

**STATE OF NEW MEXICO**  
**EDUCATIONAL RETIREMENT BOARD**  
**Comprehensive Annual Financial Report**  
**For The Year Ended June 30, 2009**

**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 Year Ended June 30, 2009**

**Prepared by Staff of the ERB Finance and Investments Divisions**

**Educational Retirement Board**

**701 Camino de los Marquez**

**Santa Fe, NM 87105**

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**[www.nmerb.org](http://www.nmerb.org)**

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*Educational Retirement Board*  
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www.nmerb.org

Letter of Transmittal  
December 15, 2009

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, 2009. 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 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, disability, and death benefits for all certified teachers and other employees of the State of New Mexico educational institutions, junior colleges, and technical-vocational institutions. Please see note two to the financial statements on page 34 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, 2009, 2008, and 2007.

	June 30, 2009	June 30, 2008	June 30, 2007
Total Additions <Decreases>	\$ (1,000,328,799)	\$ (71,412,523)	\$ 1,809,800,076
Total Deductions	656,063,540	614,339,291	573,294,197
Net Change	<u>\$ (1,656,392,339)</u>	<u>\$ (685,751,814)</u>	<u>\$ 1,236,505,879</u>

Additions decreased by \$1,881,212,599 from FY2007 to FY2008 and by \$928,916,276 from FY2008 to FY2009. This was due primarily to a significant decrease in the fair value of investments caused by unprecedented turmoil in financial markets beginning in 2008 and continuing through most of FY2009. Deductions increased by \$41,045,094 from FY2007 to FY2008 and by \$41,724,249 from FY2008 to FY2009, due mostly to increased benefit payments to retirees caused by an increase in the number of retirees each year as well as the cost of living adjustments paid to retirees in each year.

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 62. The unfunded actuarial accrued liability (UAAL) is a measure of the currently unfunded part of future benefit obligations. The UAAL increased from \$3,694,166,995 in FY2008 to \$4,517,001,770 in FY2009, due primarily to the investment losses recorded during the year. 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. Even though the UAAL increased during the year, because of certain plan design changes that have been implemented and that will be discussed under “Legislative Action in FY2009” below, the funding period decreased from 61.4 years at June 30, 2008 to 45.0 years at June 30 2009. While both of these periods exceed the GASB standard of 30 years, significant progress has been made in achieving our funding goals. ERB management and staff believes and has advised the Board and the legislature that it is unlikely the fund will achieve the GASB standard any time in the foreseeable future without significant additional influx of capital, contribution increases, additional plan design changes, or some combination of those actions.

**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 also is to earn the actuarial rate of return, currently set at 8%.

ERB's investment portfolio produced a total gross return of -17.3% for the year ended June 30, 2009. The policy benchmark return for the same period was -15.4%. The portfolio underperformed its benchmark by 1.9%. While the ERB's portfolio has underperformed compared to its benchmark during this period of financial turmoil, the investment staff believes that ERB's diversified portfolio in a robust range of assets is poised 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 FY2009

Several pieces of legislation were enacted during the 2009 legislative session that were designed to improve the long term viability of the plan, ensure compliance from local administrative units reporting to ERB, improve portability for members in higher education that are members of the Alternative Retirement Plan, improve options for purchase of military service credit, and to protect sensitive member information. These changes are summarized below.

House Bill 573 amends the age and service requirement for members first employed after July 1 2010. Under the new requirement, a member will have to have thirty years of service credit or have age and service equal to eighty years or be sixty-seven years or older and have five years of service credit in order to take a normal retirement. The bill also implements a change whereby lump sum payouts of accrued leave paid after July 1, 2010 will no longer be included in the calculation of a retirement applicant's final average salary. Further, the bill creates a retirement systems solvency task force of twenty five members to study the actuarial soundness of all of the state's public retirement plans and submit recommendations to the interim Investments and Pension Oversight Committee, the Legislative Finance Committee and the Governor no later than October 1, 2010.

House Bill 453 and Senate Bill 633 were incorporated into HB 573 and allow members with more than five years contributory service under the Educational Retirement Act to acquire up to five years additional service credit for prior service in the U. S. military or the commissioned corps of the Public Health Service.

House Bill 721 and Senate Bill 476 were incorporated into HB 573 and clarify the requirements for participation in the return to work program and extend the program's sunset date to 2022.

Senate Bill 572 amends present law which provides that the employees of a state post-secondary educational institution who become members of alternative retirement plans may not change plans. Starting July 1, 2009, this bill allows these employees, if they have

made contributions to the alternative retirement plan for seven years or more, to have a one-time opportunity, for 120 days, to become members of the regular retirement plan. The bill also allowed for other changes to the alternative plan. The ERB will be drafting rules to implement this legislation and will be issuing requests for proposals for new providers for the alternative retirement plan.

House Bill 722 provides that the only information maintained by the Educational Retirement Board regarding a member or retired member which is open to public inspection is the name of the member, where the member was employed, dates of retirement and reported death, service credit, reported salary and amount of contributions. Other information may only be disclosed to the member, the member's spouse or authorized representative, or persons specifically identified by them in a written consent form.

Finally, Senate Bill 399 authorizes the director of the Educational Retirement Board to audit local school districts and public post-secondary institutions to ensure compliance with the Educational Retirement Act and Board rules.

#### 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. 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.

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



Jan Goodwin  
ERB Executive Director



Bruce Malott CPA, CVA, CFF  
ERB Board Chairman

## 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.

INTRODUCTORY SECTION

NM EDUCATIONAL RETIREMENT BOARD OF TRUSTEES  
As of June 30, 2009



Bruce Malott,  
Chairperson

Governor  
Appointment



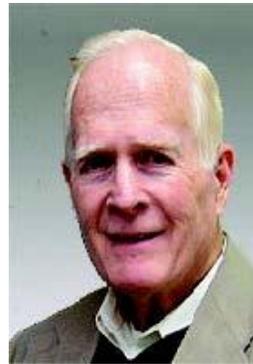
Dr. Veronica Garcia,  
Member

Secretary, Public  
Education  
Ex-Officio



Mary Lou Cameron,  
Vice Chairperson  
NEA

Term Expires  
July 14, 2013



Russell Goff,  
Member  
NMEAR

Term Expires  
June 30, 2012



Gary Bland,  
Secretary

Governor  
Appointment  
(resigned October 21,  
2009)



Dr. Beulah Woodfin  
Member  
AAUP

Term Expires  
June 30, 2012

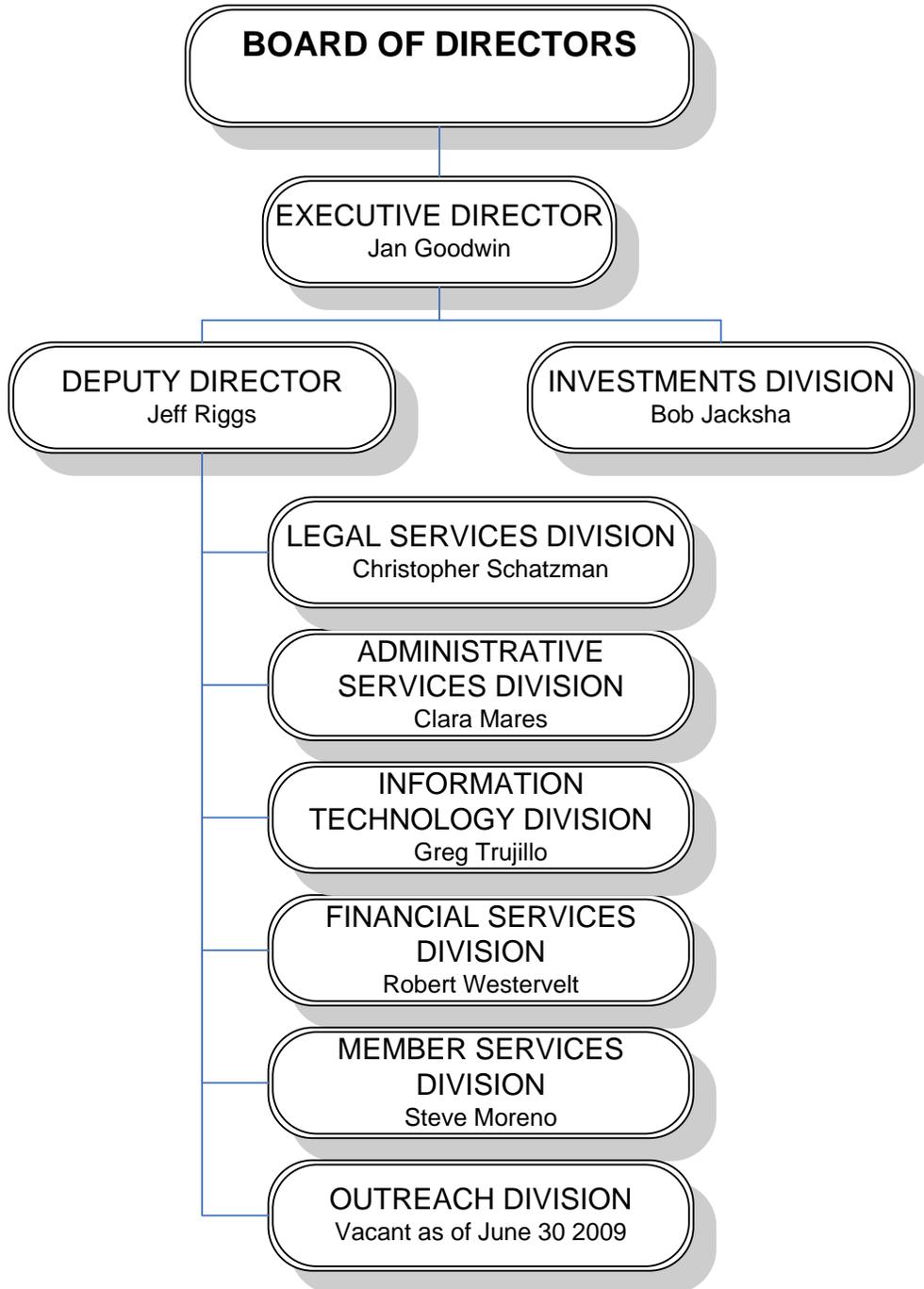


James B. Lewis,  
Member

State Treasurer  
Ex-Officio

INTRODUCTORY SECTION

NM EDUCATIONAL RETIREMENT BOARD ORGANIZATION CHART  
As of June 30, 2009



## INTRODUCTORY SECTION

### ERB STAFF as of Dec. 15, 2009

#### Administration

Jan Goodwin, Executive Director  
Jeff Riggs, Deputy Director  
Steve Vigil, Internal Auditor  
Linda Kissko, Executive Assistant

#### Program Support

Clara Mares, Administrative Services Manager  
Marie Fitzpatrick, HR Payroll and Benefits  
(Vacant) Records Clerk  
Darlene Gibbs, Imaging Clerk  
Mary Olague, Data Entry Clerk  
Kevin Long, Plant/Systems Operator

#### Legal Services

Christopher Schatzman, General Counsel  
Robert Shulman, Attorney  
(Vacant) Attorney  
(Vacant) Paralegal Assistant  
Julie Naidich, Paralegal Assistant

#### Information Technology

Gregory Trujillo, Information Systems Manager  
Jonas Aylward, IT Business Analyst  
David Peterson, IT Generalist  
(Vacant) IT Generalist  
(Vacant) Database Administrator  
Matthew Martinez, Network Administrator  
Harold Sexton, Accountant & Auditor  
(Vacant) Accountant & Auditor

#### Investments

Bob Jacksha, Chief Investment Officer  
Steve Neel, Deputy Chief Investment Officer  
Mark Canavan, Investment Officer  
LeAnne Larranaga-Ruffy, Investment Officer  
(Vacant) Investment Officer  
Selma Arnold, Financial Analyst  
Christine Ortega, Financial Analyst

#### Financial Services

Bob Westervelt, Chief Financial Officer  
Robert Cardon, Accountant and Auditor  
Bea Pacheco, IT Business Analyst  
Angelina Romero, Accountant and Auditor  
Debbi Lucero, Purchasing & Fixed Assets  
(Vacant) Financial Specialist  
Veronica Chavez, Financial Specialist  
Rita Sanchez, Financial Specialist  
Stephanie Ortiz, Financial Specialist  
Sandy Vigil, Financial Specialist

#### Member Services

Vincent Lujan, Member Services Manager  
Deenie Esquibel, Outreach Coordinator  
Karla Leyba, Financial Advisor  
Melinda Marquez, Financial Advisor  
Rose Tapia, Financial Advisor  
(Vacant) Financial Advisor  
Michelle Duran, Financial Advisor  
Jinny Doxey, Financial Advisor  
Anders Engstrom, Financial Advisor  
(Vacant), Financial Advisor

#### Pension/Refund Section

Raul Duran, Payroll Administrator  
Rosa Weese, Benefit Specialist  
Elizabeth Fischer, Bookkeeper  
Nicole Jaramillo, Refund Administrator  
(Vacant) Refund Specialist

#### Customer Service Section

Kathy Webb, Bureau Chief, Customer Services  
Cordelia Anaya, Customer Service Rep.  
Cynthia Martinez, Customer Service Rep.  
Anna Leyba, Customer Service Rep  
Jerome Lopez, Customer Service Rep.

## INTRODUCTORY SECTION

### CONSULTANTS AND PROFESSIONAL SERVICES

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

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 is the investment consultant chosen by the Board and is responsible for advising the Board regarding:

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

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

The Medical Review Board is responsible for:

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

The New Mexico Attorney General provides legal counsel to the ERB, The Groom Law Group of Washington, D.C. provides legal tax and fiduciary counsel, and Foster Pepper PLLC of Seattle Washington provides legal counsel related to alternative investments, principally in the area of transactional matters.

#### 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

#### 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 77 in the Investments section of this report. A schedule of fees paid for other professional services is located on page 67 in the Financial section of this report.

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**Independent Auditors' Report**

T 505-878-7200  
F 505-878-7282

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, 2009 and 2008, as listed in the table of contents. We have also audited the Statement of Revenues and Expenses – Budget and Actual (Non-GAAP) shown as supplemental information for the year ended June 30, 2009, as listed in the table of contents. These financial statements and statement are the responsibility of ERB's management. Our responsibility is to express an opinion on these financial statements and statement based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 opinion.

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, 2009 and 2008, 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, 2009 and 2008, and the respective changes in financial position of its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Statement 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, 2009.

6100 Uptown Boulevard NE, Suite 400  
Albuquerque, NM 87110



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

The Management's Discussion and Analysis and Required Supplementary Schedules of Funding Progress and of Employer Contributions 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 an opinion on the basic 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 Schedule of Accountability in Government Act – Performance Measures, as listed as supplemental information in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

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 4, 2009

## FINANCIAL SECTION

### **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended June 30, 2009 And 2008**

Agency management prepared this Management's Discussion and Analysis ("MD&A") of the financial position of the State of New Mexico Educational Retirement Board ("Board") for the fiscal year ended June 30, 2009 ("FY09"). For more detailed information of the Board's FY09 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 decreased \$1.7 billion, or 18.9%, in FY09 compared to a decrease of \$686 million, or 7.25%, in FY08 and an increase of \$1.2 billion, or 15%, in FY07. The primary driver was a notable downward trend in both domestic and foreign financial markets beginning at the end of FY08.
- Investment advisor fees and custodial fees decreased \$3.6 million, or 17.8%, in FY09 compared to a decrease of \$0.5 million, or 2.1% in FY08 and an increase of \$3.7 million, or 22%, in FY07. Higher fees incurred with an expanding portfolio in alternative investments were offset by the decrease in assets under management discussed above.
- Total cash and cash equivalents decreased \$44 million in FY09 compared to a \$23 million increase in FY08 and an \$88 million increase in FY07. As the board had been adjusting holdings in the weak markets at the end of FY08 cash balances increased, but as financial markets strengthened toward the end of FY09 more of that cash had been returned to active investment. Total cash and cash equivalents equaled \$307 million, or 4.1% of investments, at the end of FY09 compared to \$351 million, or 3.7% of investments, at the end of FY08, and \$327 million, or 3.2% of investments at the end of FY07. All three years were within the Board's investment policy that limits cash holdings to 5% or less. The higher relative percentage of cash to total investment assets at the end of FY09 is reflective of the overall decrease in portfolio value.
- Investment holdings decreased \$2.05 billion, or 21.4%, in FY09 compared to a decrease of \$723 million, or 7.0%, in FY08 and an increase of \$1.4 billion, or 15.2% in FY07, primarily due to the weak performance of domestic and foreign equity markets at the end of FY08 and continuing through FY09.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Years Ended June 30, 2009 And 2008**

- Receivables decreased by just under \$161 million in FY09 compared to a decrease of \$594 million in FY08, and an increase of \$876 million in FY07, 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, while the increase in FY07 indicates a larger volume was sold at year end that year. 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.
- Capital assets decreased by \$1.9 million, or 18.7%, in FY09 compared to an increase of \$2.6 million, or 34.4%, in FY08 and an increase in FY07 of \$100 thousand, or 1.3%. The big increase in FY08 was due primarily to capitalization of development costs on the new pension administration system and the addition to the Santa Fe office building. The big decrease in FY09 was mainly the result of large depreciation costs, mostly on the pension administration system capitalized last year with a relatively short depreciation period, combined with minimal new asset additions during the year. See notes two and seven for additional information on capital asset activity and depreciable life expectancies. The Board does not have any debt activity.
- Accounts payable decreased \$1.3 million, or 24.1%, in FY09 compared to an increase of \$537 thousand, or 10.8%, in FY08 and an increase of \$103 thousand, or 2.11% in FY07, primarily due to a decrease in the amount of investment advisor fees due at FY09 year-end.
- Investment purchases payable-brokers decreased by \$143 million in FY09 compared to a decrease of \$419 million in FY08 and an increase of \$636 million in FY07. A decrease is indicating that a smaller volume of investments were purchased at or near fiscal year end and remained outstanding on June 30, while the increase in FY07 indicates a larger volume was purchased at year end that year. Securities sales and purchases are usually based on “trade date + 3 days,” meaning that the transaction will settle three business days after it is initiated.
- Securities lending collateral decreased \$458 million, or 40.3%, in FY09 compared to a decrease of \$199 million, or 15.1%, in FY08, and an increase of \$451 million, or 51.9% in FY07. This indicates a smaller amount from the Board’s portfolio was being lent at the end of FY09 and FY08. Securities lending net income decreased \$1.1 million, or 18.6%, in FY09 compared to an increase of \$3.5 million, or 152%, in FY08 and an increase of \$182 thousand, or 8.5%, in FY07. The decrease from FY08 to FY09 was due to a significant drop in interest rates. The increase from FY07 to FY08 was due to lower “borrower rebates” paid on the lent securities.

