

New Mexico Educational Retirement Board Transparency, Actuarial Valuation, GASB 67 and 68, and Proposed Legislation

Investments and Pensions Oversight Committee

Representative Tomás Salazar, Chair

Senator George Muñoz, Vice-Chair

November 13, 2017

Jan Goodwin, Executive Director

Bob Jacksha, CIO

Rod Ventura, General Counsel

Mary Lou Cameron, Board Chair

H. Russell Goff, Board Vice-Chair



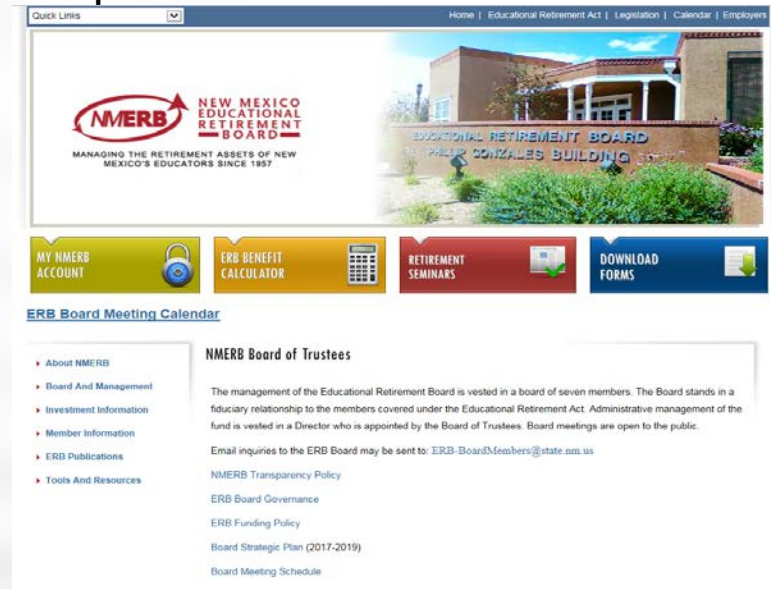
Transparency – NMERB Website

ERB is committed to being an effective and trusted manager of New Mexico's Educational retirement system and includes among the values listed in the strategic plan that of transparency. To this end, we make detailed information available on our website.

The page covering our Board of Trustees general policies is located at http://nmerb.org/Boardof_Trustees.html

Links to the following are included:

- [NMERB Transparency Policy](#)
- [ERB Board Governance](#)
- [ERB Funding Policy](#)
- [Board Strategic Plan \(2017-2019\)](#)
- [Board Meeting Schedule](#)



The screenshot displays the NMERB website interface. At the top, there is a navigation bar with links for Home, Educational Retirement Act, Legislation, Calendar, and Employers. The main header features the NMERB logo and the text "NEW MEXICO EDUCATIONAL RETIREMENT BOARD" and "MANAGING THE RETIREMENT ASSETS OF NEW MEXICO'S EDUCATORS SINCE 1957". Below the header is a banner image of the Educational Retirement Board building. A navigation bar below the banner contains buttons for "MY NMERB ACCOUNT", "ERB BENEFIT CALCULATOR", "RETIREMENT SEMINARS", and "DOWNLOAD FORMS". The main content area is titled "ERB Board Meeting Calendar" and "NMERB Board of Trustees". The "NMERB Board of Trustees" section includes a description of the board's management, contact information for email inquiries, and a list of links: "NMERB Transparency Policy", "ERB Board Governance", "ERB Funding Policy", "Board Strategic Plan (2017-2019)", and "Board Meeting Schedule".



NMERB Board and Committee Meeting Agenda and Minutes

MY NMERB ACCOUNT 

ERB BENEFIT CALCULATOR 

RETIREMENT SEMINARS 

DOWNLOAD FORMS 

ERB Board Meeting Calendar

- ▶ [About NMERB](#)
- ▶ [Board And Management](#)
- ▶ [Investment Information](#)
- ▶ [Member Information](#)
- ▶ [ERB Publications](#)
- ▶ [Tools And Resources](#)

NMERB Board Meeting Minutes and Meeting Agendas

[Open Meetings Act Resolution](#) - Adopted by the Board at the December 2016 Board Meeting

[NMERB Meeting Minutes Archive](#) (click link to archive)

[Inspection of Records Act](#)

All meetings dates are subject to change. The most up to date meeting schedules can be found [ERB Board Meeting Calendar](#) or on our homepage, www.nmerb.org.

