

Investments & Pensions Oversight Committee

Senator Roberto “Bobby” J. Gonzales, Chair
Representative Patricia Roybal Caballero, Vice Chair

Sustainability and Solvency

July 1, 2024

David Archuleta, Executive Director



Discussion Items

- Agency Updates
- Investment Update
- Board of Trustees
- Board Authority
- Pension Perspective
- Agency Highlights – Key Valuation Results
- Cost-of-Living Adjustments
- Service Credit Accruals
- Senate Bill 42 Report
- Actuarial Experience Study & Audit
- GASB 67/68

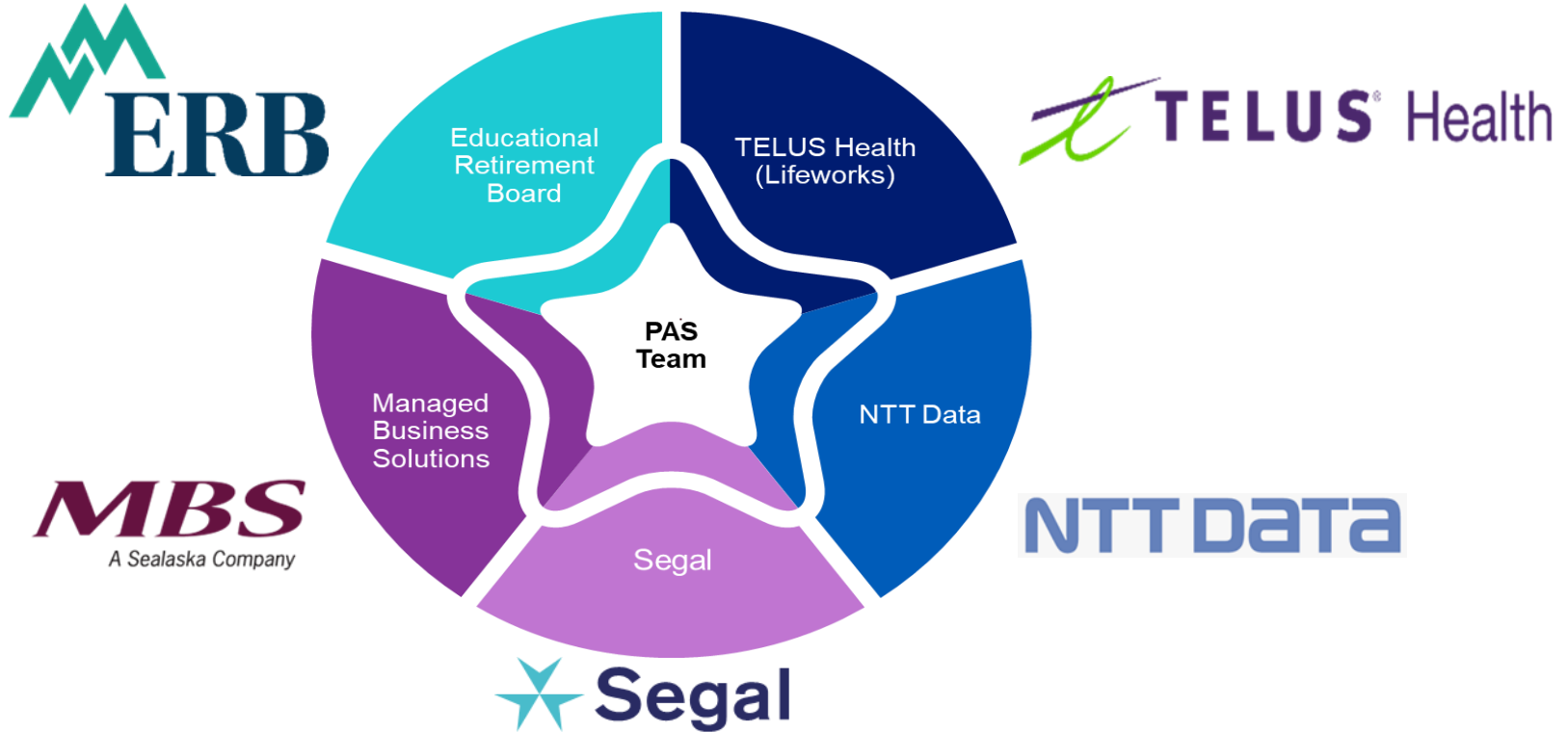
Agency Updates – *New Office Building*

- New Office Building – Substantial Completion January 2025



Agency Updates – *New Pension Administration System*

- New Pension Administration System – November 2026 (29 months)