## FINANCIAL SECTION

### **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) Years Ended June 30, 2009 And 2008**

- Employer and member contributions increased \$42.9 million, or 8.7%, in FY09 compared to an increase of \$47.5 million, or 10.7%, in FY08 and an increase of \$40.5 million, or 10.0% in FY07, due to an increase in active member contribution rates and salary increases. Benefit payments to retirees increased \$38.9 million, or 6.7%, in FY09 compared to an increase of \$38.6 million, or 7.15%, in FY08 and an increase of \$46 million, or 9.3% in FY07, due to the increase in the number of retirees each year, as well as the cost of living adjustments paid to retirees. Refunds and interest to terminated members increased \$211 thousand, or 0.7%, in FY09 compared to an increase of \$1.9 million, or 7.1%, in FY08 and a decrease of \$0.8 million, or 2.8% in FY07. The Board's total membership increased by 2,023, or 1.6%, to 126,895 members in FY09 compared to an increase of 2,274, or 1.8%, to 124,872 members in FY08 and an increase of 2280, or 1.9%, to 122,598 members in FY07.

FINANCIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Years Ended June 30, 2009 And 2008**

**CONDENSED FINANCIAL INFORMATION**

**Statements of Plan Net Assets**

	<b>FY09</b>	<b>FY08</b>	<b>FY07</b>
Cash and short-term investments	\$ 289,479,681	\$ 346,040,280	\$ 316,614,628
Receivables	223,723,966	384,628,705	978,651,452
Investment in State General Fund			
Investment Pool	17,627,763	4,990,356	11,124,535
Investments—at fair value	7,523,202,286	9,575,761,825	10,298,665,645
Capital assets (net of accumulated depreciation)	<u>8,226,741</u>	<u>10,121,468</u>	<u>7,528,949</u>
 Total assets	 <u>8,062,260,437</u>	 <u>10,321,542,634</u>	 <u>11,612,585,209</u>
 Current liabilities	 948,409,876	 1,551,286,681	 2,156,597,869
Long-term liabilities (compensated absences)	<u>198,861</u>	<u>211,914</u>	<u>191,487</u>
 Total liabilities	 <u>948,608,737</u>	 <u>1,551,498,595</u>	 <u>2,156,789,356</u>
 Net assets held in trust for pension benefits	 <u>\$7,113,651,700</u>	 <u>\$8,770,044,039</u>	 <u>\$9,455,795,853</u>

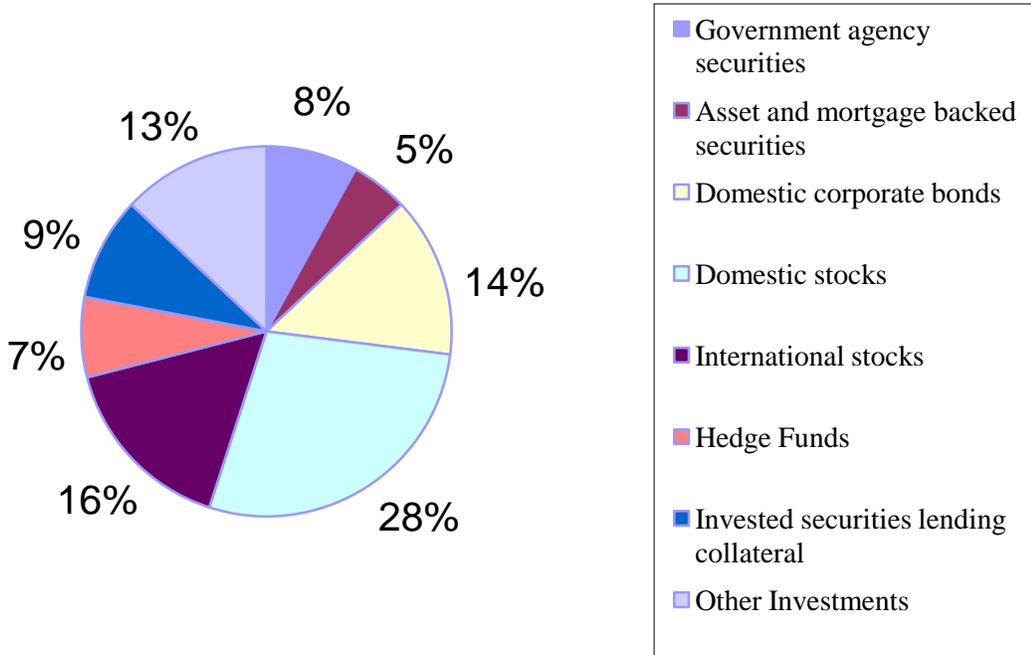
**Statements of Changes in Plan Net Assets**

	<b>FY09</b>	<b>FY08</b>	<b>FY07</b>
Contributions	\$ 535,699,520	\$ 492,762,295	\$ 445,244,346
Investment income less investment expenses	185,177,492	217,647,920	182,784,302
Net (depreciation) appreciation in the fair value of investments	(1,724,901,896)	(785,485,191)	1,177,439,939
Other income	<u>3,696,085</u>	<u>3,662,453</u>	<u>4,331,489</u>
 Total (deductions) additions	 <u>(1,000,328,799)</u>	 <u>(71,412,523)</u>	 <u>1,809,800,076</u>
 Benefit payments	 617,705,038	 578,775,611	 540,143,723
Refunds	29,686,510	29,475,171	27,525,131
Administrative expenses	<u>8,671,992</u>	<u>6,088,509</u>	<u>5,625,343</u>
 Total deductions	 <u>656,063,540</u>	 <u>614,339,291</u>	 <u>573,294,197</u>
 (Decrease) Increase in net assets	 (1,656,392,339)	 (685,751,814)	 1,236,505,879
 Net assets held in trust for pension benefits:			
Beginning of year	<u>8,770,044,039</u>	<u>9,455,795,853</u>	<u>8,219,289,974</u>
End of year	<u>\$7,113,651,700</u>	<u>\$8,770,044,039</u>	<u>\$9,455,795,853</u>

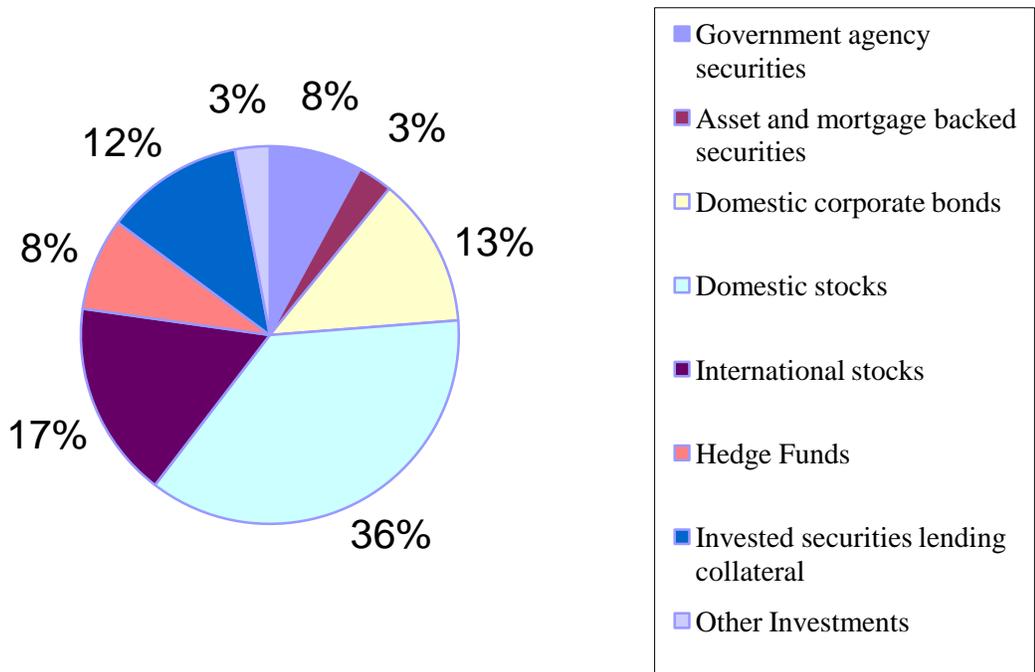
FINANCIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Years Ended June 30, 2009 And 2008**

**FY09 Investments by Category**

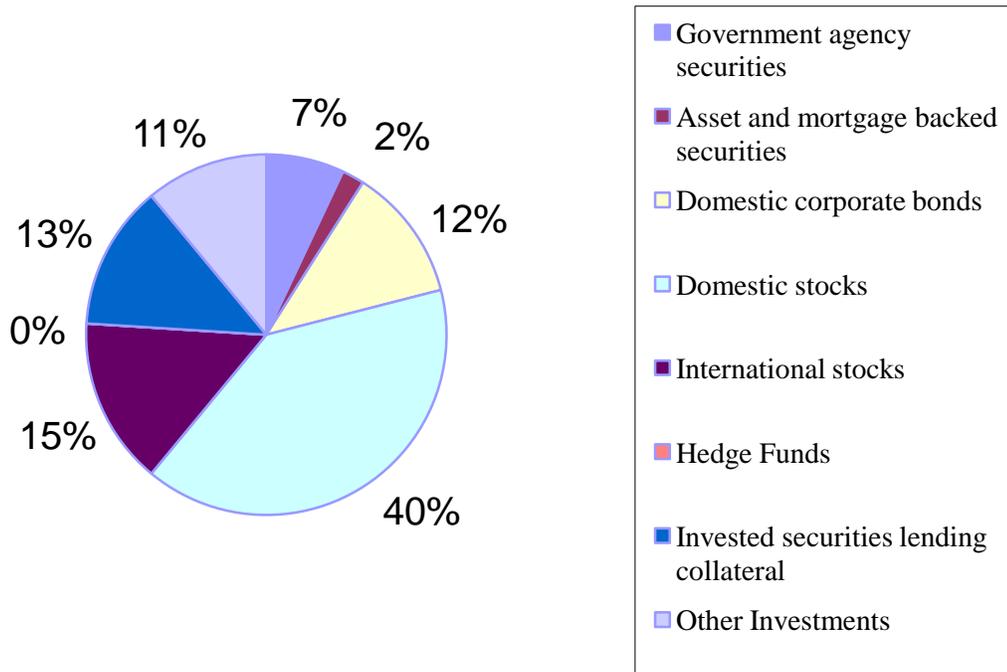


**FY08 Investments by Category**



**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Years Ended June 30, 2009 And 2008**

**FY07 Investments by Category**



**BUDGETARY HIGHLIGHTS**

A major portion of the Board’s contractual services are based on market performance, and the budget is established to absorb all expenses that may be incurred during the period. These initial budget estimates may be adjusted throughout the year, based on market performance, to arrive at a final budget. In FY09, the Board’s initial budget was increased by \$530 thousand from \$32.4 million to \$32.9 million. In FY08 the budget was not changed from the original \$30.1 million. In FY07 the budget was increased by \$2.7 million from \$29.5 million to \$32.2 million. Changes in the corpus of the fund generally drive changes in income and expenses. More assets under management combined with better performance will result in increased income and associated management fees and other expenses. In fiscal years like 2009 and 2008, with decreasing asset balances, income and associated management fees and other expenses will generally decrease. The Board had savings over budgeted amounts totaling \$7.5 million in the three expense categories during the 2009 fiscal year compared to a savings of \$3.8 million in 2008 and savings of \$6.6 million in fiscal year 2007.

**LONG-TERM DEBT**

The only long-term liability activity relates to compensated absences reported in Note 9.

**INFRASTRUCTURE**

ERB has no infrastructure assets to report.

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) Years Ended June 30, 2009 And 2008

#### CAPITAL ASSETS

The Net Investment in Capital Assets at June 30, 2009, 2008 and 2007, is as follows:

Description	Cost	Accumulated Depreciation	Book Value
2009			
Land	\$ 248,172	\$ -	248,172
Depreciable land improvements	19,361	(3,111)	16,250
Capital assets in progress	-	-	-
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	<u>1,139,019</u>	<u>(786,470)</u>	<u>352,549</u>
Total	<u>\$ 13,929,229</u>	<u>\$ (5,702,488)</u>	<u>\$ 8,226,741</u>
2008			
Land	\$ 248,172	\$ -	\$ 248,172
Depreciable land improvements	19,361	(2,412)	16,949
Capital assets in progress	1,176,211	-	1,176,211
Integrated Retirement Information System	9,156,963	(1,954,689)	7,202,274
Building and building improvements	2,151,067	(1,011,482)	1,139,585
Furniture and equipment	<u>1,078,738</u>	<u>(740,461)</u>	<u>338,277</u>
Total	<u>\$ 13,830,512</u>	<u>\$ (3,709,044)</u>	<u>\$ 10,121,468</u>
2007			
Land	\$ 248,172	\$ -	\$ 248,172
Depreciable land improvements	1,875	(1,688)	187
Capital assets in progress	-	-	-
Integrated Retirement Information System	6,396,673	(629,350)	5,767,323
Building and building improvements	2,151,067	(846,467)	1,304,600
Furniture and equipment	<u>1,087,812</u>	<u>(879,145)</u>	<u>208,667</u>
Total	<u>\$ 9,885,599</u>	<u>\$ (2,356,650)</u>	<u>\$ 7,528,949</u>

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
Years Ended June 30, 2009 And 2008**

**CURRENTLY KNOWN FACTS AND CONDITIONS**

The accompanying financial statements reflect a significant decline in the reported values of ERB's investment portfolio beginning in FY08 and continuing into FY09. However, because the values of individual investments fluctuate with market conditions, the amount of losses or gains that ERB will recognize in our future financial statements cannot be determined. Subsequent to June 30, 2009, investment markets have generally been positive but continue to be volatile.

ERB has invested the cash collateral from securities in low-risk conservative investment vehicles such as commercial paper, repurchase agreements, cash equivalents, domestic corporate bonds, and asset backed securities. With the financial markets being extremely volatile and with the possibility of significant declines in values of financial instruments occurring, ERB potentially could have a loss on these collateral investments resulting in ERB liquidating assets to offset the loss. However, ERB believes that it has largely mitigated this risk through its investment strategy for these assets.

**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

## FINANCIAL SECTION

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FINANCIAL SECTION

**BASIC FINANCIAL STATEMENTS  
AND ACCOMPANYING NOTES**

# FINANCIAL SECTION

## STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD STATEMENTS OF PLAN NET ASSETS June 30, 2009 and 2008

	2009	2008
<b>Assets</b>		
Cash	\$ 907	\$ 4,751
Short term investments	289,478,774	346,035,529
Receivables		
Contributions	66,650,037	66,582,666
Investment sales proceeds-brokers	129,477,330	286,904,399
Interest and dividends	27,528,119	31,018,123
Other	68,480	123,517
Total receivables	<u>223,723,966</u>	<u>384,628,705</u>
Interest in State General Fund Investment Pool	<u>17,627,763</u>	<u>4,990,356</u>
Investments, at fair value		
U. S. Treasury securities	230,027,482	166,650,949
Government agency securities	614,167,396	764,776,546
Asset and mortgage backed securities	350,555,573	280,538,993
Domestic corporate bonds	1,044,370,430	1,257,449,902
Domestic stocks	2,080,792,320	3,546,803,558
International stocks	1,238,816,417	1,583,681,765
Private equity	138,357,638	93,682,458
Hedge funds	537,791,270	722,726,369
Private real estate	77,902,570	34,450,129
Other investments	545,166,380	2,564,355
Invested securities lending collateral	665,254,810	1,122,436,801
Total investments	<u>7,523,202,286</u>	<u>9,575,761,825</u>
Capital assets, at cost, net of accumulated depreciation of \$5,702,488 and \$3,709,044 respectively	8,226,741	8,945,257
Capital assets in progress	-	1,176,211
Total capital assets	<u>8,226,741</u>	<u>10,121,468</u>
Total assets	<u>\$ 8,062,260,437</u>	<u>\$ 10,321,542,634</u>
<b>Liabilities</b>		
Accounts payable	\$ 4,167,084	\$ 5,490,449
Accounts payable school contributions	101,310	65,780
Accrued payroll and employee benefits	154,292	150,596
Accrued compensated absences	198,861	211,914
Refunds payable	943,130	1,684,509
Investment purchases payable	263,999,480	407,395,504
Funds held for others	850,156	136,133
Securities lending collateral	<u>678,194,424</u>	<u>1,136,363,710</u>
Total liabilities	<u>948,608,737</u>	<u>1,551,498,595</u>
Net assets held in trust for pension benefits	<u>\$ 7,113,651,700</u>	<u>\$ 8,770,044,039</u>

See Accompanying Notes to Financial Statements.