Meetings are typically held at the Albuquerque NMERB office, 6201 Uptown Blvd. NE, Suite 203 ([view map](#))

Click on the tab of the meeting schedule you would like to view.

"BOT" is the Board of Trustees tab.

"IC" is the Investments Committee tab.

"ARP" is the Alternative Retirement Plan Committee tab.

"AC" is the Audit Committee tab.

AC 2017	ARP 2017	BOT 2017	IC 2017	AC 2016	ARP 2016	BOT 2016	IC 2016
AC Dates in 2017				Minutes		Agenda	
November 2016				PDF		PDF	
August 2017						PDF	



Managing the Retirement Assets of New Mexico's Educators

Santa Fe: (505) 827-8030 | Albuquerque: (505) 888-1560 | Toll-free: 1-866-691-2345



Investment Policies

Investment Policies are located at http://nmerb.org/investment_policies.html

Links for NMERB investment policies include:

- NMERB Investment Policy
- Real Estate Policy
- Private Equity Policy
- Natural Resources Policy
- Infrastructure Policy
- Hedge Fund Policy
- Core Fixed Income Policy
- Placement Agent Disclosure Policy
- Investment Services Procurement Policy
- Campaign Contribution Disclosure Form

Investment Policy Scope

NMERB Investment policies cover the following areas:

1. Selection processes for investment managers, consultants and other service providers.
2. Roles and responsibilities of the Board, Investment Committee, staff, managers, consultants, and custody bank.
3. Asset allocation targets, ranges and descriptions of asset classes.
4. Management of our internal Core Bonds portfolio.
5. Proxy voting for stockholdings.
6. Risk controls.
7. Rebalancing of fund assets.
8. Reporting of placement agent activity.

Asset Allocation

By policy, we conduct an asset allocation review every two years. The reviews may be found here: http://nmerb.org/asset_allocation.html