Agency Updates – *Return to Work Rule Changes*

- References to return-to-work 12-month layout removed (no longer available)
- Created “safe harbor” for retirees who return to employment without prior approval
- Retirees approved to return-to-work under 1 of 3 programs may change programs once per fiscal year
- Provided clarifying language notifying members that return-to-work violations may be appealed
- Requires local administrative units (LAUs) to create, maintain and publicize to staff an internal return to work policy consistent with applicable statutes and rules
- Allows ERB to assess monetary penalties against LAUs for errors in their monthly wage report (effective July 1, 2025)



Agency Updates – *Return to Work Participation FY24*

- FY24 Program Participation:
 - RTW .25 FTE or less: 671
 - RTW less than \$15,000: 390
 - RTW 36 months: 308
 - RTW 1-year: 1,637
 - PERA RTW: 997
 - **Total: 4,003**
- Note: Return to Work 12 consecutive month layout program authorized by Section 22-11-25.1(A) NMSA 1978 and 2.82.5.15 NMAC sunset was effective January 1, 2024 and is no longer available to new applicants.



Investment Performance – March 31, 2024

<u>Returns*</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years**</u>	<u>30 Years</u>
Portfolio	8.93%	7.04%	8.29%	7.59%	7.93%
Policy Index	10.75%	5.68%	7.96%	7.26%	7.17%
Annual Value added	-1.82%	1.36%	0.33%	0.33%**	0.76%
Universe Ranking	88	5	27	17	31

*All returns in this presentation are net of external manager fees.

**The 10-year value added represents a cumulative total of \$1.2 billion in additional earnings vs. policy index

Trust Fund Balances



Board of Trustees

Members

- Russell Goff, Chair, New Mexico Association of Educational Retirees
- Mary Lou Cameron, Vice Chair, NEA – New Mexico
- Larry Magid, Secretary, Governor Appointee
- Laura M. Montoya, State Treasurer, Ex-Officio
- Matias Fontenla, American Federation of Teachers New Mexico
- Stephanie Rodriguez, Secretary, Higher Education Department, Ex-Officio
- Antonio Ortiz, Designee, Public Education Department, Ex-Officio
- Dr. Reilly White, American Association of University Professors
- Max Baca, Governor Appointee



Board Authority

22-11-6 Board; powers; duties.

- Properly and uniformly enforce the Educational Retirement Act (ERA)
 - 2.82.1 NMAC – 2.82.12 NMAC
- Hire employees and delegate administrative authority to these employees
 - 2.82.1.11 – Function of the Board
 - 2.82.1.13 – Employment of Staff
 - Employment of a director
 - Approval of organizational chart
- Make an actuarial report on the financial operation of the ERA to the legislature at each regular session every odd-numbered year
- Accept donations, gifts or bequests to the fund; and
- Adopt regulations pursuant to the Educational Retirement Act



Pension Perspective

- Solvency defined as ability to pay promised benefits
 - No immediate solvency concerns
 - Focus on projected plan funded ratios (assets/liabilities)
- Broad range of possible outcomes surrounding funding trajectory
- Contributions + Investment Returns \geq Benefit Payments + Expenses
- The plan has undergone many rounds of modifications in the last decade
 - Employer contribution increases
 - Member contribution increases
 - Reductions to new member benefits
 - Conditional COLA reductions
 - Changes in actuarial assumptions – Investment return assumption 7.75% to 7.00% and longer life expectancy



Agency Highlights – Key Valuation Results

	June 30, 2023	June 30, 2022	Difference
Active Members	61,503	59,887	1,616
Retirees & Beneficiaries	54,774	53,972	802
Retiree Payroll	\$ 1,317,587,614	\$ 1,270,821,870	46,765,744
Average Annual Benefit	\$ 25,595	\$ 24,859	\$ 736
Member Contributions	\$ 394,165,107	\$ 344,499,120	\$ 49,665,987
Employer Contributions	\$ 646,939,117	\$ 501,926,683	\$ 145,012,434
Member Contribution Refunds	\$ 54,086,836	\$ 50,692,632	\$ 3,394,204
Active Member Payroll	\$ 3,550,591,908	\$ 3,124,810,720	\$ 425,781,188
Participating Employers	220	220	-
Actuarial Value of Assets	\$ 16,207,390,685	\$ 15,358,353,947	\$ 849,036,738
Funding Period	26 years	29 years	3 years
Funded Ratio	62.9%	63.5%	-0.6%

Cost-of-Living Adjustments (COLA)

- Shares the burden of cost savings across generations and does not further increase the disparity in the value of the employer paid value of member benefits
- Current COLA policy CPI-related – limits range of possible outcomes and adjusts the amount granted downward in periods when the plan is less than 100% funded
 - Adjustment factor = $\frac{1}{2}$ of the increase in the CPI
 - Cannot exceed 4% / be less than 2% - unless CPI is less than 2 percent, then adjustment factor equals CPI
 - Annuitants receive between 80 and 100% of the adjustment factor based on various parameters