**STATE OF NEW MEXICO  
EDUCATIONAL RETIREMENT BOARD  
STATEMENTS OF CHANGES IN PLAN NET ASSETS  
Years Ended June 30, 2009 and 2008**

	2009	2008
<b>Additions</b>		
Contributions		
Employer	\$ 323,685,497	\$ 290,846,065
Member	212,014,023	201,916,230
Total contributions	<u>535,699,520</u>	<u>492,762,295</u>
Investment income from investing activities		
Net change in fair value of investments	(1,724,901,896)	(785,485,191)
Interest income	114,363,735	158,600,235
Dividend income	82,815,387	73,576,472
Total investing activity (loss)	<u>(1,527,722,774)</u>	<u>(553,308,484)</u>
Investing activity expenses:		
Investment advisor fees	(16,103,831)	(19,700,796)
Custody fees	(670,671)	(692,531)
Total investing activity expenses	<u>(16,774,502)</u>	<u>(20,393,327)</u>
Net loss from investing activities	<u>(1,544,497,276)</u>	<u>(573,701,811)</u>
From securities lending activities		
Securities lending income	19,017,334	64,146,240
Securities lending expenses:		
Borrower rebates	(13,564,740)	(57,443,914)
Agent fees	(679,722)	(837,786)
Total securities lending expenses	<u>(14,244,462)</u>	<u>(58,281,700)</u>
Net income from securities lending activities	<u>4,772,872</u>	<u>5,864,540</u>
Total net investment loss	<u>(1,539,724,404)</u>	<u>(567,837,271)</u>
Miscellaneous income		
Penalties	3,568	22,072
Interest on restoration of service	3,093,720	3,443,975
Other	598,797	196,406
Total miscellaneous income	<u>3,696,085</u>	<u>3,662,453</u>
Total (decrease) additions	<u>(1,000,328,799)</u>	<u>(71,412,523)</u>
<b>Deductions</b>		
Refunds to terminated members	24,051,878	23,729,865
Interest on refunds	5,634,632	5,745,306
Administrative expenses	8,671,992	6,088,509
Age and service benefit payments	610,664,369	572,191,714
Disability benefit payments	7,040,669	6,583,897
Total deductions	<u>656,063,540</u>	<u>614,339,291</u>
Net decrease	<u>(1,656,392,339)</u>	<u>(685,751,814)</u>
Net assets held in trust for pension benefits		
Beginning of the year	8,770,044,039	9,455,795,853
End of the year	<u>\$ 7,113,651,700</u>	<u>\$ 8,770,044,039</u>

*See Accompanying Notes to Financial Statements.*

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008

#### 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 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 paid by the statutory deadline (Section 10-6-4 NMSA 1978), that must be paid out of the next year’s budget.

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”) and the Legislative Finance Committee (“LFC”) and included in the General Appropriations Act. The Board is required to periodically report to the SBD and the LFC on these performance measures.

The original budget was amended during the fiscal year. A single Budget Adjustment Request (BAR) was submitted and approved for the addition of \$530 thousand in the contractual services expense item. The additional expense was approved to be funded from existing Fund Balance.

The Board follows these procedures in establishing the annual budget:

- (1) By August 31, the Board prepares a Budget Appropriation Request to be presented to the next legislature. The Request includes proposed expenses and the means of financing them.
- (2) On September 1, the Budget Appropriation Request is submitted to the Department of Finance and Administration (“DFA”) and the LFC.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

- (3) The DFA makes recommendations and adjustments to the Board's Budget Appropriation Request, which becomes the Governor's proposal to the Legislature.
- (4) The LFC holds hearings on the Budget Appropriation Request. Recommendations and adjustments are made prior to presenting the Budget Appropriation Request to the Legislature.
- (5) Both the DFA's and the LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget.
- (6) On May 1, the Board submits its Annual Operating Budget to the DFA and the LFC based on the final appropriation from the Legislature.
- (7) Budgetary control is exercised at the appropriation unit level (revenue source and expenditure category), and any changes between budget categories must be approved by the DFA and the LFC.

**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, 2009. 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 geographies.

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 partnerships' fair value as recorded in the partnerships' audited 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, 2009, the Board had commitments for additional future contributions to the limited partnerships totaling \$521.4 million.

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 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.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

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

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

FINANCIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

The valuation 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 (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. (dollar amounts in millions):

<b>Actuarial Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</b>
(a)	(b)	(b) - (a)	(a)/(b)	(c)	((b-a)/c)
\$9,366.3	\$13,883.3	\$4,517.0	67.5%	\$2,585.7	174.7%

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”) 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.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 2. EDUCATIONAL RETIREMENT BOARD OVERVIEW (CONTINUED)**

Contributing employers to the Plan include the following:

Public schools	89
Universities and colleges	15
Charter schools	67
Special schools	4
State agencies	<u>11</u>
	<u>186</u>

**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.

The Board serves 186 employers in the State and has an active and inactive membership of 126,895 and 124,872 in 2009 and 2008, respectively. The status and number of all participants at June 30, 2009 and 2008 consisted of the following:

	2009	2008
(1) Retirees and beneficiaries of deceased retirees currently receiving benefits	32,497	31,192
(2) Inactive members	30,576	29,982
(3) Current active members	63,822	63,698
	<u>126,895</u>	<u>124,872</u>

**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

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

#### NOTE 2. EDUCATIONAL RETIREMENT BOARD OVERVIEW (CONTINUED)

**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.

A brief summary of Plan coverage provisions follows:

For members employed before July 1, 2009, 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 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) *Eligibility* - A further requirement 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 19.55% as of June 30, 2009, 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, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.
- (3) *Normal Benefit* - There are no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of contributions less benefits paid.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 2. EDUCATIONAL RETIREMENT BOARD OVERVIEW (CONTINUED)**

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

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

- (5) *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. 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.

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

#### NOTE 2. EDUCATIONAL RETIREMENT BOARD OVERVIEW (CONTINUED)

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

(6) *Disability Retirement:*

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

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

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

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

(8) *Authority* - 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

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 2. EDUCATIONAL RETIREMENT BOARD OVERVIEW (CONTINUED)**

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. 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. Pursuant to statute, ARP retirement benefits may be only in the form of a lifetime annuity, except in the case of death, when single sum cash payments are allowed. Two carriers have been approved to offer annuities to the participants: 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”). Employees are allowed to transfer between carriers once each year.

For the year ended June 30, 2009, employees under the ARP contribute 7.90% of their gross salaries. The colleges and universities are required to contribute 8.65% to the carrier on behalf of the participant and 3% to the regular defined benefit plan to help fund the unfunded accrued actuarial liability. The 3% fee remitted to ERB for the years ended June 30, 2009, 2008 and 2007 was \$4,726,836, \$4,469,033, and \$3,806,933, respectively.

The 3% fee does not provide retirement benefits. The colleges and universities are responsible for submitting the employers’ and the employees’ contributions directly to the annuity carriers. Vesting is immediate for all contributions.

As noted above, the ARP is a defined contribution plan; benefits are determined strictly by contributions made and earnings on contributions. Participating employees are responsible for, and accept the risks of, selecting investments from those offered by the carriers and for managing their investments. Retirement benefits are computed and paid by the annuity carriers; the ERB does not compute or pay the retirement benefits. If a participant seeks to retire due to disability, the annuity carrier determines the disability and computes the lifetime annuity.

Chapter 9 Laws of 2009 established certain changes to the Alternative Retirement Plan, including authorizing additional carriers, allowing plan members to take withdrawals for rollover to other qualified plans, and allowing a one time option for members with seven years of contributory service to switch to the defined benefit plan going forward, but the member’s previous contributions to the ARP plan remain in that plan and the five year service requirement and benefit calculation in the regular ERB Defined Benefit plan are effective as of the first day of the month following the month in which a valid election to switch is made.

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

#### NOTE 3. 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, 2009 and 2008 with the New Mexico State Treasurer's Office was \$17,627,763 and \$4,990,356, 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, 2009.

##### 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 Northern Trust. 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 \$289,479,681 and \$346,040,280 as of June 30, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008 (CONTINUED)**

**NOTE 4. INVESTMENTS**

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

The Uniform Prudent Investor Act does the following:

- A. Sets a higher standard of care and prudence for investments, above and beyond the previous standard and guiding principles of law
- B. Applies to the trust as a whole, rather than individual investments
- C. Requires investment strategy to be based on suitable risk and reward strategies
- D. Requires diversification unless the trustees reasonably determine it is not in the best interest of the fund/trustees

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

<b>Investment Description</b>	<b>2009</b>	<b>2008</b>
Investments held by the Board's agent in the name of the Board:		
U.S. Government and Agency Securities	\$ 582,853,782	\$ 502,464,238
Asset and Mortgage Backed Securities	350,555,573	280,538,993
Domestic Corporate Bonds	1,035,469,814	1,250,967,283
Domestic Stocks	1,702,981,085	2,885,840,099
International Stocks	1,236,942,856	1,580,072,169
Hedge Funds	537,791,270	722,726,369
Private Equity	138,357,638	93,682,458
Private Real Estate	77,902,570	34,450,129
Other Investments	545,166,380	2,564,355
Total	\$ 6,208,020,968	\$ 7,353,306,093
Investments Held by Broker/Dealers Under Securities Loaned with Cash Collateral:		
U.S. Governments and Agency Securities	\$ 261,341,096	\$ 428,963,257
Domestic Corporate Bonds	8,900,616	6,482,619
Domestic Stocks	377,811,235	660,963,459
International Equities	1,873,561	3,609,596
Securities Lending Collateral Investments	665,254,810	1,122,436,801
Total	1,315,181,318	2,222,455,732
Total Investments	\$ 7,523,202,286	\$ 9,575,761,825

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

#### NOTE 4. 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 maximum exposure to foreign currency risk as of June 30, 2009 was \$961,780,876. The Board's investment exposure to foreign currency risk as June 30, 2008 was \$1,463,147,777.

Exposure to foreign currency risk as of June 30, 2009 is as follows:

Currency	Equity Securities	Cash (overdraft)
Australian Dollar	\$ 21,084,409	\$ 14,044
Brazilian Real	73,186,580	(741,683)
British Pound Sterling	107,685,900	3,851,363
Canadian Dollar	5,387,970	141,321
Czech Koruna	4,368,479	28,868
Denmark Krone	4,045,715	-
Egyptian Pound	4,470,278	-
Euro	221,052,583	(21,143,183)
Hong Kong Dollar	128,699,369	5,480,351
Hungarian Forint	2,525,284	29,975
Indonesian Rupiah	8,147,300	117,280
Japanese Yen	89,208,170	10,793
Malaysian Ringgit	6,824,706	-
Mexican Peso	8,033,724	105,401
New Israeli Sheket	16,694,192	100,854
Norwegian Krone	8,288,339	89,184
Philippine Peso	717,997	29,668
Polish Zloty	1,030,639	425
Singapore Dollar	5,621,811	35,929
South African Rand	58,268,382	442,357
South Korean Won	107,219,675	(75,302)
Swedish Krona	4,744,644	10,805
Swiss Franc	27,716,692	41,515
Thai Baht	12,185,324	(62,273)
Turkish Lira USD	29,954,917	(249,051)
Total Foreign Exposure	957,163,079	(11,741,359)
Investments not subject to foreign currency risk	6,566,039,207	301,220,133
Total Investments	\$ 7,523,202,286	\$ 289,478,774

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 4. INVESTMENTS (CONTINUED)**

Exposure to foreign currency risk as of June 30, 2008 is as follows:

Currency	Equity Securities	Cash (overdraft)
Argentina	3,598,292	1,140
Australian Dollar	\$ 67,369,716	\$ -
Bahrain	548,118	-
Brazilian Real	57,755,377	145,574
Canadian Dollar	5,218,173	93,031
Chile	2,032,964	22,699
China Renminbi	30,932,894	-
Czech Republic	2,160,134	1,645
Denish Krone	14,133,430	-
Egypt	723,768	25,327
Euro	431,250,668	(177,299)
Hong Kong Dollar	15,213,658	277,342
Hungarian Forint	1	14,873
Indian Rupee	12,854,696	571,434
Indonesian Rupiah	4,154,401	-
Israeli Shekels	11,794,390	43,314
Japanese Yen	227,673,807	2,164,023
Korea	12,887,198	-
Malaysian Ringgit	1,512,106	45
Mexican Peso	12,680,087	47,306
Norwegian Krone	26,668,209	(455,260)
Peru Sol	2,777,227	-
Philippino Peso	1,061,864	27,618
Polish Zlotz	3,005,176	19,018
Portugal	4,799,690	-
Russia Ruble	34,278,810	-
Singapore Dollar	27,203,008	-
South African Rand	23,069,808	99,087
South Korea Won	32,595,425	357,039
Swedish Krona	10,936,111	-
Switss Franc	83,538,453	294,974
Taiwan Dollar	26,400,950	306,218
Thailand Baht	9,304,029	-
Turkish Lira	2,401,575	105,210
United Kingdom - BPS	256,363,001	266,204
	<hr/> 1,458,897,214	<hr/> 4,250,562
Investments not subject to foreign currency risk	8,116,864,611	341,784,967
Total Investments	<hr/> <hr/> \$ 9,575,761,825	<hr/> <hr/> \$ 346,035,529

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

#### NOTE 4. 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 Northern Trust (Chicago, Illinois). Investments in securities lending collateral are held by Wachovia 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		Duration ( In Years)	
	2009	2008	2009	2008
U.S. Treasury Sec.	\$ 230,027,482	\$ 166,650,949	5.67	6.74
U.S. Government & Agency Obligations	611,162,262	764,776,546	3.66	4.00
Corporate Obligations	788,727,916	1,257,449,902	4.76	5.92
Asset- & Mortgage-Backed Sec.	187,690,938	280,538,993	3.16	3.45
Guaranteed Fixed Income	8,866,119	-	2.45	
Short-Term Investments	289,479,681	346,040,280	0.45	0.45
Overall	<u>\$ 2,115,954,398</u>	<u>\$ 2,815,456,670</u>	4.37	4.81

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, 2009 and 2008, 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, 2009 and 2008 (CONTINUED)**

**NOTE 4. INVESTMENTS (CONTINUED)**

**Summary of Investment by Rating - Credit Risk as of 06/30/09**

<b>Investment Type</b>	<b>Rating</b>	<b>Fair Market Value</b>	
<b>Asset Backed Securities</b>	A	\$ 1,532,447	
	AA	1,461,451	
	AAA	12,739,412	
	B	70,520	
	B-	2,435,661	
	B+	105,403	
	B2	218,750	
	B3	483,087	
	BB	657,323	
	BBB	2,713,896	
	BBB-	1,195,171	
	BBB+	1,103,773	
	CCC	1,754,719	
	<b>Commercial Mortgage-Backed</b>	A	81,810
		A-	1,525,767
		A+	907,741
A3		1,315,938	
AA		566,654	
AA-		2,985,161	
AAA		106,786,241	
BB-		301,148	
BB+		1,014,843	
BBB-		392,948	
BBB+		1,853,807	
<b>Non-Government Backed C.M.O.s</b>	A	95,400	
	A-	395,775	
	A+	352,488	
	AA	3,879,887	
	AA-	118,355	
	AAA	14,469,377	
	B-	743,436	
	B+	54,117	
	B1	381,277	
	BB	449,432	
	BBB	171,404	
	Caa1	1,288,910	
	Caa2	521,701	
CCC	17,565,708		
<b>Total Asset and Mortgage Backed Securities</b>		<u>184,690,938</u>	
<b>Bank Loans</b>	B	13,964,391	
	B-	23,031,044	
	B+	28,586,372	
	BB	8,821,880	
	BB-	23,140,331	
	CC	5,270,168	
	CCC	1,244,532	
	CCC+	26,276,555	
	D	21,971,458	
	Not Rated	13,557,904	
<b>Total Bank Loans</b>		<u>165,864,635</u>	

# FINANCIAL SECTION

## STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

### NOTE 4. INVESTMENTS (CONTINUED)

#### Summary of Investment by Rating - Credit Risk as of 06/30/09 (continued)

Investment Type	Rating	Fair Market Value
<b>Corporate Bonds</b>	A	\$ 125,070,298
	A-	66,108,140
	A+	35,254,266
	AA	3,652,752
	AA-	16,485,177
	AA+	15,941,605
	AAA	3,784,391
	B	37,882,614
	B-	25,808,384
	B+	35,549,425
	B1	2,095,200
	Ba3	1,580,033
	Baa1	1,161,000
	Baa2	638,995
	BB	18,437,098
	BB-	35,888,395
	BB+	28,290,263
	BBB	106,228,185
	BBB-	61,814,215
	BBB+	86,531,730
	C	4,853,393
	CC	3,616,895
	CCC	15,411,339
	CCC-	4,032,520
	CCC+	18,464,994
	D	14,420,911
	Not Rated	13,350,934
<b>Corporate Convertible Bonds</b>	B-	5,023,788
	CCC	518,788
	CCC-	668,188
	Not Rated	164,000
	AAA	8,866,120
<b>Guaranteed Fixed Income</b>		
<b>Common Stock</b>	B+	2,317,290
<b>Preferred Stock</b>	C	535,411
<b>Other Fixed Income</b>	Not Rated	243,923,693
<b>Total Domestic Corporate Securities</b>		<u>1,044,370,430</u>
<b>Government Agencies</b>	A	3,024,252
	AAA	147,498,046
	BBB+	3,677,402
<b>Government Mortgage Backed Securities</b>	AAA	456,962,561
<b>Municipal/Provincial Bonds</b>	A	2,543,884
	AA	461,251
<b>Total Government Agencies</b>		<u>614,167,396</u>
<b>U.S. Treasury Bonds</b>	AAA	155,046,599
	BBB+	3,807,000
<b>Index Linked Government Bonds</b>	AAA	71,173,883
<b>Total U.S. Treasury Securities</b>		<u>230,027,482</u>
<b>Other Investments Not Subject to Credit Risk</b>		<u>5,284,081,404</u>
<b>TOTAL</b>		<u>\$ 7,523,202,286</u>

FINANCIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 4. INVESTMENTS (CONTINUED)**

Summary of Investment by Rating - Credit Risk as of 06/30/08

Investment Type	Rating	Fair Market Value
<b>Asset Backed Securities</b>	A	\$ 5,784,270
	AA	4,800,050
	AAA	43,707,030
	B	2,155,031
	BA	1,562,628
	BAA	1,445,684
	CAA	155,662
<b>Commercial Mortgage-Backed</b>	A	3,655,713
	AA	1,638,153
	AAA	148,236,089
	BAA	544,383
<b>Non-Government Backed C.M.O.s</b>	A	1,465,373
	AA	6,569,844
	AAA	54,866,967
	BAA	3,952,116
<b>Total Asset and Mortgage Backed Securities</b>		<u>280,538,993</u>
<b>Corporate Bonds</b>	A	144,532,066
	AA	116,309,441
	AAA	311,009,183
	B	260,563,455
	BA	89,723,987
	BAA	216,474,203
	BB	23,750,039
	BBB	6,242,770
	C	713,797
	CA	4,501,021
	CAA	59,109,930
	CC	2,533,239
	CCC	1,286,250
	Not Rated	20,837,683
	<b>Corporate Convertible Bonds</b>	CAA
<b>Fixed Income Derivatives - Options</b>	Not Rated	(223,562)
<b>Total Domestic Corporate Bonds</b>		<u>1,257,449,902</u>
<b>Government Agencies</b>	AA	2,992,201
	AAA	66,282,629
<b>Government Mortgage Backed Securities</b>	AAA	618,227,050
<b>Index Linked Government Bonds</b>	AAA	70,058,253
<b>Municipal/Provincial Bonds</b>	AA	639,570
	AAA	1,188,668
<b>Other investments classified as Government Agency Securities but not subject to credit risk</b>		<u>5,388,175</u>
<b>Total Government Agencies</b>		<u>764,776,546</u>
<b>Government Bonds</b>	AAA	162,940,887
	BAA	3,710,062
<b>Total U.S. Treasury Securities</b>		<u>166,650,949</u>
<b>Other Investments Not Subject To Credit Risk</b>		<u>7,106,345,435</u>
<b>TOTAL</b>		<u>\$ 9,575,761,825</u>

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

#### NOTE 4. 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 2009 and 2008, with the exception of U. S. Government and Agency securities, the Board was not exposed to any concentration risk greater than 2%.

#### NOTE 5. 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 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 as follows:

	<u>2009</u>	<u>2008</u>
Asset Backed Securities	\$ 26,471,613	\$ 59,739,465
CMO's	\$ 65,952,539	\$102,501,735
Commercial Mortgage Backed securities	\$117,732,059	\$154,867,845

**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.

**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.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 5. DERIVATIVE INSTRUMENTS (CONTINUED)**

During 2009, 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. FNMA Discount Notes owned and included in the investments of the Board, with a value of approximately \$1,399,387 and \$1,940,744 at June 30, 2009 and 2008, respectively, were held by the Plan’s brokers as performance security on futures contracts.

<b>FY 09</b>		
<b>Summary of Outstanding Futures Contracts</b>		
	<b>No. of Contracts</b>	<b>Notional Amount</b>
Futures Contracts - Long	1115	\$ 762,413,750
Futures Contracts - Short	-	\$ -
		<b>Fair Value</b>
Margin Deposit		\$ 1,339,387

<b>FY 08</b>		
<b>Summary of Outstanding Futures Contracts</b>		
	<b>No. of Contracts</b>	<b>Notional Amount</b>
Futures Contracts - Long	944	\$ 123,256,836
Futures Contracts - Short	885	\$ 885,000,000
		<b>Fair Value</b>
Margin Deposit		\$ 1,940,744

**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 a designated instrument at a specified price within a specified period of time. Both written and purchased options were used by the Board during 2009. 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, 2009, the value of open written and purchased options was approximately \$136,600 and \$132,825, respectively. As of June 30, 2008, the value of open written and purchased options was approximately \$452,100, and \$457,300, respectively.

**Swap Contracts** — Swap contracts are executed on a number of different bases. The two types employed by the Board on June 30, 2009, were interest rate swap contracts and credit default swap contract. 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. ERB employs interest rate swap contracts to adjust fixed income portfolio durations.

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

#### NOTE 5. DERIVATIVE INSTRUMENTS (CONTINUED)

*Swap Contracts (continued)* — 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 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* — In addition, the use of other derivatives is allowed under the Hedge Fund Investment Policy.

#### NOTE 6. 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 \$4,772,872 and \$5,864,540 for the fiscal years ended June 30, 2009 and 2008, respectively.

FINANCIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 6. SECURITIES LENDING (CONTINUED)**

The collateral information as of June 30, 2009 and 2008 is summarized as follows:

Securities On Loan	Underlying Securities	Collateral Received	Collateral Investment Value
<b>2009:</b>			
Lent for cash collateral:			
U.S. Government & Agency Sec.	\$ 261,341,096	\$ 266,189,046	\$ -
U.S. Equities	377,811,235	396,787,461	-
Int'l Equities	1,873,561	6,162,167	-
U.S. Corporate Obligations with Variable Rates	8,900,616	9,055,750	302,480,751
Asset-Backed Sec. with Variable Rates	-	-	209,774,059
Repurchase Agreements	-	-	153,000,000
	<u>\$ 649,926,508</u>	<u>\$ 678,194,424</u>	<u>\$ 665,254,810</u>

Securities On Loan	Underlying Securities	Collateral Received	Collateral Investment Value
<b>2008:</b>			
Lent for cash collateral:			
U.S. Government & Agency Sec.	\$ 428,963,257	\$ 441,553,866	\$ 3,361,287
U.S. Equities	660,963,459	684,465,920	-
Int'l Equities	3,609,596	3,654,604	-
U.S. Corporate Obligations with Variable Rates	6,482,619	6,689,320	438,875,515
Asset-Backed Sec. with Variable Rates	-	-	397,199,999
Repurchase Agreements	-	-	283,000,000
	<u>\$ 1,100,018,931</u>	<u>\$ 1,136,363,710</u>	<u>\$ 1,122,436,801</u>

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.

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

#### NOTE 7. CAPITAL ASSETS

Capital assets relate to all assets of the Board that are used in operations and have useful lives extending beyond a single reporting period. Capital assets in progress at June 30, 2008 represent costs to date on the second phase of the addition and modifications to the Santa Fe offices. With project completion in 2009, these costs were transferred to other asset classifications. There were no capital assets in progress at June 30, 2009.

Depreciation expense was \$2,050,969 and \$1,503,248 for the years ended 2009 and 2008, respectively. Capital asset activity for the years ended June 30, 2009 and 2008 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
2009:				
Land	\$ 248,172	\$ -	\$ -	\$ 248,172
Capital assets in progress	1,176,211	-	1,176,211	-
Depreciable land improvements	19,361	-	-	19,361
Building and building improvements	2,151,067	1,214,647	-	3,365,714
Furniture and equipment	1,078,738	88,733	58,952	1,108,519
Other Assets (Art in Public Places)	-	30,500	-	30,500
Integrated Retirement Information System (IRIS)	9,156,963	-	-	9,156,963
<b>Total</b>	<b>13,830,512</b>	<b>1,333,880</b>	<b>1,235,163</b>	<b>13,929,229</b>
Accumulated depreciation:				
Depreciable land improvements	2,412	699	-	3,111
Building and building improvements	1,011,482	115,344	-	1,126,826
Furniture and equipment	740,461	103,534	57,525	786,470
Integrated Retirement Information System (IRIS)	1,954,689	1,831,392	-	3,786,081
<b>Total</b>	<b>3,709,044</b>	<b>2,050,969</b>	<b>57,525</b>	<b>5,702,488</b>
Capital assets—net	\$ 10,121,468	\$ (717,089)	\$ 1,177,638	\$ 8,226,741

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

#### NOTE 7. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Deletions	Ending Balance
2008:				
Land	\$ 248,172	\$ -	\$ -	\$ 248,172
Capital assets in progress	6,396,673	1,176,211	6,396,673	1,176,211
Depreciable land improvements	1,875	17,486	-	19,361
Building and building improvements	2,151,067	-	-	2,151,067
Furniture and equipment	1,087,812	141,779	150,853	1,078,738
Integrated Retirement Information System (IRIS)	<u>-</u>	<u>9,156,963</u>	<u>-</u>	<u>9,156,963</u>
Total	<u>9,885,599</u>	<u>10,492,439</u>	<u>6,547,526</u>	<u>13,830,512</u>
Accumulated depreciation:				
Capital Assets In Progress	629,350	-	(629,350)	-
Depreciable land improvements	1,688	724	-	2,412
Building and building improvements	846,467	165,015	-	1,011,482
Furniture and equipment	879,145	12,170	150,854	740,461
Integrated Retirement Information System (IRIS)	<u>-</u>	<u>1,325,339</u>	<u>629,350</u>	<u>1,954,689</u>
Total	<u>2,356,650</u>	<u>1,503,248</u>	<u>150,854</u>	<u>3,709,044</u>
Capital assets—net	<u>\$ 7,528,949</u>	<u>\$ 8,989,191</u>	<u>\$ 6,396,672</u>	<u>\$ 10,121,468</u>

#### NOTE 8. 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 leases obligations; therefore, the amounts of the Board's lease agreements are not reflected on the Statements of Plan Net Assets. Leases are subject to future appropriations and are cancelable by the Board at the end of each fiscal year with 30 days' written notice to the lessor. The following table summarizes the Board's future minimum lease payments:

Years Ending June 30,	
2010	\$ 80,730
2011	80,730
2012	65,415
2013	8,256
2014	1,036
Total	<u>\$236,167</u>

Lease expense was \$78,302 and \$77,214 for the fiscal years ended June 30, 2009 and 2008, respectively.

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (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, 2009 and 2008. 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, 2009 or 2008.

#### 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, 2009 and 2008.

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:

	2009	2008
Balance payable—beginning of fiscal year	\$ 211,914	\$ 191,487
Additions	398,226	393,557
Deletions	<u>(411,279)</u>	<u>(373,130)</u>
Balance payable—end of fiscal year	<u>\$ 198,861</u>	<u>\$ 211,914</u>
Amount due within one year, estimated at 97%	<u>\$ 192,895</u>	<u>\$ 205,557</u>

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

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 11. 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](http://www.pera.state.nm.us).

***Funding Policy.*** Plan members are required to contribute 7.42% of their gross salary. The Board is required to contribute 16.59% of the gross covered salary. The contribution requirements of 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, 2009, 2008 and 2007 were \$590,423, \$585,163, and \$515,435, 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](http://www.nmerb.org).

## FINANCIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

#### NOTE 11. RETIREMENT PLANS (CONTINUED)

**Funding Policy.** Plan members are required to contribute 7.9% of their gross salary. The Board is required to contribute 11.65% of the gross covered salary. Effective July 1, 2009, plan members earning over \$20,000 annually are required to contribute 9.4% of their gross salary and employees earning \$20,000 or less are required to contribute 7.9%. The employer contribution will increase .75% each year until July 1, 2011 when the employer contribution will be 13.9%. 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 plan member's and Board's contributions to ERB for the fiscal years ending June 30, 2009, 2008, and 2007, were \$13,915, \$2,590, and \$13,134, respectively, which equal the amount of the required contributions for each fiscal year.

#### NOTE 12. 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.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 12. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)**

*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](http://www.nmrhca.state.nm.us).

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. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. 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 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, 2009, 2008 and 2007 were \$31,468, \$30,180, and \$27,267 for employer contributions and \$15,734, \$15,090, \$13,634 in employee contributions, respectively, which equal the required contributions for each year.

**NOTE 13. 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

# FINANCIAL SECTION

## STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2009 and 2008 (CONTINUED)

### NOTE 14. STATUTORY DISCLOSURES

Section 2.2.2.10P(2) of the Audit Rule 2009, 2.2.2 NMAC entitled, "Requirements for Contracting and Conducting Audits of Agencies" requires that state agencies disclose all special, deficiency, and specific appropriations. The Board received the following specific appropriations:

#### Building Remodel/Addition

Laws of 2000, 2nd S.S., Chapter 23, Section 29	\$ 750,000
Expended in FY 2001	(8,389)
Encumbered in FY 2001	(63,999)
Rebudgeted in FY 2002	<u>677,612</u>
Outstanding encumbrance from 2001	63,999
Expended in FY 2002	(8,624)
Encumbered in FY 2002	(46,986)
Rebudgeted in FY 2003	<u>686,001</u>
Outstanding encumbrance from 2002	46,986
Expended in FY 2003	(9,490)
Encumbered in FY 2003	(74,744)
Rebudgeted in FY 2004	<u>648,753</u>
Outstanding encumbrance from 2003	74,744
Expended in FY 2004	(13,871)
Encumbered in FY 2004	(60,873)
Rebudgeted in FY 2005	<u>648,753</u>
Outstanding encumbrance from 2004	60,873
Laws of 2002, Chapter 110, Section 58	500,000
Expended in FY 2005	(913,525)
Encumbered in FY 2005	(50,769)
Rebudgeted in FY 2006	<u>245,332</u>
Outstanding encumbrance from 2005	50,769
Expended in FY 2006	(71,885)
Encumbered in FY 2006, but then unencumbered and restored to ERB	(1,055)
Rebudgeted in FY 2007	<u>223,161</u>
Laws of 2006, Chapter 111, Section 71	500,000
Laws of 2007, Chapter 42, Section 90	1,185,188
Expended in FY 2007	(125,024)
Encumbered in FY 2007	(702,262)
Rebudgeted in FY 2008	<u>1,081,063</u>
Outstanding encumbrance from 2007	702,262
Expended in FY 2008	(883,174)
Encumbered in FY 2008	(3,112)
Rebudgeted in FY 2009	<u>897,039</u>
Outstanding encumbrance from 2008	3,112
Expended in FY 2009	(56,078)
Encumbered in FY 2009	-
Unused funding restored to ERB	<u>\$ 844,073</u>

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009 and 2008 (CONTINUED)**

**NOTE 15. 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.

The role of a placement agent varies depending on the needs of the investment manager retaining the agent. As of June 30, 2009, approximately 44.2% of the ERB's total \$1.305 billion private equity and fund of hedge fund investment commitments (market value of currently invested funds + remaining balance approved for investment) involved placement agents. The portion of pension fund investments in which placement agents were involved was approximately 8.1% of the ERB's total \$7.114 billion investment portfolio of as of that date. Placement agent fees vary, but a typical fee is one to two percent of the amount invested in a fund. The role of placement agents became a focus of inquiry in 2009 with the indictment in New York of persons receiving fees related to pension fund investments in that state. Inquiries have expanded to public pension funds in other states, including California and New Mexico. The ERB is cooperating with investigations involving the payment of placement agent fees related to investments of the Educational Retirement Fund (the "Fund").

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 also is revising its policies regarding the use of placement agents.

The ERB does not have any direct 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. The ERB is reviewing prior investments by the Fund in which placement agent fees were paid to determine whether complete disclosure was made and whether legal action is warranted.

## FINANCIAL SECTION

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**REQUIRED SUPPLEMENTARY INFORMATION**

## FINANCIAL SECTION

### 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)
2004	\$ 7,488.0	\$ 9,927.1	\$ 2,439.1	75.4%	\$ 2,142.4	113.8%
2005	7,457.5	10,591.8	3,134.3	70.4%	2,209.1	141.9%
2006	7,813.9	11,436.3	3,622.4	68.3%	2,219.4	163.2%
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%

Note: Dollar amounts are in millions.