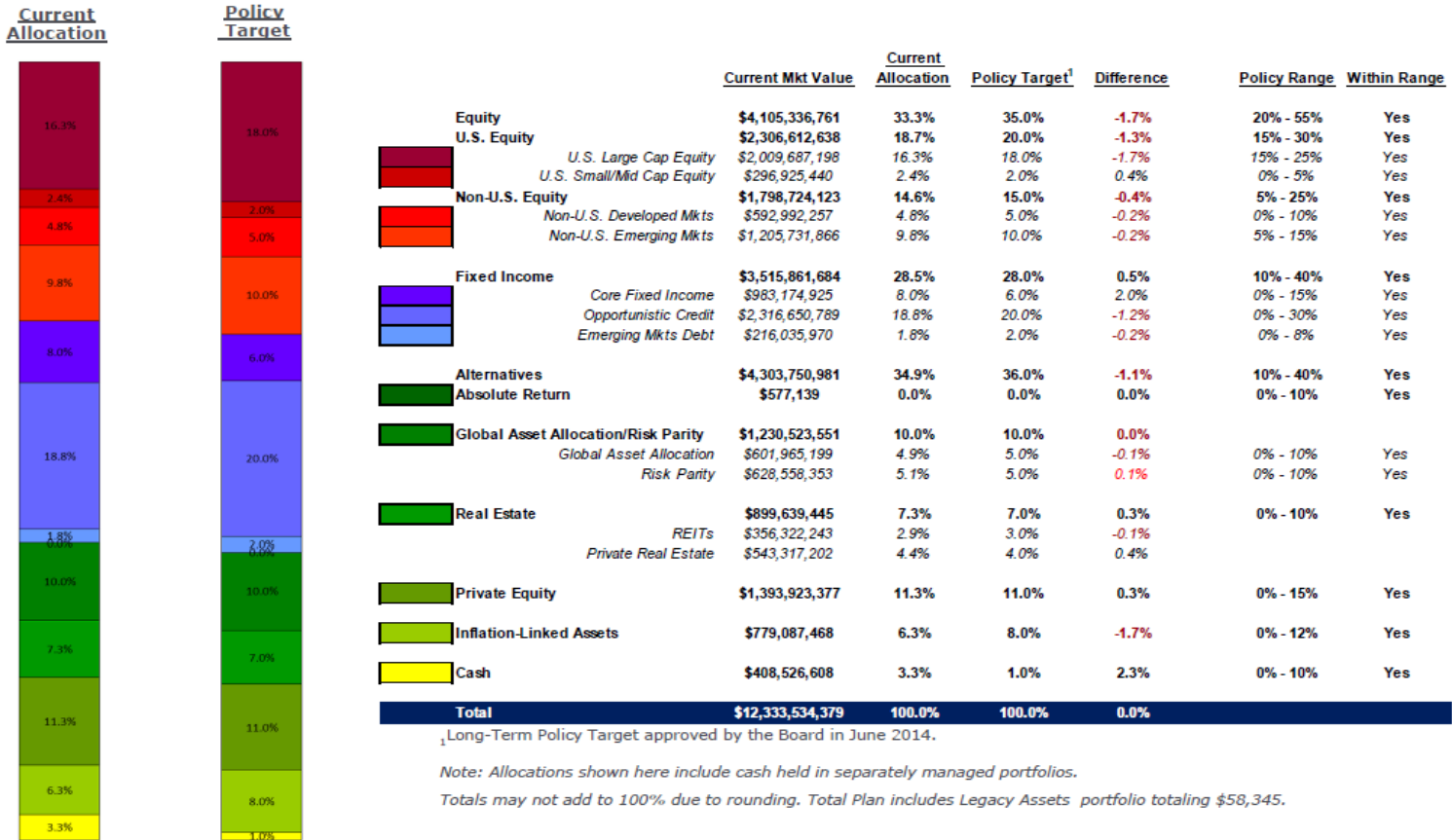
The screenshot displays the homepage of the New Mexico Educational Retirement Board (NMERB). At the top, there is a navigation bar with links for 'Home', 'Educational Retirement Act', 'Legislation', 'Calendar', and 'Employers'. Below this is a large banner featuring the NMERB logo on the left and a photograph of the Philip Gonzales Building on the right. The logo includes the text 'NEW MEXICO EDUCATIONAL RETIREMENT BOARD' and 'MANAGING THE RETIREMENT ASSETS OF NEW MEXICO'S EDUCATORS SINCE 1957'. The building photo has the text 'EDUCATIONAL RETIREMENT BOARD PHILIP GONZALES BUILDING' overlaid. Below the banner is a row of four utility buttons: 'MY NMERB ACCOUNT' (with a padlock icon), 'ERB BENEFIT CALCULATOR' (with a calculator icon), 'RETIREMENT SEMINARS' (with a calendar icon), and 'DOWNLOAD FORMS' (with a document icon). Underneath these buttons is the 'ERB Board Meeting Calendar' section. On the left side of this section is a vertical menu with links: 'About NMERB', 'Board And Management', 'Investment Information', 'Member Information', 'ERB Publications', and 'Tools And Resources'. The main content area of the 'ERB Board Meeting Calendar' section is titled 'Asset Liability' and contains the following items: '2016 Asset Allocation Liability Study', '2014 Asset Allocation Review', and 'Asset Liability Study as of 06/15/2012'. At the bottom of the page is a dark blue footer containing a telephone icon, the text 'Managing the Retirement Assets of New Mexico's Educators', and contact information: 'Santa Fe: (505) 827-8030 | Albuquerque: (505) 888-1560 | Toll free: 1-866-691-2345'. In the bottom right corner of the footer is the NMERB logo with the tagline 'Securing financial futures' and 'since 1957'.



