

**MINUTES OF THE**  
**NEW MEXICO EDUCATIONAL RETIREMENT BOARD**  
**SPECIAL MEETING**  
**May 24, 2018**

**1. CALL TO ORDER: QUORUM PRESENT**

A Special Meeting of the New Mexico Educational Retirement Board was called to order on this date at 9:00 a.m. in the Educational Retirement Board Conference Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico.

**Members Present:**

Ms. Mary Lou Cameron, Chairwoman  
Mr. H. Russell Goff, Vice Chairman  
Mr. Larry Magid, Secretary  
The Hon. Tim Eichenberg, New Mexico State Treasurer [left at 9:45 a.m.]  
Mr. David Craig  
Dr. Donald W. Duszynski

**Members Excused:**

None.

**Staff Present:**

Ms. Jan Goodwin, Executive Director  
Mr. Rick Scroggins, Deputy Director  
Mr. Bob Jacksha, CIO  
Mr. Roderick Ventura, General Counsel  
Ms. Susanne Roubidoux, Deputy General Counsel  
Ms. Monica Lujan, Member Services Director  
Ms. Liz Lorang, Executive Assistant  
Mr. Lawrence Esquibel, Chief Information Officer  
Ms. Norma Henderson, Chief Financial Officer

**Legislators Present:**

Sen. George Muñoz, Senate District 4  
Rep. Jimmie C. Hall, House District 28  
Rep. Larry Larrañaga, House District 27  
Rep. Tomás Salazar, House District 70  
Sen. Jim White, Senate District 19

**Others Present:**

Mr. David Abbey, LFC Staff Director  
Ms. Rachel Gudge, LESC Staff Director  
Mr. Joseph Simon, LESC Analyst for ERB

Mr. Connor Jorgensen, LFC Analyst for ERB  
Mr. Mark Valenzuela, LFC Analyst for Higher Education  
Ms. Tessa Ryan, LCS Staff Attorney  
Mr. Sunny Liu, LFC Analyst for Public Education  
Ms. Patricia Turner, Contract Attorney for ERB  
Ms. Judith Beatty, Board Recorder  
[See sign-in sheet.]

**b. Approval of Agenda**

Mr. Magid moved approval of the agenda, as published. Mr. Craig seconded the motion, which passed unanimously.

**c. Introduction of Guests**

Staff and guests introduced themselves.

Chairwoman Cameron thanked everyone present for attending, and she looked forward to a good discussion.

**2. SUSTAINABILITY AND PLAN DESIGN: JAN GOODWIN, EXECUTIVE DIRECTOR**

**a. Guiding principles**

**b. Steps taken by board and staff to date**

Ms. Goodwin's presentations included some of the highlights from the presentations that the board had at its April retreat as well as some information provided to the members during last fall's sustainability tour.

Ms. Goodwin presented, "A National Perspective of State and Local Pensions," by NASRA Research Director Keith Brainard.

Ms. Goodwin commented that her thinking has evolved on the idea of pension obligation bonds (POBs) and she feels it could be a cost-effective option for New Mexico:

-- A POB is a form of arbitrage: borrowing money at a rate (currently at 4.5 percent) that could be invested at a higher rate (currently 7.25 percent). This is attractive to the NMERB because it is currently accruing interest on its unfunded liability every year at 7.25 percent.

-- The advantage of a POB is that it provides an immediate source of funding for the plan, lowers near-term costs by reducing the unfunded liability, and may reduce long-term costs through higher investment earnings.

-- Disadvantages are the risk of investments not exceeding borrowing rate, potential effect on plan sponsor's credit rating, and trading of "soft" obligations for "hard" debt.

Ms. Goodwin presented "Actuarial Soundness and Sustainability," prepared by NMERB actuarial consultant GRS.

-- GRS has projected that the NMERB will be spending \$49.8 billion just on the interest on its unfunded liability over the next 60 years. This is why the board and staff are interested in resolving its unfunded liability situation as quickly as possible.

-- GRS was asked what the ERB could do to turn the needle and move things quickly:

- o Increase employer contribution percentage by 3 percent (1 percent per year for three years) to 16.9 percent (this would still be less than the contribution rate for the PERA state general plan;
- o Suspend all COLAs until ERB is 100 percent funded;
- o Future active members have a 2 percent benefit accrual rate rather than current 2.35 percent.

Ms. Goodwin stated that implementing these changes would lower the funding period to 21 years. The unfunded liability would increase for two years, but then would begin to quickly decrease. She commented that this would help the bond ratings for New Mexico entities.

Addressing the cost, Ms. Goodwin said that, based on the current level of payroll, each 1 percent increase in the contribution rate would cost \$27 million, for a total of \$81 million for the three years, which would be a recurring expenditure. She suggested that one source of funding for this expense could come from delinquent tax collection. In 2004, when she was Secretary of Taxation & Revenue, there was a very ambitious program to go after tax scofflaws, and it was very successful, bringing in hundreds of millions of dollars over a few years.