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Unaudited)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
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%

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2009 and 2008 (CONTINUED)  
 (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:

	<b>2009</b>	<b>2008</b>
Valuation date	June 30, 2009	June 30, 2008
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*	8.00%	8.00%
Projected salary increases*	5.00% to 13.50%	5.00% to 13.50%
* Includes inflation calculated at	3.00%	3.00%
Cost of living adjustments	2.00%	2.00%

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

## FINANCIAL SECTION

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FINANCIAL SECTION

**OTHER SUPPLEMENTAL INFORMATION**

# FINANCIAL SECTION

**STATE OF NEW MEXICO  
EDUCATIONAL RETIREMENT BOARD  
STATEMENT OF REVENUES AND EXPENSES—BUDGET AND  
ACTUAL (NON-GAAP BASIS)  
For the Year Ended June 30, 2009**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Budgetary Basis</b>	<b>Variance— Final Budget Favorable (Unfavorable)</b>
REVENUES:				
Other state funds	\$ 32,423,300	32,953,300	32,953,300	-
<b>TOTAL BUDGETED REVENUE</b>	<b>\$ 32,423,300</b>	<b>32,953,300</b>	<b>32,953,300</b>	<b>-</b>
EXPENSES:				
Personal services and employee benefits	\$ 4,021,500	4,021,500	3,894,081	127,419
Contractual services	27,581,800	28,111,800	18,823,806	9,287,994
Other costs	820,000	820,000	790,187	29,813
<b>TOTAL EXPENSES</b>	<b>\$ 32,423,300</b>	<b>32,953,300</b>	<b>23,508,074</b>	<b>9,445,226</b>

RECONCILIATION OF GAAP BASIS TO BUDGETARY BASIS:

Revenue GAAP basis	\$ (1,000,328,799)
Net depreciation in investment value	1,724,901,896
Investment advisor and custody fees	16,774,502
Current-year revenue not needed for budgeted expenses	(2,709,051,897)
Revenue (non-GAAP) budgetary basis	<u>\$ 32,953,300</u>
Expenses GAAP basis—administrative*	\$ 8,671,992
Capital outlay	157,670
Depreciation expense	(2,050,969)
Investment advisor and custody fees	16,774,502
Miscellaneous GAAP adjustments and accruals	(45,121)
Expenses (non-GAAP) budgetary basis	<u>\$ 23,508,074</u>

## FINANCIAL SECTION

**STATE OF NEW MEXICO  
EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF CASH ACCOUNTS  
As of June 30, 2009 and 2008**

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

	<b>2009</b>	<b>2008</b>
Petty cash	\$ 100	\$ 100
Qualified Excess Benefit Arrangement Trust Checking Account at Wells Fargo Bank	807	4,650
Short-term investment accounts:		
Overnight repurchase agreement pool—State Treasurer	17,627,763	4,990,356
Short-term Investment Fund—STIF	289,478,774	346,035,530
	<b>\$ 307,107,444</b>	<b>\$ 351,030,636</b>
Balance per financial statements		
Pledged collateral for Wells Fargo demand deposit account:		
Total amount on deposit at June 30	\$ 807	\$ 4,650
Less Federal Deposit Insurance Corporation coverage	(807)	(4,650)
	<b>\$ -</b>	<b>\$ -</b>
Total uninsured public funds		

**SCHEDULE OF FEES PAID FOR PROFESSIONAL SERVICES OTHER  
THAN INVESTMENT PROFESSIONALS  
As of June 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
Legal Services	\$ 472,975	\$ 322,015
Medical Review Board	20,408	16,679
Actuarial Services	113,851	85,147
Audit Services	76,309	110,758
Other Professional Services	56,350	21,357
	<b>\$ 739,893</b>	<b>\$ 555,956</b>
Total		

## FINANCIAL SECTION

**STATE OF NEW MEXICO  
EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF ADMINISTRATIVE EXPENSES  
As of June 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
Personnel expenses	\$ 3,892,895	\$ 3,633,910
Depreciation Expense	2,050,969	1,503,248
Information Systems equipment and maintenance	1,029,676	204,119
Professional Services	739,893	555,956
Building Maintenance & Utilities	161,636	169,642
All other charges	796,923	21,634
<b>Total</b>	<b>\$ 8,671,992</b>	<b>\$ 6,088,509</b>

**SCHEDULE OF ACCOUNTABILITY IN GOVERNMENT ACT—  
PERFORMANCE MEASURES  
As of June 30, 2009  
(Unaudited)**

<b>Type</b>	<b>Description</b>	<b>Target</b>	<b>Actual</b>
Outcome	Average number of days to process refund requests	15	21
Output	Average number of days to respond to requests for benefits estimates and purchase of service requests	20	17
Outcome	Percentage of member satisfaction with seminars and trainings	95%	96%
Outcome	Average rate of return over a cumulative five-year period	8.00 %	2.40 %
Output	Percent of retirement applications processed within 60 days	95%	95%
Output	Number of benefit estimates and purchase of service requests computed annually	6,000	8,361
Output	Number of member workshops conducted	35	25
Quality	Percent of accurately computed retirements	99.5%	99.5%
Output	Percent completion of the new pension system	n/a	100%
Outcome	Funding period of UAAL in years	≤ 30	46

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## INVESTMENT SECTION

### **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD REPORT ON INVESTMENT ACTIVITY JUNE 30, 2009**

#### Members & Retirees of NM ERB:

The NMERB investment portfolio faced on-going headwinds in the form of a global credit crisis during the 2009 fiscal year, despite signs of a strong recovery in the fourth quarter of the fiscal year. All major equity indices were down substantially. As a consequence, NMERB's portfolio returned -17.3%, trailing the policy benchmark return of -15.4%. The best performing sectors of the portfolio were fixed income and short term investments, which returned 2.2% and 1.0%, respectively. The U.S. Equity portfolios posted negative results of -26.8%, which was in line with the broad domestic equity benchmarks of the Russell 3000 at -26.6% and the S&P 500 at -26.2%. The Non-U.S. Equity portfolios also fared poorly, declining 30.1%, about in line with the 31.4% decline in the MSCI EAFE index. The Real Estate Portfolio was also hurt by the credit situation. The NMERB portfolio posted a return of -39.3%, versus the Dow Jones/Wilshire Index return of -45.2%.

ERB's three-year total Fund return of -3.0% per year fell short of its policy target return of -2.2% by 80 basis points (0.8%). The policy target represents the return that would have been earned by the Fund based on its target asset allocation and assuming that the investments in each separate asset class mirrored their benchmark returns.

ERB's five-year total Fund return also fell short of its policy target return. For five years the Fund returned 2.4% annually, trailing its benchmark of 2.7%. These returns reflect the positive investment performance experienced by the Fund since the negative 2000-2002 period.

ERB's ten-year total Fund return was 2.1% which was 50 basis points (0.50%) below its policy return of 2.6% and below the actuarial rate of 8%.

In October 2007, the Board adopted new asset allocation targets, the details of which are more fully discussed in the "INVESTMENTS OVERVIEW" section of this report. Most notably, the new allocation reduced the amount invested in equities and adds two new asset classes to the portfolio: inflation-linked assets (which are intended to help protect against inflation) and Global Tactical Asset Allocation. The goal of the new allocation is to further diversify the Fund and place less reliance on the public equity markets, which as we are seeing at this time, can be extremely volatile.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
REPORT ON INVESTMENT ACTIVITY  
JUNE 30, 2009 (CONTINUED)**

Earning the 8% actuarial rate is once again proving to be a challenge. As always, the Board and staff will focus on the long term nature of the Fund, with an eye toward the perpetual nature of your retirement assets.

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, 2009. Performance shown for periods longer than one year have been annualized.

Sincerely,

A handwritten signature in black ink, appearing to read "J Goodwin", with a long horizontal flourish extending to the right.

Jan Goodwin  
Executive Director

## INVESTMENT SECTION

### **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD INVESTMENTS OVERVIEW JUNE 30, 2009**

#### **I. Investment Objectives**

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

The primary goal of the equity investment program is to build a diversified portfolio of stocks. This includes large capitalization domestic stocks with further diversification achieved through allocations to small capitalization and international equities. Stock portfolios are managed in both the "growth" and "value" styles to provide further diversification. A portfolio of REITs (real estate investment trusts) provides exposure to real estate through an equity vehicle. In addition, private real estate vehicles were added during the fiscal year. This addition will further diversify the ERB real estate portfolio.

Fixed income securities are actively managed by external investment managers. The primary focus is on investment grade securities including US Treasury and agency, corporate, and asset backed securities. Additional diversification is achieved through investments in high yield debt and other credit strategies. During the fiscal year, the fund made additional investments in the "alternative" investment space. This includes investments in private equity and hedge funds.

#### **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 its assets. The S&P 500 equity and REIT index portfolios are managed internally. All other portfolios are managed externally.

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

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
INVESTMENTS OVERVIEW  
JUNE 30, 2009 (CONTINUED)**

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

**III. Asset Allocation**

Asset allocation is the single greatest determinant of Fund performance. Based on a study conducted by the Fund’s investment consultant, who considered the expected risk and market returns of various asset classes, the Board adopted a new asset allocation plan in October 2007. The targeted asset allocation is shown in Exhibit A. This revision added the additional asset classes of developed international small cap equity, real assets and global asset allocation. Implementation of the new asset allocation plan is now underway, 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 alternative assets.

**State of New Mexico  
Educational Retirement Board  
Asset Allocation Policy as of June 30, 2009**

<u>Asset Class:</u>	<u>Target Weight</u>	<u>6/30/2009 Actual</u>
<b><u>Equities</u></b>		
Domestic Equity	25%	30%
International Equities	20%	17%
<b>Total Equities</b>	<b>45%</b>	<b>47%</b>
<b><u>Fixed Income</u></b>		
Investment Grade Bonds	15%	30%
High Yield Debt/Credit Strategies	5%	6%
<b>Total Fixed Income</b>	<b>20%</b>	<b>37%</b>
<b><u>Alternatives</u></b>		
Real Estate/REITs	5%	5%
Private Equity	10%	2%
Hedge Funds	10%	8%
Inflation Linked Assets	5%	1%
Global Tactical Asset Allocation	5%	0%
<b>Total Alternatives</b>	<b>35%</b>	<b>15%</b>
<b><u>Cash</u></b>	<b>0%</b>	<b>1%</b>

## INVESTMENT SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD INVESTMENT PERFORMANCE OVERVIEW JUNE 30, 2009

#### **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 investment policy and asset allocation in October of 2007. As a result, ERB continued the implementation of alternative investment strategies in fiscal years 2008 and 2009, with the goal of further diversifying the assets of the Fund.

#### **III. ERB Portfolio Performance**

Fiscal year 2009 was a challenging environment for nearly all investment classes and all funds. The distress in the financial markets resulted in significant declines in virtually every asset class, with the median public fund down 16.6% for the year ended June 30. The ERB investment portfolio returned -17.3% for the year, trailing the policy benchmark return of -15.4%.

The domestic equity portfolio lost 26.8%, versus the Wilshire 5000 return of -26.4%. International stocks were also negative. The MSCI EAFE Index returned -31.4% for the year. The ERB international developed equity portfolio returned -35.7%, trailing the index. The MSCI Emerging Markets Equity Index returned -28.1% for the year, while the ERB emerging markets portfolio returned -30.3%, underperforming the index.

Fixed income, while producing a positive return, performed poorly relative to the index. The ERB portfolio had a return of 2.2% versus 6.1% for the Barclays Capital Aggregate Bond Index.

The internally managed REIT portfolio returned -45.1%, in line with the Wilshire REIT Index return of -45.2%.

## INVESTMENT SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD INVESTMENT PERFORMANCE OVERVIEW JUNE 30, 2009 (CONTINUED)

#### INVESTMENT RATES OF RETURN

Fiscal Year Ended June 30, 2009

	1 Year 2009	3 Years 2007-09	5 Years 2005-09
<b>Domestic Equity</b>	<b>(26.8%)</b>	<b>(8.5%)</b>	<b>(2.0%)</b>
<i>Wilshire 5000</i>	<i>(26.4%)</i>	<i>(8.1%)</i>	<i>(1.6%)</i>
<b>Non - US Developed Market Equity</b>	<b>(35.7%)</b>	<b>(8.7%)</b>	<b>1.9%</b>
<i>MSCI EAFE</i>	<i>(31.4%)</i>	<i>(8.0%)</i>	<i>2.3%</i>
<b>Non - US Emerging Market Equity</b>	<b>(30.3%)</b>	<b>1.3%</b>	<b>13.7%</b>
<i>MSCI EMF</i>	<i>(28.1%)</i>	<i>3.0%</i>	<i>14.7%</i>
<b>Real Estate Inv. Trusts</b>	<b>(45.1%)</b>	<b>(19.3%)</b>	<b>(3.0%)</b>
<i>DJI/Wilshire REIT</i>	<i>(45.2%)</i>	<i>(19.7%)</i>	<i>(3.2%)</i>
<b>Fixed Income</b>	<b>2.2%</b>	<b>4.3%</b>	<b>4.0%</b>
<i>Barclays Capital Aggregate</i>	<i>6.1%</i>	<i>6.4%</i>	<i>5.0%</i>
<b>TOTAL FUND</b>	<b>(17.3%)</b>	<b>(3.0%)</b>	<b>2.4%</b>
<i>POLICY INDEX*</i>	<i>(15.4%)</i>	<i>(2.2%)</i>	<i>2.7%</i>

\*Policy Index: 23% S&P 500; 2% Russell 2000; 10% MSCI EAFE; 10% MSCI Emerging Markets; 33% Barclays Capital Aggregate; 5% Merrill Lynch US High Yield BB/B Constrained; 10% 90 day t-bills + 2%; 2% Cambridge Associates Private Equity Index (Lagged 1 Qtr); 3% Wilshire REIT; 2% NCREIF Property Index

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*Note: Investment performance shown above is based on time weighted rates of return calculated using the market value of assets as of June 30, 2009. Performance for periods longer than one year have been annualized.*

## INVESTMENT SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD LARGEST INVESTMENT HOLDINGS JUNE 30, 2009

#### Ten Largest Stock Holdings

<b><u>Company</u></b>	<b><u>Shares</u></b>	<b><u>Market Value</u></b>
Exxon Mobil Corp.	598,843	\$ 41,086,618
Johnson & Johnson	597,584	\$ 36,386,890
Microsoft Corp.	1,379,668	\$ 35,719,605
Proctor and Gamble Co.	595,014	\$ 34,463,211
Apple Inc.	180,393	\$ 33,439,450
Simon Property Group Inc.	432,692	\$ 30,041,806
International Business Machines	241,141	\$ 28,842,875
General Electric Co.	1,701,523	\$ 27,939,008
Chevron Corp.	389,978	\$ 27,466,151
JP Morgan Chase & Co.	626,331	\$ 27,445,824

#### Ten Largest Fixed Income Holdings

<b><u>Issue</u></b>	<b><u>Market Value</u></b>
Western Asset MBS Portfolio, LLC	\$ 199,949,258
FNMA 2.5% 5/15/14	\$ 69,039,141
USTN TII 2.5% 7/15/16	\$ 29,037,066
USTN 5.125% 5/15/16	\$ 28,817,507
FNMA 6.00% 4/35	\$ 25,497,241
FHLREF NTS BE 2.5% 4/23/14	\$ 24,720,544
USTN 1.875% 4/30/14	\$ 20,473,735
CDS-CDX.NA.IG.8 @ 35 bps 4.7 yrs	\$ 19,539,830
Western Asset Opportunistic U.S. High Yield Fund, LLC	\$ 19,169,700
FNMA New Issue - 30 Yr - 7/1/2039 01F042673	\$ 16,998,398

*Note: Ten Largest Fixed Income Holdings based on the Fund's separately managed portfolios. PIMCO's DiSCO fund is not included above.*

## INVESTMENT SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF INVESTMENT MANAGEMENT FEES AND COMMISSIONS JUNE 30, 2009

#### SCHEDULE OF INVESTMENT MANAGEMENT FEES AND COMMISSIONS FOR YEAR ENDED JUNE 30, 2009

	Investment Fees	Commissions
Domestic Fixed Income	\$ 4,610,990	N/A
Domestic Equities	\$ 4,714,086	\$ 2,608,256
International Equities	\$ 5,262,097	\$ 1,475,648
Short Term Investment (NTR)	\$ 159,117	N/A
Total	\$ 14,746,290	\$ 4,083,904
Custodian Fees	\$ 511,644	N/A
Consultant Fees	\$ 1,516,568	N/A
Grand total	\$ 16,774,502	\$ 4,083,904

Excludes fees and commissions associated with comingled funds

## INVESTMENT SECTION

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## ACTUARIAL SECTION

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December 4, 2009

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, 2009**

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, 2009.

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

To the best of our knowledge, this report is based on benefit provisions in effect as of June 30, 2009, audited financial information prepared as of that date, member data gathered as of that date, and actuarial assumptions and methods previously adopted by the Board.

#### **Actuarial Valuation**

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

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

#### **Financing Objectives**

The member and employer contribution rates are established by statute. In 2005, the enactment of SB 181 increased the employer contribution rate by 75 basis points (0.75%) each year through FY 2012, and it increased member contribution rates by 7.50 basis points (0.075%) each year through

Board of Trustees  
December 4, 2009  
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FY 2009. In 2009, the enactment of HB 854 provided a temporary transfer of 150 basis points (1.50%) contribution from employer to member effective July 1, 2009 through June 30, 2011.

Therefore, as of July 1, 2009, the current employer contribution rate is 10.90% and the current member contribution rate is 9.40%. The member contribution rate will remain at 9.40% through FY 2011, and the employer rate will increase to 11.65% for FY2011 and reach its ultimate level of 13.90% in FY 2012. (Under HB 854, the original schedule was left in place for members earning \$20,000 or less, so these members contribute 7.90% in FY 2010 and FY 2011, while their employers contribute 12.40% in FY 2010 and 13.10% in FY 2011.) In addition, certain higher education employers make an additional contribution equal to 3.00% of the total pay for their employees who elected to join the Alternative Retirement Program rather than ERB.