Asset Allocation - Implementation

New Mexico Educational Retirement Board

Total Fund Asset Allocation vs. Policy Targets



	Current Mkt Value	Current Allocation	Policy Target ¹	Difference	Policy Range	Within Range
Equity	\$4,105,336,761	33.3%	35.0%	-1.7%	20% - 55%	Yes
U.S. Equity	\$2,306,612,638	18.7%	20.0%	-1.3%	15% - 30%	Yes
U.S. Large Cap Equity	\$2,009,687,198	16.3%	18.0%	-1.7%	15% - 25%	Yes
U.S. Small/Mid Cap Equity	\$296,925,440	2.4%	2.0%	0.4%	0% - 5%	Yes
Non-U.S. Equity	\$1,798,724,123	14.6%	15.0%	-0.4%	5% - 25%	Yes
Non-U.S. Developed Mkts	\$592,992,257	4.8%	5.0%	-0.2%	0% - 10%	Yes
Non-U.S. Emerging Mkts	\$1,205,731,866	9.8%	10.0%	-0.2%	5% - 15%	Yes
Fixed Income	\$3,515,861,684	28.5%	28.0%	0.5%	10% - 40%	Yes
Core Fixed Income	\$983,174,925	8.0%	6.0%	2.0%	0% - 15%	Yes
Opportunistic Credit	\$2,316,650,789	18.8%	20.0%	-1.2%	0% - 30%	Yes
Emerging Mkts Debt	\$216,035,970	1.8%	2.0%	-0.2%	0% - 8%	Yes
Alternatives	\$4,303,750,981	34.9%	36.0%	-1.1%	10% - 40%	Yes
Absolute Return	\$577,139	0.0%	0.0%	0.0%	0% - 10%	Yes
Global Asset Allocation/Risk Parity	\$1,230,523,551	10.0%	10.0%	0.0%		
Global Asset Allocation	\$601,965,199	4.9%	5.0%	-0.1%	0% - 10%	Yes
Risk Parity	\$628,558,353	5.1%	5.0%	0.1%	0% - 10%	Yes
Real Estate	\$899,639,445	7.3%	7.0%	0.3%	0% - 10%	Yes
REITs	\$356,322,243	2.9%	3.0%	-0.1%		
Private Real Estate	\$543,317,202	4.4%	4.0%	0.4%		
Private Equity	\$1,393,923,377	11.3%	11.0%	0.3%	0% - 15%	Yes
Inflation-Linked Assets	\$779,087,468	6.3%	8.0%	-1.7%	0% - 12%	Yes
Cash	\$408,526,608	3.3%	1.0%	2.3%	0% - 10%	Yes
Total	\$12,333,534,379	100.0%	100.0%	0.0%		

¹ Long-Term Policy Target approved by the Board in June 2014.

Note: Allocations shown here include cash held in separately managed portfolios.

Totals may not add to 100% due to rounding. Total Plan includes Legacy Assets portfolio totaling \$58,345.



Investment Performance

Performance reports are available for several years on the website at <http://nmerb.org/Investments.html>



[ERB Board Meeting Calendar](#)

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- ▶ [Member Information](#)
- ▶ [ERB Publications](#)
- ▶ [Tools And Resources](#)

Investment Performance

QUARTERLY INVESTMENT REPORTS

You can view current and past quarterly investment reports (pdf files) by clicking on the links below:

[NMERB Investment Dashboard](#) (June 2017)

2017 Total Portfolio

[1st Quarter 2017](#)

[2nd Quarter 2017](#)

[-2017 Infrastructure](#)

[1st Quarter 2017](#)

[2nd Quarter 2017](#)

[-2017 Real Estate and Natural Resources](#)

[1st Quarter 2017](#)

[2nd Quarter 2017](#)

[-2017 Private Equity Report](#)

[1st Quarter 2017](#)

[2nd Quarter 2017](#)

2016 Total Portfolio

[1st Quarter 2016](#)



Placement Agent Disclosure

New Mexico Educational Retirement Board Third Party Placement Agent Disclosure

The New Mexico Educational Retirement Board Policy Regarding Placement Agent Disclosures requires that quarterly performance reports to the Board include information regarding any third-party marketers that were used by recipients of investments including any fee, commission or retainer paid by the hired fund to the third-party marketer for services rendered. These fees are not paid by NMERB but are paid by the hired funds for marketing services to the third-party.

The following investments were approved by the NMERB Investment Committee during the quarter, with disclosures made under the policy:

Fidelity Select International

The contract extension was approved for a \$271 million commitment on April 20, 2017 as part of the Fund's allocation to Non-US Developed Markets Equity.

Fidelity has provided documentation confirming no placement agent was used in connection with the NMERB's investment.

Additionally, Fidelity has completed the ERB Campaign Contribution Disclosure and reports no applicable campaign contributions.

Blackrock MSCI EAFE

The contract extension was approved for a \$286 million commitment on April 20, 2017 as part of the Fund's allocation to Non-US Developed Markets Equity.

Blackrock has provided documentation confirming no placement agent was used in connection with the NMERB's investment.

Additionally, Blackrock has completed the ERB Campaign Contribution Disclosure and reports no applicable campaign contributions.