Mr. Abbey noted Ms. Goodwin's comments that the problem is that longer-working employees are subsidizing shorter-working employees, and asked if there is a scenario addressing that problem. Ms. Goodwin responded that the ERB is working on ideas for resolving this issue and will present them as part of its proposal at the upcoming legislative session.

Ms. Goodwin again referred to the "Actuarial Soundness and Sustainability," presentation by ERB actuarial consultants Gabriel Roeder Smith.

In reviewing guiding principles for future changes, Ms. Goodwin noted that the Return to Work statute is slated to sunset at the end of 2021. Although many groups are interested in extending this sunset, it should be kept in mind that Return to Work was originally meant to fill teaching positions in rural schools for subjects such as math, science and English as a second language. What has happened over time, however, is that the program has mushroomed well beyond what it was meant to be, and a lot of administrators, people in higher education and people living in urban areas are using it. Based on feedback from some ERB members, Return to Work doesn't really pay, either, and people are better off working longer rather than doing Return to Work for five or ten years. The ERB actuaries reviewed the numbers and agreed. She asked legislators to keep this in mind when people start approaching them about extending the sunset period.

Ms. Goodwin discussed the ERB's contribution rate history and noted that ERB members are paying a significant proportion of the total contributions, at more than 40 percent. This is much higher than any of the other state plans offered by New Mexico.

Ms. Goodwin summarized possible elements to legislation:

- An increase in the employer contribution rate.
- A tiered multiplier, with a low multiplier for the first ten years, medium multiplier for the next ten years, and a higher multiplier for the last ten years.
- That all people currently participating in ERB's Return to Work exception rule who are working in retirement, as well as PERA retirees who are working for ERB employers, be required to pay contributions.
- Look at anti-spiking to make things as fair and "ungameable" as possible.
- Consider a COLA pause but include a mechanism to hold harmless full career people who are low income and who have worked for 25 years or more.
- Look at pension obligation bonds.

Ms. Goodwin stated that the ERB is holding a special meeting on June 21 to get the board's input on what sort of income replacement goal it has for retirees. On July 9, the board **will** start meeting with the stakeholders. Following that, the ERB will put together a package to bring forward to the 2019 legislative session.

[Mr. Eichenberg left the meeting.]

### 3. BOARD DISCUSSION

#### a. Input from Members of the State of New Mexico Legislature

Responding to Rep. Salazar, Ms. Goodwin stated that Colorado's contributions are not fixed and are based on each year's actuarial data. Colorado still has a fixed COLA, however. In contrast, the ERB COLA fluctuates with the change in inflation and has limits on what it can be, but averages out to 1.5 percent per year. She said other states have no COLA, a set rate COLA, or a COLA that fluctuates based on CPI.

Rep. Salazar noted that while the average assumed rate of return for pension plans around the country is 7.5 percent, average returns have recently been in the range of 5.5 percent, which concerned him.

Ms. Goodwin responded that asset allocation determines returns over the future. She noted that Mr. Jacksha and the board have done a lot of work over the last ten years to reduce volatility and keep a relatively higher rate of return. She commented that the ERB portfolios have a lot less in equity exposure than other plans do, with a lot more in alternative assets. This is especially helpful in a down market. She added that the 7.25 percent return target set by the ERB is not an expectation for the next five to ten years, but for the next 100 years on average.

Mr. Jacksha commented that, overall, the ERB will not be able to invest its way out of this, but the outlook for the next ten years looks like a relatively low return environment, and the ERB revisits its asset allocations every two years.

Rep. Larrañaga asked if the board has considered giving retirees the option of another type of retirement plan, such as a 401(k). Ms. Goodwin responded that 401(k)s, which are defined contribution (DC) plans, were originally designed to supplement a defined benefit (DB) plan. She said 401(k) plans were never intended to be a primary source of retirement income. She added that ERB members, if they

terminate their employment, always have the option of either withdrawing their contributions and rolling that over into an IRA plan; or they can leave their money on deposit with the ERB and collect it when they turn either 65 or 67, depending on the tier they are in. She said a defined contribution plan would make it very difficult to pay off the unfunded liability for the defined benefit plan, because all future contributions are going into the defined contribution plan.

Ms. Goodwin commented that the country is about to face a massive retirement crisis because people do not have adequate amounts of money set aside to retire. She said she felt that making people responsible for investing their retirement income would be an unfair burden to put on ERB members who already have so many challenges in the workplace.

Sen. White said he thought it was important to get more individuals involved in their retirement rather than depending on a government agency to do that, because as the benefits increase, the state takes on an increasing amount of risk, which is a concern from the state's standpoint. He said industry is moving toward DC plans, and he thought the state should give the option of allowing people to invest part of their retirement fund into their own plan, whether that be a 401(k) or something else. He stated that his own personally funded retirement plan has gotten a much better return on investment than the programs he was previously part of. He commented that it can be done if somebody is studious about investing.

Rep. Hall commented that he thought there were other options that hadn't been considered, such as alternative licensure of teachers that may or may not be coming into the plan, which has been fought by the unions "tooth and nail." He said there also hadn't been discussion about increasing the vesting requirement from five years to ten years.