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

#### **Progress Toward Realization of Financing Objectives**

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, 2008 was 71.5%, while it is now 67.5%. Five years ago the ratio stood at 75.4%, and ten years ago the ratio was 85.9%. However, if the ratio were calculated using the market value rather than the actuarial value of assets, it would be 51.2% as of June 30, 2009, down from 67.6% as of June 30, 2008. During the last fiscal year, the UAAL increased from \$3,694.2 million to \$4,517.0 million.

The plan's funding period is now 45.0 years. 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 45.0 years period compares with 61.4 years funding period calculated as of the prior actuarial valuation.

However this calculation of the funding period 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 (1.50%). We have prepared a separate projection taking these items into account. This projection assumes the fund earns 8.00% on market value each year in the future (including FY 2010), and it assumes there will be no future liability gains or losses, no changes in benefit provisions, and no changes in actuarial assumptions and methods. On this basis, the projection shows that the funded ratio would continue to decrease over the next four years as the rest of the investment losses are recognized and then slowly begin to recover. In 30 years, the projection shows the funded ratio will be about 62% and the funding

*Gabriel Roeder Smith & Company*

Board of Trustees  
December 4, 2009  
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period will be about 30 years from that point. That is, this more realistic projection shows that it will take approximately 60 years to amortize the unfunded actuarial accrued liability.

#### Recent Events

Since June 30, 2008, the financial markets have been in great turmoil, and the major equity markets dropped dramatically through early March 2009 before beginning their current recovery. Many pension trusts lost 30% to 40% through early March 2009 but have since rebounded off of those lows. However, most pension trusts still remain well below their highs from two years ago. For instance, the market value of the ERB trust was \$9,455.8 million as of June 30, 2007 but is \$7,113.7 million as of June 30, 2009. Some of these investment losses have been recognized in this valuation but the majority of the loss has been deferred and will be recognized in future valuations. The total amount of deferred losses as of June 30, 2009 is \$2.25 billion dollars. Due to the changes implemented under HB 573 and HB 854, the plan's funding period has decreased to 45.0 years but the projected funding period will almost certainly increase in the next few years unless the financial markets significantly continue their recovery.

#### Benefit Provisions

The actuarial valuation reflects the benefit and contribution provisions set forth in the relevant New Mexico statutes. In 2009, HB 854 was enacted, implementing a temporary two-year increase in the employee contribution rate and a corresponding decrease in the employer contribution rates effective July 1, 2009. As of July 1, 2011, the employee contribution rate will revert back to 7.90% and the employer contribution rate will increase to its ultimate rate of 13.90%. These changes will only impact members with annual pay greater than \$20,000.

Under HB 573 and HB 631, members hired on or after July 1, 2010 would become eligible for an unreduced retirement benefit at the earliest of:

- (i) the date the member attains age 67 with credit for 5 years of service;
- (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.

Also under HB 631, members hired in the future who are younger than 67 with less than 30 years of service would be permitted to retire with a reduced retirement benefit if the sum of their age and service is at least 80. The reduction factors would change to reduce the benefit for early commencement before age 65. Members hired before July 1, 2010 are eligible for an unreduced retirement benefit at the earliest of age 65 with 5 years of service, or after completing 25 years of service, or the date the sum of their age and service is at least 75. The early retirement reduction for current members is from age 60.

Gabriel Roeder Smith & Company

Board of Trustees  
 December 4, 2009  
 Page 4

**Assumptions and Methods**

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. The last review of these assumptions occurred following the 2008 actuarial valuation, and the Board adopted the recommendation to leave the current set of assumptions unchanged.

In order to value the impact of the new benefit provisions under HB 854, future normal costs were set to reflect the new benefit provisions. This valuation shows a lower normal cost, due to the change to the retirement ages made for future hires.

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

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

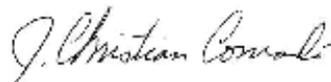
**Member and Financial Data**

Member data for retired, active, and inactive participants was supplied as of June 30, 2009, 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.

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

Sincerely,



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



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

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Gabriel Roeder Smith & Company

# ACTUARIAL SECTION

## STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL EXECUTIVE SUMMARY JUNE 30, 2009

Valuation as of :	06/30/2009	06/30/2008
Contribution Rates for Fiscal Year Ending:	06/30/2010	06/30/2009
<b>Membership</b>		
• Number of		
- Active members	63,819	63,698
- Retirees and beneficiaries	32,496	31,192
- Inactive, vested	8,459	8,408
- Inactive, nonvested	<u>22,115</u>	<u>21,574</u>
- Total	126,889	124,872
• Payroll	\$ 2,585.7 million	\$ 2,491.7 million
<b>Statutory contribution rates</b>		
• Employer	10.90%	11.65%
• Member	9.40%	7.90%
<b>Assets</b>		
• Market value	\$ 7,113.7 million	\$ 8,770.0 million
• Actuarial value	\$ 9,366.3 million	\$ 9,272.8 million
• Return on market value	-17.7%	-6.0%
• Return on actuarial value	2.2%	9.3%
• Employer contributions	\$ 323.7 million	\$ 290.8 million
• External cash flow %	-1.6%	-1.3%
• Ratio of actuarial to market value	131.7%	105.7%
<b>Actuarial Information</b>		
• Normal cost %	12.48%	13.56%
• Unfunded actuarial accrued liability (UAAL)	\$ 4,517.0 million	\$ 3,694.2 million
• Funded ratio	67.5%	71.5%
• Funding period (years)	45.0 years	61.4 years
• GASB Annual Required Contribution	12.45%	13.54%
<b>Gains/(losses)</b>		
• Asset experience	\$ (535.4) million	\$ 110.6 million
• Liability experience	40.8 million	(74.8) million
• Benefit changes	(214.0) million	N/A
• Assumption/method changes	-	-
• Total	<u>\$ (708.6) million</u>	<u>\$ 35.8 million</u>

## STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL REPORT DISCUSSION JUNE 30, 2009

### Introduction

Table 1 shows the most significant actuarial results. Table 2 analyzes changes in the UAAL. Tables 3 and 4 show more detailed actuarial information. Tables 5a and 5b develop the GASB 25 Annual Required Contribution for the last fiscal year. Tables 6a, 6b, 13 and 14 show statistical information about the membership, and Tables 7a-10b show information about plan assets. Tables 11a and 11b show the calculation of the actuarial gains and losses. Table 12 shows the solvency test, used by some funds in their annual report. Finally a summary of the actuarial methods and assumptions and a glossary of actuarial terms are presented.

### Actuarial Information

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 \$16,247.8 million, as shown on Table 3.
- The entry age normal funding method is used to allocate the actuarial present value of future benefits between the portion due for the current year (the normal cost), prior years (the actuarial accrued liability) and future years. The actuarial accrued liability is \$13,883.3 million, as shown in line 6d on Table 1.
- Under the entry age normal cost method the current and future normal costs are determined as a level percentage of payroll. Table 4 shows an analysis of the normal cost rate. The amount needed to fund the current and future normal costs is 12.48% of payroll inclusive of member contributions. This 12.48% is a decrease from the prior year normal cost, since it reflects the new benefit structure for future hires. 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 9.40%, leaving 3.08% to be funded by the employers. I.e., the current year's employer normal cost is 3.08% of payroll. This is shown in Line 3 of Table 1.

## ACTUARIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL REPORT DISCUSSION JUNE 30, 2009 (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 \$4,517.0 million, as shown in line 8 on Table 1.
- Since the statutory employer contribution rate is 10.90%, and the employer normal cost rate is 3.08%, the difference of 7.82% is used to amortize the UAAL. The 3% contribution made on behalf of ARP members is also used to amortize the UAAL.
- Finally, the funding period is 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 45.0 years. (Note, however, that this calculation does not reflect the scheduled increases in the employer contribution rate. Further, it tacitly assumes an 8.00% return on the actuarial value of assets, not the market value. More realistic projections show that it will probably take longer than that to amortize the UAAL if the trust earns 8.00% each year in the future on market.

#### Analysis of Changes

Table 2 shows an analysis of the changes in the UAAL. Since the UAAL is an actuarial present value, with future anticipated benefits discounted using an 8.00% interest rate, the UAAL increases each year by the imputed interest rate, less employer contributions made to amortize the UAAL. (Keep in mind that part of the employer contribution is used to pay the normal cost, so only part of each year's contribution is available to amortize the UAAL.)

As shown on Table 2, the UAAL increased by \$295.5 million for imputed interest and decreased by \$181.3 million because of payments made. This means that the UAAL was expected to increase \$114.2 million before recognizing plan experience. The UAAL as of June 30, 2008 was \$3,694.2 million, and the expected UAAL at June 30, 2009, recognizing actual contributions made, was \$3,808.4 million.

The plan experienced a liability gain of \$40.8 million. This gain represents 0.3% 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 substantial deferred losses from FY 2008 and FY 2009.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL REPORT DISCUSSION  
JUNE 30, 2009 (CONTINUED)**

As expected the plan experienced an actuarial loss on investments of \$535.4 million. The investment loss resulted from the fact that the return on the actuarial value of assets, 2.2%, was less than the 8.00% assumed investment return rate. This loss was the result of recognizing an additional 20% of the gains from FY 2006 and FY 2007, the remaining 20% of the gain from FY 2005, and 20% of the losses from FY 2008 and FY 2009. The market rate of return in FY 2009 was -17.7%.

There was also a legislative loss on the accrued liability of \$214.0 million due to the adoption of HB 573 and HB 854. Keep in mind although the HB 573 only affects members hired on or after July 1, 2010, it is reflected here in this valuation. The value of future benefit accruals has decreased, because the expected retirement age has increased. This caused a decrease in the normal cost, but it also resulted in an increase in the actuarial accrued liability. This anomalous liability loss occurred because the “gain” for the decrease in future benefit accruals was shifted to the future normal costs.

As a result of all the experience, the UAAL increased from \$3,694.2 million to \$4,517.0 million.

**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.

Other information required to be reported under GASB 25 are included in the Required Supplementary Information section of the Financial Section of this report. These include a schedule of funding progress, which is a comparison of the actuarial value of assets with the actuarial accrued liability and a comparison of the UAAL with covered payroll for the six fiscal years 2004 through 2009. Due to the poor returns of the financial markets for FY 2008 and FY 2009, the ratio decreased to 67.5% as of 2009.

Also included in the Required Supplementary Information section of the Financial Section of this report is a comparison of (a) the employer contributions actually received, with (b) the GASB 25 ARC for the six fiscal years 2004 through 2009. Note that this shows that 86.2% of the ARC was contributed during FY 2009, since the 11.65% employer contribution rate is less than the 30- year contribution calculated in last year’s valuation (13.54%).

## ACTUARIAL SECTION

### **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL REPORT DISCUSSION JUNE 30, 2009 (CONTINUED)**

For FY 2010, the financial reports prepared for ERB will show that only approximately 88% of the ARC was contributed. This is because the 10.90% statutory rate is less than the calculated 30-year contribution rate of 12.40%.

Notes to the Required Supplementary Information section of the Financial Section of this report include actuarial methods and significant assumptions.

The auditor's notes should also disclose the following items that may affect the comparability of the trend information shown in the tables discussed above.

- Actuarial assumptions were changed at June 30, 1998, June 30, 2001, June 30, 2003 and June 30, 2005.
- The legislative changes made by HB 573, HB 631, and HB 854 in 2009 were recognized at June 30, 2009

#### **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.

Since the previous valuation, three bills were enacted that affected the actuarial valuation: HB 573, HB 631, and HB 854.

HB 854 implements a temporary two-year increase in the employee contribution rate and a corresponding decrease in the employer contribution rates effective July 1, 2009. As of July 1, 2011, the employee contribution rate will revert back to 7.90% and the employer contribution rate will increase to its ultimate rate of 13.90%. These changes will only impact members with annual pay greater than \$20,000.

Under HB 573 and HB 631, members hired on or after July 1, 2010 would become eligible for an unreduced retirement benefit at the earliest of:

- (i) the date the member attains age 67 with credit for 5 years of service;
- (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.

### **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL REPORT DISCUSSION JUNE 30, 2009 (CONTINUED)**

Also under these bills, members hired in the future who are younger than 67 with less than 30 years of service would be permitted to retire with a reduced retirement benefit if the sum of their age and service is at least 80. The reduction factors would change to reduce the benefit for early commencement before age 65. Members hired before July 1, 2010 are eligible for an unreduced retirement benefit at the earliest of age 65 with 5 years of service, or after completing 25 years of service, or the date the sum of their age and service is at least 75. The early retirement reduction for current members is from age 60.

We recognize that there are inconsistencies between HB 631 and HB 573 with regard to the effective date of these changes, and we used July 1, 2010 throughout.

#### **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 2008 actuarial valuation, and the Board adopted the recommendation to leave the current set of assumptions unchanged.

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

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

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

#### **Assets**

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

Table 7a presents a summary of the market value of assets held by the fund, and Table 7b shows the allocation of assets held for investment. About 46% of the assets are now held in traditional equities, compared to 58% last year. Table 8 shows a reconciliation of the assets from the beginning of the prior year to the valuation date.

## ACTUARIAL SECTION

### **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL REPORT DISCUSSION JUNE 30, 2009 (CONTINUED)**

Tables 9a and 9b show the development of the actuarial value of assets (AVA). The AVA is a smoothed market value. A smoothed value is used in order to dampen some of the year-to-year fluctuations that would occur if the market value were used instead. The method used phases in differences between the actual and expected market returns over five years. The expected return is determined using the 8.00% assumption and the plan's market value, adjusted for contributions received and benefits and refunds paid. Both the actual and expected returns are computed net of investment and administrative expenses.

Note that the actuarial value is currently 131.7% 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 \$2.25 billion 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 10a shows that the investment return rate for FY 2009 on market value was -17.7%, while it was 2.2% on actuarial value. Table 10b shows historical return rates since the current actuarial asset method was adopted.

#### **Member Data**

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

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

Table 6a summarizes data on all members. Table 6b is a history of key statistical information about active members. Table 13 is an age/service distribution of active members and their average pay. Table 14 is a reconciliation that tracks changes in the plan population from last year to this year.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL REPORT DISCUSSION  
JUNE 30, 2009 (CONTINUED)**

The number of active members increased 0.2% since last year, from 63,698 to 63,819.

Total payroll increased 3.8% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2008-2009 member pay). However, this figure is increased by one year's pay increase to determine the member's rate of pay at July 1, 2009. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 3.6% since last year. Average pay for members active in both this valuation and the last year's valuation increased 4.7%. The difference between these two figures is due to the effect of retirements and terminations, and their replacement by new members who generally earn less.

## ACTUARIAL SECTION

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**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009**

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# ACTUARIAL SECTION

## STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL EXHIBITS JUNE 30, 2009 (CONTINUED)

**Table 1 - Actuarial Information**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
	(1)	(2)
1. Payroll		
a. Supplied by System (annualized)	\$ 2,585,739,292	\$ 2,491,708,606
b. Adjusted for one-year's pay increase	2,771,549,050	2,687,112,757
2. Actuarial present value of future pay	\$ 18,946,670,581	\$ 18,470,646,730
3. Normal cost rate (payable monthly)		
a. Total normal cost rate	12.48%	13.56%
b. Less: member contribution rate	<u>(9.40%)</u>	<u>(7.90%)</u>
c. Employer normal cost rate	3.08%	5.66%
4. Employer normal cost (Item 3c * Item 1b)	\$ 85,363,711	\$ 152,090,582
5. Actuarial accrued liability for active members		
a. Actuarial present value of future benefits	\$ 8,987,046,807	\$ 8,614,263,842
b. Less: actuarial present value of future normal costs (Item 3a * Item 2)	<u>(2,364,544,489)</u>	<u>(2,504,619,697)</u>
c. Actuarial accrued liability	\$ 6,622,502,318	\$ 6,109,644,145
6. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	\$ 6,606,725,003	\$ 6,201,234,033
b. Inactive members	654,045,761	656,116,952
c. Active members (Item 5c)	<u>6,622,502,318</u>	<u>6,109,644,145</u>
d. Total	\$ 13,883,273,082	\$ 12,966,995,130
7. Actuarial value of assets	\$ 9,366,271,312	\$ 9,272,828,135
8. Unfunded actuarial accrued liability (UAAL) (Item 6d - Item 7)	\$ 4,517,001,770	\$ 3,694,166,995
9. Amortization payment for next fiscal year		
a. Employer contribution rate	10.90%	11.65%
b. Less: Employer normal cost rate (Item 3c)	<u>(3.08%)</u>	<u>(5.66%)</u>
c. Amortization rate	7.82%	5.99%
d. Amortization contribution (Item 9c * Item 1b)	\$ 216,735,136	\$ 160,958,054
e. Expected ARP contribution	<u>4,904,092</u>	<u>4,636,622</u>
d. Total	\$ 221,639,228	\$ 165,594,676
10. Funding period based on current 10.9% employer contribution requirement, with payments increasing at assumed payroll growth rate	45.0 years	61.4 years

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

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

Basis (1)	Year Ending	
	June 30, 2009 (2)	June 30, 2008 (3)
1. UAAL at prior valuation	\$ 3,694.2	\$ 3,598.7
2. Increases/(decreases) due to:		
a. Interest on UAAL	295.5	287.9
b. Amortization payments <sup>1</sup>	(181.3)	(156.6)
c. Liability experience	(40.8)	74.8
d. Asset experience	535.4	(110.6)
e. Changes in actuarial assumptions and methods	-	-
f. Benefit change	214.0	N/A
g. Total	\$ 822.8	\$ 95.5
3. Current UAAL (1+2g)	\$ 4,517.0	\$ 3,694.2

Note : Dollar amounts in millions

<sup>1</sup> Actual contributions reduced by normal cost, and adjusted for timing.