Neuberger Berman Emerging Markets Equity

The contract extension was approved for a \$312 million commitment on April 20, 2017 as part of the Fund's allocation to Non-US Emerging Markets Equity.

Neuberger Berman has provided documentation confirming no placement agent was used in connection with the NMERB's investment.

Additionally, Neuberger Berman has completed the ERB Campaign Contribution Disclosure and reports no applicable campaign contributions.

Mondrian Emerging Markets Small Cap

The contract extension was approved for a \$359 million commitment on April 20, 2017 as part of the Fund's allocation to Non-US Emerging Markets Equity.

Mondrian has provided documentation confirming no placement agent was used in connection with the NMERB's investment.

Additionally, Mondrian has completed the ERB Campaign Contribution Disclosure and reports no applicable campaign contributions.



NEPC, LLC

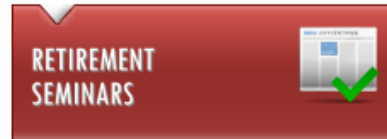
June 30, 2017



Annual Financial Reports

Annual financial reports from FY200-FY2017 may be found here:

http://nmerb.org/Annual_reports.html



ERB Board Meeting Calendar

- ▶ About NMERB
- ▶ Board And Management
- ▶ Investment Information
- ▶ Member Information
- ▶ ERB Publications
- ▶ Tools And Resources

Annual Reports

- GASB 68 Implementation Guide for Employers 2017 (PDF)
- GASB 68 Journal Entry Tool for Employers 2017 (XLS)
- GASB 68 Employer Allocation Report 2016 (PDF)
- Comprehensive Annual Financial Report 2016 (PDF)
- Popular Annual Financial Report 2016 (PDF)
- Independent Financial Audit Report 2016 (PDF)
- GASB 68 Employer Allocation Report 2015 Restated (PDF)
- Comprehensive Annual Financial Report 2015 (PDF)
- Popular Annual Report 2015 (pdf)
- Independent Financial Audit Report 2015 (pdf of 77 pages)
- GASB Employer Allocation Report 2014-Restated (pdf of 49 pages)
- Comprehensive Annual Financial Report 2014 (PDF)

Actuarial Reports

Actuarial reports covering 2002-2017 may be found here:

http://nmerb.org/Actuarial_reports.html



- ▶ [About NMERB](#)
- ▶ [Board And Management](#)
- ▶ [Investment Information](#)
- ▶ [Member Information](#)
- ▶ [ERB Publications](#)
- ▶ [Tools And Resources](#)

Actuarial Reports and Experience Studies

- [NMERB Actuarial Valuation Report 2017--posted 10/26/17](#)
- [NMERB Actuarial Valuation Presentation 2017--posted 10/20/17](#)
- [Updated GASB Report as of June 30, 2016--posted 5/17/17](#)
- [NMERB Experience Study Report--posted 4/28/17](#)
- [NMERB Experience Study Presentation--posted 5/17/17](#)
- [Actuarial Valuation Report 2016 \(PDF\)](#)
- [Actuarial Valuation Presentation 2016 \(pdf\)](#)
- [NMERB Actuarial Training 2016 \(PDF\)](#)
- [Actuarial Valuation Report 2015 \(pdf of 57 pages\)](#)
- [Actuarial Valuation Presentation 2015 \(pdf of 32 pages\)](#)
- [GASB 67 & 68 Report 2015 \(pdf of 8 pages\)](#)
- [GASB 67 & 68 Report 2014 \(pdf of 8 pages\)](#)

