28.19	$2,723.23
$3,000 - $3,499	1,689	29.59	$3,224.85
$3,500 - $3,999	935	30.96	$3,719.78
$4,000 - $4,499	522	31.84	$4,230.14
$4,500 - $4,999	332	32.61	$4,716.81
$5,000 - $5,499	203	32.22	$5,220.00
$5,500 - $5,999	112	31.63	$5,743.24
$6,000 - $6,499	72	31.97	$6,243.10
$6,500 - $6,999	54	32.59	$6,728.21
$7,000 - $7,499	36	33.34	$7,250.25
over $7,500	104	33.74	$9,424.88
Total	34,640	21.85	$1,672.94
DISABILITY RETIREMENTS			
$0 - $499	244	13.10	$351.68
$500 - $999	367	14.57	$741.14
$1,000 - $1,499	164	15.66	$1,191.42
$1,500 - $1,999	34	18.23	$1,695.35
over $2,000	8	19.16	$2,810.54
Total	817	14.55	$775.19

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
AVERAGE MONTHLY BENEFIT PAYMENTS BY YEARS OF SERVICE
JUNE 30, 2011

Years Service	Number of Members	Average Monthly Benefit
REGULAR RETIREMENTS		
0 - 9.99	3,295	$372.41
10 - 14.99	3,910	$741.72
15 - 19.99	5,668	$1,098.53
20 - 24.99	5,446	$1,491.92
25 - 29.99	10,787	$2,112.65
30 - 34.99	4,056	$2,837.20
35 - 39.99	1,271	$3,408.38
40 - 44.99	181	$4,019.87
45 - 49.99	24	$4,247.74
over 49.99	2	$6,827.95
	34,640	$1,672.94
DISABILITY RETIREMENTS		
10* - 14.99	502	$691.64
15 19.99	219	$813.69
20 24.99	89	$1,147.94
over 24.99	7	$822.62
	817	$775.19

* Ten years service credit required for disability retirement

Note - Final Average Salary by Years of Service is not readily available for inclusion in this table.

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF ACCOUNTABILITY IN GOVERNMENT ACT—
PERFORMANCE MEASURES
As of June 30, 2011
(Unaudited)

Type	Description	Target	Actual
Outcome	Average number of days to process refund requests	15	15
Output	Average number of days to respond to requests for benefits estimates and purchase of service requests	18	18
Outcome	Percentage of member satisfaction with seminars and trainings	95%	98%
Outcome	Average rate of return over a cumulative five-year period	8.00%	5.30%
Output	Percent of retirement applications processed within 60 day	95%	95%
Output	Number of benefit estimates and purchase of service requests computed annually	8,000	8,587
Output	Number of member workshops conducted	35	35
Quality	Percent of accurately computed retirements	99.5%	99.5%
Outcome	Funding period of UAAL in years	≤ 30	Infinite

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2011

1. Effective Date: July 1, 1957.

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

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

4. 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.

5. 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.

6. 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. The following schedule shows recent and future member contribution rates. Employee contributions are "picked up" by the local employer for federal income tax treatment.

Fiscal Year Ended	Member Contribution Rate
FYE 2005 and earlier	7.600%
FYE 2006	7.675%
FYE 2007	7.750%
FYE 2008	7.825%
FYE 2009	7.900%
FYE 2010*	9.400%
FYE 2011*	9.400%
FYE2012*	11.150%
FYE2013*	9.400%
FYE 2014 and later	7.900%

* For members whose annual salary is greater than $20,000. Members with annual salary of $20,000 or less will continue to contribute 7.900%.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2011 (CONTINUED)

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 Ended	Employer Contribution Rate
FYE 2005 and earlier	8.65%
FYE 2006	9.40%
FYE 2007	10.15%
FYE 2008	10.90%
FYE 2009	11.65%
FYE 2010*	10.90%
FYE 2011*	10.90%
FYE 2012*	9.15%
FYE 2013*	10.90%
FYE 2014	13.15%
FYE 2015 and later	13.90%

* For members whose annual salary is greater than $20,000. For members with annual salary of $20,000 or less, the employer will contribute 12.40% in FYE2010 through FYE2013.

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. Tier: Members who join ERB by June 30, 2010 are in Tier 1, while members who join later are in Tier 2. If a Tier 1 member terminates, takes a refund, and later rejoins ERB after June 30, 2010, that member will be in Tier 2 after being reemployed.

10. 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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2011 (CONTINUED)

11. Normal Retirement

   a. Eligibility:

      - Tier 1 member may retire upon Normal 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.

      - Tier 2 member may retire upon Normal Retirement on the earliest of (i) the date he/she attains age 67 with credit for 5 years of service, or (ii) the date the member completes 30 years of service, or (iii) the date that the sum of the member's age and service is at least 80, provided the member is at least age 65.

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

   c. 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.

12. Early Retirement

   a. Eligibility: Tier 1 member may take early retirement once the sum of his/her age and service equals or exceeds 75, while Tier 2 member may take early retirement once the sum of his/her age and service equals or exceeds 80. The reduction for Tier 1 members is from age 60 and the reduction for Tier 2 members is from age 65. The reduction is 2.4% per year for the first five years the retirement precedes age 60 (Tier 1) or age 65 (Tier 2), and 7.2% for any additional years before the indicated age.

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

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2011 (CONTINUED)

c. Early Retirement Factors:

Tier 1		Tier 2	
Age at Retirement	Factor	Age at Retirement	Factor
60 or later	1.000	65 or later	1.000
59	.976	64	.976
58	.952	63	.952
57	.928	62	.928
56	.904	61	.904
55	.880	60	.880
54	.808	59	.808
53	.736	58	.736
52	.664	57	.664
51	.592	56	.592
50	.520	55	.520
49	.448	54	.448
48	.376	53	.376
47	.304	52	.304
46	.232	51	.232
45	.160	50	.160

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

13. 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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2011 (CONTINUED)

14. 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.

   d. Death Benefit: Upon the death of an inactive vested member who has not retired, the beneficiary may elect to receive an annuity as described under the Death in Service benefit below, with payments deferred until the member would have been eligible for retirement if the member was not eligible at the time of death. Alternatively, the beneficiary may receive a refund of the member's contributions, plus interest based upon a rate set by the Board of Trustees.

15. 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.

16. 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.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2011 (CONTINUED)

17. 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.

18. 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.

19. 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.

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