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 3 - Actuarial Present Value of Future Benefits**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
	(1)	(2)
1. Active members		
a. Service retirement benefits	\$ 8,094,228,564	\$ 7,755,411,070
b. Refunds and deferred termination benefits	712,726,608	685,687,275
c. Survivor benefits	82,644,881	78,940,746
d. Disability retirement benefits	<u>97,446,754</u>	<u>94,224,751</u>
e. Total	\$ 8,987,046,807	\$ 8,614,263,842
2. Retired members		
a. Service retirement	\$ 6,251,419,478	\$ 5,869,688,364
b. Disability retirement	67,317,258	63,834,709
c. Beneficiaries	<u>287,988,267</u>	<u>267,710,960</u>
d. Total	\$ 6,606,725,003	\$ 6,201,234,033
3. Inactive members		
a. Vested terminations	\$ 563,424,262	\$ 572,810,027
b. Nonvested terminations	<u>90,621,499</u>	<u>83,306,925</u>
c. Total	\$ 654,045,761	\$ 656,116,952
4. Total actuarial present value of future benefits	\$ 16,247,817,571	\$ 15,471,614,827

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
 ACTUARIAL EXHIBITS  
 JUNE 30, 2009 (CONTINUED)**

**Table 4 - Analysis of Normal Cost**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
	(1)	(2)
1. Gross normal cost rate (payable monthly)		
a. Service retirement benefits	8.09%	9.50%
b. Refunds and deferred termination benefits	4.10%	3.77%
c. Disability retirement benefits	0.18%	0.17%
d. Survivor benefits	0.11%	0.12%
e. Total	<u>12.48%</u>	<u>13.56%</u>
2. Less: member contribution rate	<u>(9.40%)</u>	<u>(7.90%)</u>
3. Employer normal cost rate	3.08%	5.66%

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

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

	<u>June 30, 2009</u> (1)	<u>June 30, 2008</u> (2)
1. GASB 25 funding period (years)	30	30
2. Amortization contribution percentage		
a. Amortization payment	\$ 264,626,767	\$ 216,312,577
b. Less: expected payment for ARP members	<u>4,904,092</u>	<u>4,636,622</u>
c. Net (a-b)	\$ 259,722,675	\$ 211,675,955
d. Expected payroll	2,771,549,050	2,687,112,757
e. Amortization contribution percentage (c/d)	9.37%	7.88%
3. GASB 25 Annual Required Contribution		
a. Employer normal cost rate	3.08%	5.66%
b. Amortization percentage	<u>9.37%</u>	<u>7.88%</u>
c. Total	12.45%	13.54%
d. Statutory rate	10.90%	11.65%
e. ARC ( max of (c,d) )	12.45%	13.54%

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 5b - Actual Contributions as Percentage of  
GASB 25 ARC for Year Ending June 30, 2009**

1. Actual contributions	
a. On behalf of ERB members	\$ 318,958,661
b. On behalf of ARP members	4,726,836
c. Total	\$ 323,685,497
2. Statutory employer contribution rate	11.65%
3. Imputed fiscal year payroll for ERB members (Item 1a / Item 2)	\$ 2,737,842,584
4. GASB 25 Annual Required Contribution	
a. Required GASB 25 employer contribution for ERB members as percent of payroll	13.54%
b. Required GASB 25 employer contribution for ERB members (Item 4a * Item 3)	\$ 370,703,886
c. GASB 25 ARC (Item 4b + Item 1b)	\$ 375,430,722
5. Percentage of ARC contributed (Item 1c / Item 4c)	86.2%

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 6a – Summary of Current Membership Data**

	June 30, 2009 (1)	June 30, 2008 (2)
1. Active members		
a. Number	63,819	63,698
b. Total payroll supplied by System (annualized)	\$ 2,585,739,292	\$ 2,491,708,606
c. Average salary	\$ 40,517	\$ 39,118
d. Average age	46.3	46.1
e. Average service	9.6	9.4
2. Vested inactive members (excluding pending refunds)		
a. Number	8,459	8,408
b. Total annual deferred benefits	\$ 72,937,248	\$ 73,353,128
c. Average annual deferred benefit	\$ 8,622	\$ 8,724
3. Nonvested inactive members and vested pending refunds		
a. Number	22,115	21,574
b. Employee assessments with interest due	\$ 90,621,499	\$ 83,306,925
c. Average refund due	\$ 4,098	\$ 3,861
4. Service retirees		
a. Number	29,234	28,064
b. Total annual benefits	\$ 586,490,118	\$ 548,853,405
c. Average annual benefit	\$ 20,062	\$ 19,557
5. Disabled retirees		
a. Number	745	719
b. Total annual benefits	\$ 6,941,248	\$ 6,591,798
c. Average annual benefit	\$ 9,317	\$ 9,168
6. Beneficiaries		
a. Number	2,517	2,409
b. Total annual benefits	\$ 33,121,643	\$ 30,588,567
c. Average annual benefit	\$ 13,159	\$ 12,698

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

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ACTUARIAL SECTION

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

ACTUARIAL EXHIBITS

JUNE 30, 2009 (CONTINUED)

Table 6b - Historical Summary of Active Member Data

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

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 7a –Statement of Plan Net Assets  
(Assets at Market or Fair Value)**

Item	Valuation as of	
	June 30, 2009	June 30, 2008
(1)	(2)	(3)
1. Cash and cash equivalents	\$ 307,107,444	\$ 351,030,636
2. Receivables:		
a. Contributions	\$ 66,650,037	\$ 66,582,666
b. Investment income	27,528,119	31,018,123
c. Investment sales proceeds - brokers	129,477,330	286,904,399
d. Other	68,480	123,517
e. Total receivables	\$ 223,723,966	\$ 384,628,705
3. Investments		
a. U.S. treasury securities	\$ 230,027,482	\$ 166,650,949
b. U.S. government agencies	614,167,396	764,776,546
c. Domestic corporate bonds	1,044,370,430	1,257,449,902
d. Domestic equities	2,080,792,320	3,546,803,558
e. International equities	1,238,816,417	1,583,681,765
f. Mortgage backed securities	350,555,573	280,538,993
g. Private equities	138,357,638	93,682,458
h. Hedge funds	537,791,270	722,726,369
i. Private real estate	77,902,570	34,450,129
j. Other investments	545,166,380	2,564,355
k. Total investments	\$ 6,857,947,476	\$ 8,453,325,024
4. Invested securities lending collateral	\$ 665,254,810	\$ 1,122,436,801
5. Properties : land, building, furniture and equipment (at cost, less accumulated depreciation)	\$ 8,226,741	\$ 10,121,468
6. Total assets	\$ 8,062,260,437	\$ 10,321,542,634
7. Liabilities		
a. Accounts payable	\$ 4,268,394	\$ 5,556,229
b. Accrued expenses	353,153	362,510
c. Refunds payable	943,130	1,684,509
d. Investment purchases payable - brokers	263,999,480	407,395,504
e. Due to other funds	850,156	136,133
f. Securities lending collateral	678,194,424	1,136,363,710
g. Total liabilities	\$ 948,608,737	\$ 1,551,498,595
8. Total market value of assets available for benefits (Item 6 - Item 7g)	\$ 7,113,651,700	\$ 8,770,044,039

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 7b - Allocation of Cash and Investments**

	<u>June 30, 2009</u> (1)	<u>June 30, 2008</u> (2)
1. Cash and short-term equivalents	4.3%	4.0%
2. U.S. treasury securities	3.2%	1.9%
3. U.S. government agencies	8.6%	8.7%
4. Domestic corporate bonds	14.6%	14.3%
5. Domestic equities	29.0%	40.3%
6. International equities	17.3%	18.0%
7. Mortgage backed securities	4.9%	3.2%
8. Private equities	1.9%	1.1%
9. Hedge funds	7.5%	8.1%
10. Private real estate	1.1%	0.4%
11. Other investments	<u>7.6%</u>	<u>0.0%</u>
12. Total investments	100.0%	100.0%

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**ACTUARIAL EXHIBITS**  
**JUNE 30, 2009 (CONTINUED)**

**Table 8 - Reconciliation of Plan Net Assets**

	Year Ending	
	June 30, 2009	June 30, 2008
	(1)	(2)
1. Value of assets at beginning of year		
a. Value reported in prior valuation	\$ 8,770,044,039	\$ 9,455,795,854
b. Prior period adjustments	-	-
c. Revised value	\$ 8,770,044,039	\$ 9,455,795,854
2. Revenue for the year		
a. Contributions		
i. Member contributions (including redeposits and service purchases)	\$ 215,107,743	\$ 205,360,205
ii. Employer contributions	318,958,661	286,377,032
iii. Employer contributions for ARP members	4,726,836	4,469,033
iv. Total	\$ 538,793,240	\$ 496,206,270
b. Income		
i. Interest, dividends, and other income	\$ 202,554,359	\$ 238,259,724
ii. Investment expenses	(16,774,502)	(20,393,327)
iii. Net	\$ 185,779,857	\$ 217,866,397
c. Net realized and unrealized gains	\$ (1,724,901,894)	\$ (785,485,191)
d. Total revenue	\$ (1,000,328,797)	\$ (71,412,524)
3. Expenditures for the year		
a. Refunds	\$ 29,686,510	\$ 29,475,171
b. Benefit payments	617,705,040	578,775,611
c. Administrative and miscellaneous expenses	8,671,992	6,088,509
d. Total expenditures	\$ 656,063,542	\$ 614,339,291
4. Increase in net assets (Item 2 - Item 3)	\$ (1,656,392,339)	\$ (685,751,815)
5. Value of assets at end of year (Item 1 + Item 4)	\$ 7,113,651,700	\$ 8,770,044,039

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 9a - Determination of Excess Earnings to be Deferred**

Year ended :	<u>June 30, 2006</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>
	(1)	(2)	(3)	(4)
1. MVA at beginning of year	\$ 7,451,138,286	\$ 8,219,289,974	\$ 9,455,795,854	\$ 8,770,044,039
2. Net new investments				
a. Contributions	\$ 408,527,987	\$ 449,510,900	\$ 496,206,270	\$ 538,793,240
b. Benefits and refunds paid	<u>(522,402,470)</u>	<u>(567,668,854)</u>	<u>(608,250,782)</u>	<u>(647,391,550)</u>
c. Subtotal	\$ (113,874,483)	\$ (118,157,954)	\$ (112,044,512)	\$ (108,598,310)
3. MVA at end of year	\$ 8,219,289,974	\$ 9,455,795,854	\$ 8,770,044,039	\$ 7,113,651,700
4. Net MVA earnings ( 3 - 1 - 2c)	\$ 882,026,171	\$ 1,354,663,834	\$ (573,707,303)	\$ (1,547,794,029)
5. Assumed investment return rate	8.00%	8.00%	8.00%	8.00%
6. Expected return	\$ 591,536,084	\$ 652,816,880	\$ 751,981,888	\$ 697,259,591
7. Excess return ( 4 - 6)	\$ 290,490,087	\$ 701,846,954	\$ (1,325,689,191)	\$ (2,245,053,620)
8. Excess return deferral percent	20%	40%	60%	80%
9. Amount deferred	\$ 58,098,017	\$ 280,738,782	\$ (795,413,515)	\$ (1,796,042,896)

Note : MVA is market value of assets.

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 9b - Development of Actuarial Value of Assets**

1. Market value of assets as of valuation	\$	7,113,651,700
2. Deferred amounts for fiscal year ending June 30,		
a. 2009	\$	(1,796,042,896)
b. 2008	\$	(795,413,515)
c. 2007	\$	280,738,782
d. 2006	\$	<u>58,098,017</u>
e. Total	\$	(2,252,619,612)
3. Actuarial value of assets (1 - 2e)	\$	9,366,271,312
4. Actuarial value as percent of market value		131.7%

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 10a - Estimation of Yields**

	Year Ending	
	June 30, 2009 (1)	June 30, 2008 (2)
A. Market value yield		
1. Beginning of year market assets	\$ 8,770,044,039	\$ 9,455,795,854
2. Investment income (including realized and unrealized gains and losses)	\$ (1,539,122,037)	\$ (567,618,794)
3. End of year market assets	\$ 7,113,651,700	\$ 8,770,044,039
4. Estimated dollar weighted market value yield	-17.7%	-6.0%
B. Actuarial value yield		
1. Beginning of year actuarial assets	\$ 9,272,828,135	\$ 8,591,417,402
2. Actuarial return	\$ 202,041,487	\$ 793,455,245
3. End of year actuarial assets	\$ 9,366,271,312	\$ 9,272,828,135
4. Estimated actuarial value yield	2.2%	9.3%

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 10b - 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%
Average Returns		
Last 5 years	2.1%	6.0%
Last 10 years	1.9%	5.8%
Last 15 years	6.5%	8.4%

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 11a - Investment Experience Gain or Loss**

Item (1)	Year Ending	
	June 30, 2009 (2)	June 30, 2008 (3)
1. Actuarial assets, beginning of year	\$ 9,272,828,135	\$ 8,591,417,402
2. Total contributions during year	\$ 538,793,240	\$ 496,206,270
3. Benefits and refunds paid	\$ (647,391,550)	\$ (608,250,782)
4. Assumed net investment income at 8%		
a. Beginning of year assets	\$ 741,826,251	\$ 687,313,392
b. Contributions	21,551,730	19,848,251
c. Benefits and refunds paid	<u>(25,895,662)</u>	<u>(24,330,031)</u>
d. Total	\$ 737,482,319	\$ 682,831,612
5. Expected actuarial assets, end of year (Sum of items 1 through 4)	\$ 9,901,712,144	\$ 9,162,204,502
6. Actual actuarial assets, end of year	\$ 9,366,271,312	\$ 9,272,828,135
7. Asset gain (loss) for year (Item 6 - Item 5)	\$ (535,440,832)	\$ 110,623,633

ACTUARIAL SECTION

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
 ACTUARIAL EXHIBITS  
 JUNE 30, 2009 (CONTINUED)

**Table 11b - Total Experience Gain or Loss**

Item (1)	Year Ending	
	June 30, 2009 (2)	June 30, 2008 (3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	\$ 3,694,166,995	\$ 3,598,663,175
2. Normal cost for the previous year	\$ 364,372,490	\$ 345,620,528
3. Less: contributions for the year	\$ (538,793,240)	\$ (496,206,270)
4. Interest at 8 %		
a. On UAAL	\$ 295,533,360	\$ 287,893,054
b. On normal cost	14,574,900	13,824,821
c. On contributions	(21,551,730)	(19,848,251)
d. Total	\$ 288,556,530	\$ 281,869,624
5. Expected UAAL (Sum of Items 1 - 4)	\$ 3,808,302,775	\$ 3,729,947,057
6. Actual UAAL	\$ 4,517,001,770	\$ 3,694,166,995
7. Total gain (loss) for the year (Item 5 - Item 6)	\$ (708,698,995)	\$ 35,780,062
B. Source of gains and losses		
8. Asset gain (loss) for the year	\$ (535,440,832)	\$ 110,623,633
9. Liability experience gain (loss) for the year	\$ 40,754,410	\$ (74,843,571)
10. Assumption change	N/A	\$ -
11. Benefit change	\$ (214,012,573)	N/A
12. Total	\$ (708,698,995)	\$ 35,780,062

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 12 - Solvency Test**

	<u>June 30, 2009</u> (1)	<u>June 30, 2008</u> (2)
1. Actuarial accrued liability (AAL)		
a. Active member contributions	\$ 2,298,505,189	\$ 2,154,807,869
b. Retirees and beneficiaries	6,606,725,003	6,201,234,033
c. Active and inactive members (employer financed)	<u>4,978,042,890</u>	<u>4,610,953,228</u>
d. Total	\$ 13,883,273,082	\$ 12,966,995,130
2. Actuarial value of assets	\$ 9,366,271,312	\$ 9,272,828,135
3. Cumulative portion of AAL covered		
a. Active member contributions	100%	100%
b. Retirees and beneficiaries	100%	100%
c. Active and inactive members (employer financed)	9%	20%

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ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**Table 13 - Distribution of Active Members by Age and by Years of Service  
As of June 30, 2009**