Plan Funded Ratio	Retirees w/25 years of service and less than median annuity	All other annuitants eligible for an increase
$\geq 100\%$	100%	100%
$>90\%$ and $<100\%$	95%	90%
$\leq 90\%$	90%	80%

- Cost-of-Living Adjustment (July 1, 2024)
 - 1.89% for retirees with 25 or more years of service credit and whose monthly benefit is less than or equal to the median benefit of \$1,746.63 as of June 30, 2023
 - 1.68% for all other eligible retirees
 - 2.1% for all disability retirees who have been retired for at least 3 years



Service Credit Accruals

- Currently, members hired before July 1, 2019, (Tiers 1, 2, & 3) earn 2.35% of their Final Average Salary (FAS) per year of service:

FAS (average of highest consecutive 60 months gross salary) x Years of Service x 2.35% = Gross Annual Benefit / 12 = Gross Monthly Benefit

Example: \$65,000 x 30 years x 2.35% = \$45,825 annually / 12 = \$3,818.75 per month

- Members hired on or after July 1, 2019, earn accruals based on the following schedule:

For Service In:	Years	Benefit Percentage
The first 10 years of service	1 - 10	1.35%
The next 10 years of service	11 - 20	2.35%
The next 10 years of service	21 - 30	3.35%
Service after 30 years	30+	2.40%

Recent Benefit & Contribution Reforms

Legislation

- 2013 – Senate Bill 115 established a schedule to increase member contributions from 7.90% to 10.70%, modified benefits payable to members hired after 2013, and reduced COLAs for most retirees until ERB attains 100% funded status
- 2019 – House Bill 360 increased employer contributions from 13.90% to 14.15% and modified benefits payable to members hired after 2019
- [2021 – Senate Bill 42 established a schedule to increase employer contributions from 14.15% to 16.15%](#)
- 2022 – Senate Bill 36 established a schedule to increase employer contributions from 16.15 % to 18.15%

All key stakeholder i.e., retirees, members and employers have contributed to the improved long-term solvency of the plan



Laws 2021, Chapter 44 (Senate Bill 42)

- Required ERB to present ways to improve pension solvency without additional employer-paid increases to DFA, LFC, LESC and any other appropriate interim committee
- Summary of possible changes to improve solvency without additional employer contributions:
 - Further reduce COLA adjustments tied to funded ratio
 - Swap COLA for non-compounding 13th check
 - Increase employee contribution
 - 10.7% - \$24K or greater
 - 7.9% - \$24K or less
 - Lump sum contribution (“one-time dollars”)
 - Reduce service multipliers
- Current projections indicate program stability in the majority of outcomes



Actuarial Experience Study

- Presented to the Board of Trustees on February 9, 2024
- Summary of recommendations (economic):
 - Maintain investment return assumption of 7.00%
 - Maintain current inflation assumption of 2.30%
 - Increase administrative assumption expenses from 0.35% to 0.37%
 - Increase general wage inflation assumption to 1.10% above inflation, or 3.4%
 - Modest increase to the service-based merit component of the salary increase assumption
 - Leave the annual cost of living increase assumption unchanged at 1.80%
- Summary of recommendations (mortality)
 - Update post-retirement mortality assumption
 - Update post-retirement mortality tables for disabled retirees
 - Maintain the current pre-retirement mortality tables for active employees
 - Modest adjustments to male and female termination rates based on plan experience
 - Modest adjustments to retirement rates for males and females

Actuarial Experience Study Cont.

- Summary of recommendations (actuarial methods and policies):
 - No change to process of estimating the valuation payroll for upcoming fiscal year
 - No change to the actuarial cost method nor the asset smoothing method

Impact to key actuarial findings as of June 30, 2023, are shown below based on current and proposed assumptions:

	June 30, 2023 Valuation Current Assumptions	June 30, 2023 Valuation Proposed Assumptions
Unfunded AAL	\$9.6 billion	\$9.2 billion
Normal Cost Rate with Admin	14.18%	14.71%
Funded ratio	62.9%	63.7%
Funding Policy Contribution	17.85% of pay	17.47% of pay
Funding Period (Open Group)	26 years	25 years

GASB 67/68 Reporting and Disclosure

GASB Statement No. 67 – Financial Reporting for Pension Plans

- Net Pension Liabilities (June 30, 2023):
 - 7.00% - \$8,684,285,003
 - 6.00% - \$11,805,547,098 (1% decrease)
 - 8.00% - \$6,105,755,256 (1% increase)

GASB Statement No. 68 – Accounting and Financial Reporting for Pensions

- Schedule of Employer Allocations
 - Albuquerque Public Schools – \$1,442,401,566
 - Central New Mexico Community College – \$197,399,877
 - Las Cruces Public Schools - \$437,690,569
 - University of New Mexico - \$1,336,818,886



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