Ms. Goodwin responded that increasing the vesting period tends not to be cost effective, because many people will leave before the period is up and withdraw their contributions, leaving less money in the fund.

Sen. White said the ERB should also be considering the fact that New Mexico's population is decreasing and student enrollment is decreasing along with it at every education level, which translates to fewer teachers in the program. Ms. Goodwin commented that part of the reason is that people are leaving to take advantage of booming economies in surrounding states, and the challenge for New Mexico is what it can do to make itself more attractive to people so they will move or stay here.

Responding to Sen. Muñoz, Ms. Goodwin said the board has no control over any aspect of plan design or contributions. Sen. Muñoz said he would recommend that the board pursue the authority to adjust the COLA.

Mr. Abbey stated that, although teachers received a 2 percent increase this year, the state is still behind in teacher compensation; and if the state increases the employer contribution rate, it impairs the ability to have a direct pay increase. In comparison to other states listed in the materials, the state has the highest contribution rate, and he expects significant pressure to address compensation issues going forward.

Responding to Sen. Muñoz, Ms. Goodwin said she believed the downgrading of school districts and universities by Moody's could be expected in the near future, a situation made worse by the UAAL being faced by New Mexico Retiree Health Care.

Rep. Salazar noted that California recently cut their amortization period from 30 years to 20 years. Ms. Goodwin responded that this move by CalSTRS and CalPERS dramatically increased the employer contribution rate. While this would ultimately improve the state's financial situation, it is very challenging for employers. She added that employees in California pay a relatively small contribution rate. Mr. Jacksha said they also lowered their rate of return estimate, to happen over a period of several years, to 7 percent, which resulted in a big increase in employer contributions.

Rep. Larrañaga asked if the board would like the authority to adjust the COLA, as suggested by Sen. Muñoz.

Mr. Goff responded that the board hasn't had that conversation at this point, but wants to "think outside of the box" and look at ways to improve sustainability without hurting teachers.

Sen. Muñoz suggested looking at administrative costs, which contributes significantly to spiking.

Rep. Larrañaga commented that obviously administrators are needed, but suggested that more focus be placed on directing money to the classrooms. Ms. Goodwin responded that she would like very much to see quantifiable criteria for advancing raises for teachers in the classroom. By creating an additional career path for them, they would not find it necessary to leave the classroom to take on higher paying administrative jobs.

Chairwoman Cameron thanked legislators for attending this session and offering their input.

4. **EXECUTIVE SESSION: 11:25 a.m.**
  - a. **Limited Personnel Matters (session closed pursuant to NMSA 1978, Section 10-15-1(H)(2): Compensation of Executive Director, Deputy Director, General Counsel and Chief Investment Officer and agency practices in regards to Compensation**

Chairwoman Cameron moved that the board go into executive session pursuant to Section 10-15-1(H)(2) for purposes of discussing limited personnel matters. Mr. Goff seconded the motion, which passed on the following roll call vote:

**For: Chairwoman Cameron; Vice Chair Goff; Secretary Magid; Mr. Craig; Dr. Duszynski.**

**Against: None.**

[Mr. Craig left the proceedings at the conclusion of the executive session.]

Chairwoman Cameron moved to come out of executive session. The only matters discussed during the executive session limited personnel matters, as set forth in the agenda. Dr. Duszynski seconded the motion, which passed on the following roll call vote:

**For: Chairwoman Cameron; Vice Chair Goff; Secretary Magid; Dr. Duszynski.**

**Against: None.**

**5. ACTION FROM EXECUTIVE SESSION: 12:15 p.m.**

Chairwoman Cameron moved to rescind all board motions pending and not implemented regarding salary adjustments for the Executive Director, Deputy Director, Chief Investment Officer and General Counsel. Mr. Magid seconded the motion, which passed unanimously.

Mr. Magid moved to increase the salary range of the Executive Director, Jan Goodwin, to Pay Range 70 and increase her salary, effective May 26, 2018, to \$240,000 annually. Dr. Duszynski seconded the motion, which passed unanimously.

Mr. Magid moved to increase the salary range of the Deputy Director, Rick Scroggins, to Pay Range 46 and increase his salary, effective May 26, 2018, to \$179,000 annually. Mr. Goff seconded the motion, which passed unanimously.

Dr. Duszynski moved to increase the salary range of the Chief Investment Officer, Bob Jacksha, to Pay Range 60 and increase his salary, effective May 26, 2018, to \$260,000 annually. Mr. Magid seconded the motion, which passed unanimously.

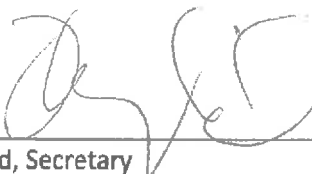
Mr. Magid moved to increase the salary of the General Counsel, Rod Ventura, effective May 26, 2018, to \$130,000 annually. Dr. Duszynski seconded the motion, which passed unanimously.

**6. ADJOURN**

Its business completed, the Educational Retirement Board adjourned the meeting at 12:20 p.m.

  
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Mary Lou Cameron, Chairwoman

ATTEST:

  
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Larry Magid, Secretary