Attained Age	Years of Credited Service												Total Count & Avg. Comp.	
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over		
	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	362 \$16,598	472 \$23,082	177 \$21,490	76 \$18,223	40 \$22,224	19 \$20,970	0 \$0	1,146 \$20,401						
25-29	393 \$24,506	940 \$28,737	814 \$30,021	658 \$32,525	450 \$34,776	585 \$35,045	5 \$30,882	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	3,845 \$30,894
30-34	306 \$28,096	764 \$29,977	633 \$30,756	628 \$33,898	551 \$35,591	2,004 \$41,931	357 \$42,078	5 \$42,768	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	5,248 \$36,420
35-39	881 \$24,743	1,525 \$28,575	1,139 \$32,277	931 \$32,181	590 \$34,109	2,258 \$40,510	1,501 \$47,517	261 \$45,471	1 \$58,811	0 \$0	0 \$0	0 \$0	0 \$0	9,087 \$35,980
40-44	276 \$31,100	647 \$30,694	581 \$31,105	577 \$32,498	534 \$35,115	2,123 \$38,845	1,626 \$44,197	1,061 \$49,388	218 \$46,981	4 \$32,046	0 \$0	0 \$0	0 \$0	7,647 \$39,377
45-49	276 \$32,170	600 \$30,500	581 \$31,152	585 \$31,745	533 \$33,098	2,276 \$37,114	1,910 \$42,493	1,431 \$47,666	988 \$53,249	200 \$51,979	6 \$37,782	0 \$0	0 \$0	9,386 \$40,333
50-54	245 \$32,853	526 \$33,717	469 \$31,195	515 \$33,292	471 \$34,801	2,206 \$37,822	1,958 \$41,917	1,752 \$48,621	1,219 \$54,046	758 \$59,711	199 \$56,413	5 \$44,972	5 \$87	10,323 \$43,325
55-59	195 \$34,821	444 \$35,675	407 \$36,411	404 \$37,574	392 \$38,332	1,825 \$40,646	1,715 \$44,562	1,698 \$48,137	1,366 \$55,572	693 \$62,111	415 \$64,884	87 \$60,496	87 \$87	9,641 \$46,794
60-64	94 \$34,829	209 \$35,810	227 \$34,190	244 \$36,177	261 \$39,734	1,213 \$41,570	1,027 \$44,195	820 \$48,068	677 \$54,360	389 \$65,827	222 \$69,736	123 \$71,066	123 \$71,066	5,506 \$47,144
65 & Over	71 \$33,349	119 \$34,150	110 \$31,837	100 \$30,394	126 \$31,719	467 \$37,566	312 \$36,938	228 \$47,555	170 \$55,758	106 \$62,585	81 \$78,308	100 \$85,143	100 \$85,143	1,990 \$44,146
Total	3,099 \$27,099	6,246 \$30,046	5,138 \$31,405	4,718 \$32,969	3,948 \$35,069	14,976 \$39,325	10,411 \$43,698	7,256 \$48,218	4,639 \$54,103	2,150 \$60,962	923 \$65,227	315 \$72,201	315 \$72,201	63,819 \$40,517

## ACTUARIAL SECTION

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ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
ACTUARIAL EXHIBITS  
JUNE 30, 2009 (CONTINUED)**

**NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
Table 14 Reconciliation of Members by Status for Year Ending June 30, 2009**

	Active Members	Inactive, Nonretired Members		Annuitants			Grand Total
		Vested	Nonvested	Service Retirees	Disabled Retirees	Beneficiaries	
Number at beginning of year	63,698	8,408	21,574	28,064	719	2,409	124,872
Refund paid (non-death)	(1,445)	(370)	(2,026)				(3,841)
Refund due	(3,423)		3,423				0
Deferred terminations	(2,061)	2,061					0
Retirements (non-disabled)	(645)	(1,133)	(29)	1,806	1		0
Disabled retirements	(36)	(17)			53		0
New Alternate Payee				51			51
Death before retirement - refund	(14)	(39)					(53)
Death before retirement - annuity	(12)					12	0
Death of annuitant - survivor benefit due				(189)	(12)	201	0
Death of annuitant - no further benefits due				(481)	(16)	(105)	(602)
New hires	6,462						6,462
Reemployments	1,295	(457)	(821)	(17)			0
Adjustments and corrections		6	(6)				0
Number at end of year	63,819	8,459	22,115	29,234	745	2,517	126,889

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS  
JUNE 30, 2009**

I. Valuation Date

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

II. Actuarial Cost Method

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

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

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

## ACTUARIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS JUNE 30, 2009 (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: 8.00%, compounded annually, net of expenses. This is composed of a 3.00% inflation rate and a 5.00% real rate of return.
2. Salary increase rate: Inflation rate of 3.00% plus productivity increase rate of 2.00% plus step-rate/promotional as shown:

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

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS  
JUNE 30, 2009 (CONTINUED)**

3. Three-Tier Licensure Increased: In 2003, the legislature adopted a new framework for classroom teacher salaries with minimum salaries mandated for certain classes of teachers beginning in FY 2004. For teachers who met the mandated minimum salary of \$30,000 in FY 2004, their salaries were assumed to meet the mandated minimum of \$35,000 in FY 2005 and \$40,000 in FY 2006 and later years for “professional” teachers if they had at least three years of service at each respective valuation date. Likewise, for teachers who met the mandated minimum salary of \$30,000 in FY 2004, their salaries were assumed to meet the mandated minimum of \$45,000 in FY 2007 and \$50,000 in FY 2008 and later years for “master” teachers if they had at least six years of service at each respective valuation date.
4. Cost-of-living increases: 2% per year, compounded annually. Note that increases are deferred until age 65 or, for disabled retirees, until the third year following retirement. Also, members who retired prior to July 1, 1984 and who are younger than age 65 receive an annual increase.
5. Payroll growth: 3.75% per year (with no allowance for membership growth)
6. Contribution accumulation: Member contributions are assumed to have grown at 5.50% per year, with 6.00% interest, compounded annually.

**B. Demographic Assumptions**

1. Mortality after termination or retirement -
  - a. Healthy males - 1994 Uninsured Pensioner Mortality Table for males, set back three years
  - b. Healthy females - 1994 Uninsured Pensioner Mortality Table for females, set back two years
  - c. Disabled males and females - 1981 Disability TableSee sample rates below:

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS  
JUNE 30, 2009 (CONTINUED)**

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

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

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

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS  
JUNE 30, 2009 (CONTINUED)**

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

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

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

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

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

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

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS  
JUNE 30, 2009 (CONTINUED)**

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

Age	Males - Years of Service						
	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	5.00	5.00	40.00
60	0.00	0.00	0.00	15.00	20.00	25.00	40.00
62	0.00	0.00	40.00	40.00	35.00	35.00	40.00
65	0.00	25.00	40.00	45.00	45.00	30.00	35.00
70	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Age	Females - Years of Service						
	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	6.00	6.00	43.00
60	0.00	0.00	0.00	20.00	15.00	30.00	45.00
62	0.00	0.00	50.00	35.00	35.00	40.00	45.00
65	0.00	35.00	35.00	35.00	35.00	25.00	25.00
70	100.00	100.00	100.00	100.00	100.00	100.00	100.00

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

Terminations per 100 Members

Males

Years of Service

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

ACTUARIAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS  
JUNE 30, 2009 (CONTINUED)**

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

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

C. Other Assumptions

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

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

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

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

## ACTUARIAL SECTION

### **STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS JUNE 30, 2009 (CONTINUED)**

5. Administrative expenses: The assumed investment return rate is intended to be the net rate of return after payment of all investment and administrative expenses.
6. Percent married: For valuation purposes 100% of members are assumed to be married.

#### V. Participant Data

Participant data was supplied in electronic files for (i) active members, (ii) inactive members, who are entitled to either a future deferred benefit or a refund of their employee contributions and the accumulated interest, and (iii) members and beneficiaries receiving benefits.

The data for active and inactive, non-retired members include birth date, sex, years of service, salary, and accumulated employee contributions (without interest). For retired members and beneficiaries, the data included date of birth, sex, beneficiary or joint annuitant date of birth (where applicable), current monthly benefit, date of retirement, and a form of payment code.

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

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
GLOSSARY OF ACTUARIAL TERMS  
JUNE 30, 2009**

**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:

## ACTUARIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD GLOSSARY OF ACTUARIAL TERMS JUNE 30, 2009 (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, nonretired members either entitled to a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.

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

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

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

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

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

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
GLOSSARY OF ACTUARIAL TERMS  
JUNE 30, 2009 (CONTINUED)**

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

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

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

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

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

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

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

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

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

## ACTUARIAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD GLOSSARY OF ACTUARIAL TERMS (CONTINUED) JUNE 30, 2009 (CONTINUED)

**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, 2009**

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 financial 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, 2009, 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. 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 table showing average benefit payments by benefit level, we imported data from IRIS as of June 30, 2009 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, 2009**

**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

## STATISTICAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD PARTICIPATING EMPLOYERS JUNE 30, 2009 (CONTINUED)

#### **PUBLIC SCHOOLS (CONTINUED)**

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

#### **CHARTER SCHOOLS**

ABQ INSTITUTE FOR MATH AND SCIENCE AT  
UNM (formerly High Tech High)  
ABQ TALENT DEV. SECONDARY CHARTER  
ACADEMY FOR TECH. & CLASSICS  
ALDO LEOPOLD HIGH SCHOOL  
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  
CHARTER SCHOOL 37  
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 ED PREP #2)  
DEMING CESAR CHAVEZ  
DIGITAL ARTS AND TECH. ACADEMY (formerly  
ABQ CHARTER VOC-TECH HIGH)  
EAST MOUNTAIN HIGH SCHOOL  
GORDON BERNELL CHARTER SCHOOL  
HORIZON ACADEMY SOUTH  
HORIZON ACADEMY WEST  
JEFFERSON MONTESSORI ACADEMY  
LA ACADEMIA DE ESPERANZA  
LA ACADEMIA DE LENGUA Y CULTURA  
LA ACADEMIA DOLORES HUERTA (formerly DE  
IDIOMAS Y CULTURA)  
LA LUZ DEL MONTE LEARNING CENTER  
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  
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  
NORTH ALBUQUERQUE COMMUNITY  
CHARTER  
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  
SCH FOR INTEGRATED ACA. & TECH  
SIDNEY GUTIERREZ MIDDLE CHARTER  
SOUTH VALLEY CHARTER HIGH  
SOUTHWEST PRIMARY LEARNING CENTER  
SOUTHWEST SECONDARY LEARNING  
TAOS MUNICIPAL CHARTER SCHOOL  
THE NEW AMERICA SCHOOL NM  
TURQUOISE TRAIL CHARTER SCHOOL  
TWENTY-FIRST CENTURY CHARTER  
VALMORA HIGH SCHOOL  
VILLAGE ACADEMY  
VISTA GRANDE HIGH SCHOOL  
WALATOWA  
ACADEMY OF TRADES & TECHNOLOGY  
FORMERLY (YOUTH BUILD COMMUNITY  
SCHOOL)

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
PARTICIPATING EMPLOYERS  
JUNE 30, 2009 (CONTINUED)**

**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

**SPECIAL SCHOOLS**

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

**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  
YOUTH DIAGNOSTIC CENTER

STATISTICAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
TEN LARGEST PARTICIPATING EMPLOYERS  
JUNE 30, 2009 (CONTINUED)**

Ten Largest Employers with Employee Count  
Fiscal Years Ending June 30, 2006 to June 30, 2009

EMPLOYER	EMPLOYEE		EMPLOYEE		EMPLOYEE		EMPLOYEE	
	COUNT	June 30, 2006	COUNT	June 30, 2007	COUNT	June 30, 2008	COUNT	June 30, 2009
Albuquerque Public Schools	12,306	20%	12,535	20%	12,706	20%	12,824	20%
University of New Mexico	8,035	13%	7,513	12%	7,807	12%	7,270	11%
New Mexico State University	4,790	8%	4,779	8%	4,622	7%	4,486	7%
Las Cruces School District	3,967	6%	3,978	6%	3,530	6%	3,514	6%
Gallup McKinley County Schools	2,194	4%	2,197	4%	2,148	3%	2,165	3%
Gadsden independent schools	1,994	3%	2,010	3%	2,116	3%	2,104	3%
Rio Rancho Public Schools	1,503	2%	1,774	3%	1,877	3%	1,911	3%
Central NM Community College	1,702	3%	1,904	3%	1,758	3%	1,816	3%
Santa Fe Public Schools	1,714	3%	1,728	3%	1,719	3%	1,704	3%
Farmington Public Schools	1,301	2%	1,286	2%	1,264	2%	1,298	2%
All Others	22,323	36%	22,983	37%	24,151	38%	24,730	39%
Total Active Members	61,829	100%	62,687	100%	63,698	100%	63,822	100%

Data from years prior to Fiscal Year 2006 is not available.

## STATISTICAL SECTION

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# STATISTICAL SECTION

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

YEAR ENDED JUNE 30	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Additions</b>										
Contributions										
Employer	\$ 153,260,317	\$ 161,524,340	\$ 173,863,363	\$ 179,010,098	\$ 189,324,788	\$ 197,872,532	\$ 226,479,332	\$ 255,853,194	\$ 290,846,065	\$ 323,685,497
Member	139,179,503	150,068,398	151,378,455	154,427,006	162,118,792	169,099,212	178,220,782	189,391,152	201,916,230	212,014,023
Net Investment Income	853,377,794	(807,706,751)	(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)
Miscellaneous Income	3,484,423	3,689,430	3,450,064	4,344,038	4,200,818	4,032,754	3,866,927	4,331,489	3,662,453	3,696,085
<b>Total Additions</b>	<b>1,149,302,037</b>	<b>(492,424,583)</b>	<b>(254,020,746)</b>	<b>498,710,412</b>	<b>1,279,572,763</b>	<b>1,027,111,960</b>	<b>1,295,784,792</b>	<b>1,809,800,076</b>	<b>(71,412,523)</b>	<b>(1,000,328,799)</b>
<b>Deductions</b>										
Benefit Payments										
Age & Service	307,329,262	335,155,233	362,446,592	390,931,959	416,862,335	449,036,895	487,912,505	533,923,520	572,191,714	610,664,369
Disability	4,484,504	5,440,446	5,048,278	5,149,796	5,556,031	5,946,557	6,184,110	6,220,203	6,583,897	7,040,669
Refunds to Terminated Member	24,598,578	23,684,106	20,103,972	21,132,480	21,859,555	23,444,332	24,062,559	23,335,088	23,729,865	24,051,878
Interest On Refunds	10,554,053	12,949,806	8,404,063	7,205,976	4,525,458	3,770,343	4,243,297	4,190,043	5,745,306	5,634,632
Administrative Expenses	2,543,933	3,517,803	3,622,362	4,287,345	2,583,048	5,320,667	5,230,633	5,625,343	6,088,509	8,671,992
<b>Total Deductions</b>	<b>349,510,330</b>	<b>380,747,394</b>	<b>399,625,267</b>	<b>428,707,556</b>	<b>451,386,427</b>	<b>487,518,794</b>	<b>527,633,104</b>	<b>573,294,197</b>	<b>614,339,291</b>	<b>656,063,540</b>
<b>Net Assets Held in Trust</b>										
Beginning of Year	6,740,382,211	7,540,173,918	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
End of Year	\$7,540,173,918	\$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

STATISTICAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SCHEDULE OF ACTUARIAL VALUE OF ASSETS, ACCRUED LIABILITIES, AND UAAL  
JUNE 30, 2009**

<b>Year ended June 30</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liabilities</b>	<b>Actuarial Accrued Liability (UAAL)</b>
2000	\$6,835,842,591	\$7,460,619,599	\$624,777,008
2001	7,418,311,093	8,070,335,294	652,024,201
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

STATISTICAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
HISTORY OF CONTRIBUTION RATES  
JUNE 30, 2009**

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%

STATISTICAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
AVERAGE MONTHLY BENEFIT PAYMENTS  
JUNE 30, 2009**

<b>Range of Monthly Pension Amount</b>	<b>Number of Members</b>	<b>Average Years Service</b>	<b>Average Monthly Benefit</b>
<b><u>REGULAR RETIREMENTS</u></b>			
\$0 - \$499	4985	10.95	\$301.04
\$500 - \$999	6128	18.00	\$740.55
\$1,000 - \$1,499	5515	21.69	\$1,242.24
\$1,500 - \$1,999	5368	24.89	\$1,748.79
\$2,000 - \$2,499	4052	26.92	\$2,235.31
\$2,500 - \$2,999	2464	28.62	\$2,719.14
\$3,000 - \$3,499	1397	30.03	\$3,220.41
\$3,500 - \$3,999	720	31.07	\$3,707.57
\$4,000 - \$4,499	424	32.14	\$4,231.49
\$4,500 - \$4,999	244	32.34	\$4,727.27
\$5,000 - \$5,499	127	32.18	\$5,221.58
\$5,500 - \$5,999	92	31.29	\$5,722.01
\$6,000 - \$6,499	59	32.61	\$6,214.78
\$6,500 - \$6,999	41	33.14	\$6,695.76
\$7,000 - \$7,499	30	34.32	\$7,222.38
over \$7,500	80	33.08	\$9,274.96
Total	31726	21.98	\$1,605.63
<b><u>DISABILITY RETIREMENTS</u></b>			
\$0 - \$499	240	13.11	\$347.51
\$500 - \$999	345	14.57	\$738.59
\$1,000 - \$1,499	151	15.77	\$1,183.28
\$1,500 - \$1,999	29	19.03	\$1,697.54
over \$2,000	6	18.33	\$2,976.57
Total	771	14.55	\$757.43

## STATISTICAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF PLAN PROVISIONS JUNE 30, 2009

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	Member Contribution Rate
FY 2005 and earlier	7.600%
FY 2006	7.675%
FY 2007	7.750%
FY 2008	7.825%
FY 2009	7.900%
FY 2010*	9.400%
FY 2011*	9.400%
FY 2012 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%.

STATISTICAL SECTION

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD  
SUMMARY OF PLAN PROVISIONS  
JUNE 30, 2009 (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	Employer Contribution Rate
FY 2005 and earlier	8.65%
FY 2006	9.40%
FY 2007	10.15%
FY 2008	10.90%
FY 2009	11.65%
FY 2010*	10.90%
FY 2011*	11.65%
FY 2012 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 continue 12.40% in FY 2010 and 13.15% in FY 2011.

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.

## STATISTICAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF PLAN PROVISIONS JUNE 30, 2009 (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, 2009 (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.

## STATISTICAL SECTION

### STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF PLAN PROVISIONS JUNE 30, 2009 (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, 2009 (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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NEW MEXICO  
EDUCATIONAL  
RETIREMENT  
BOARD

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