NMERB Events

Actuarial Valuation

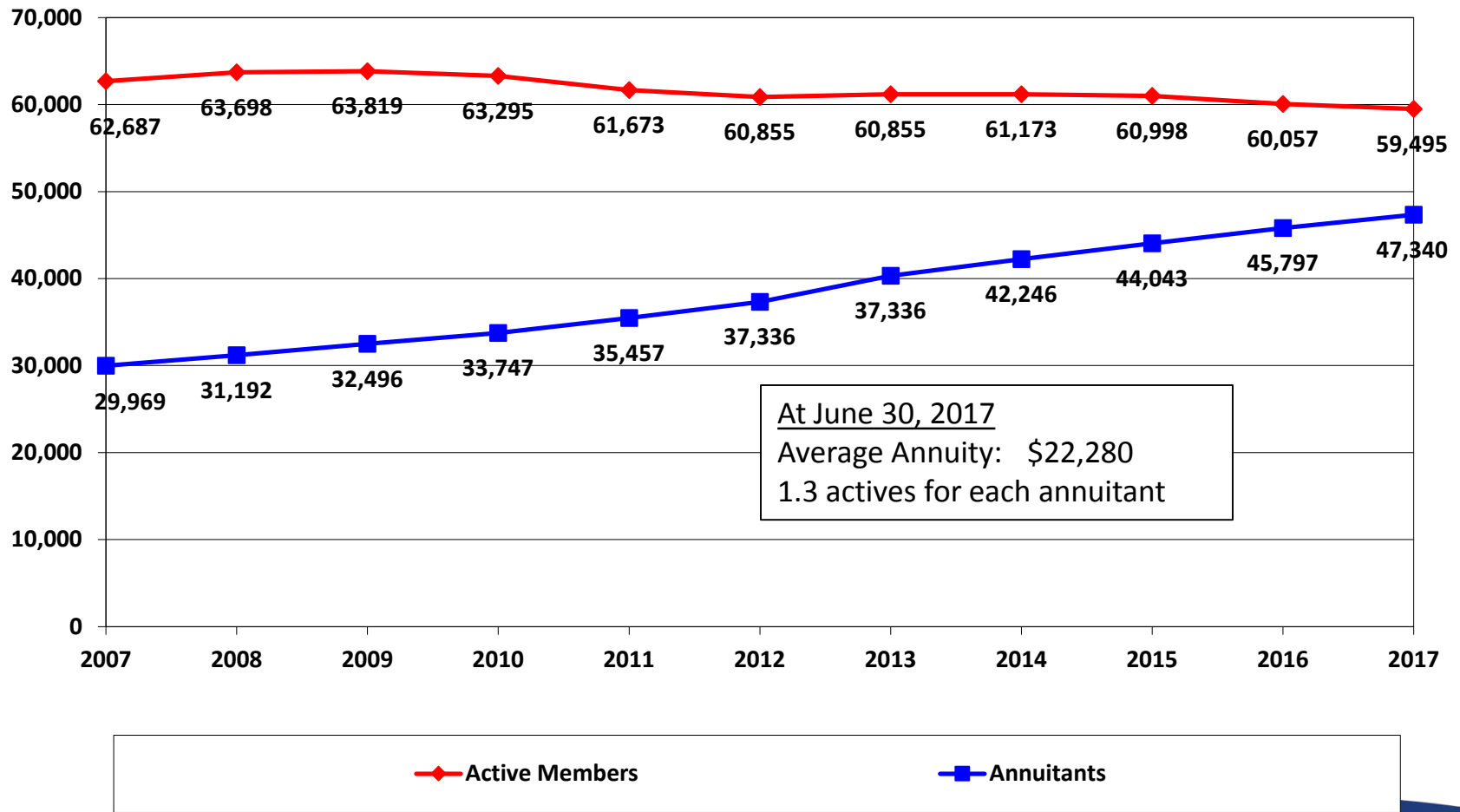
- Prepared as of June 30, 2017, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods
- Purposes:
 - Measure the actuarial liabilities
 - Determine adequacy of current statutory contributions
 - Provide other information for reporting
 - GASB #67 and #68
 - CAFR (Consolidated Annual Financial Report)
 - Explain changes in the actuarial condition of ERB
 - Track changes over time
 - Provide early warning on new trends

Key Results

	June 30, 2016 <i>Final</i>	June 30, 2016 <i>Reflecting Assumption Changes</i>	June 30, 2017 <i>Final</i>
Actuarial Funded Ratio	64.2%	61.5%	62.9%
Unfunded Actuarial Accrued Liability (UAAL)	\$6.6 billion	\$7.4 billion	\$7.4 billion
Normal Cost Rate	13.00%	13.62%	13.62%
Funding Period <i>Closed Group Valuation</i>	44.9 years	139.4 years	124.6 years
Funding Period <i>Open Group Projection*</i>	46 years	84 years	61 years

* Reflects: (1) lower normal cost for future members, (2) future COLAs less than 1.9%, (3) current market value of assets.

Membership – Actives vs. Annuitants



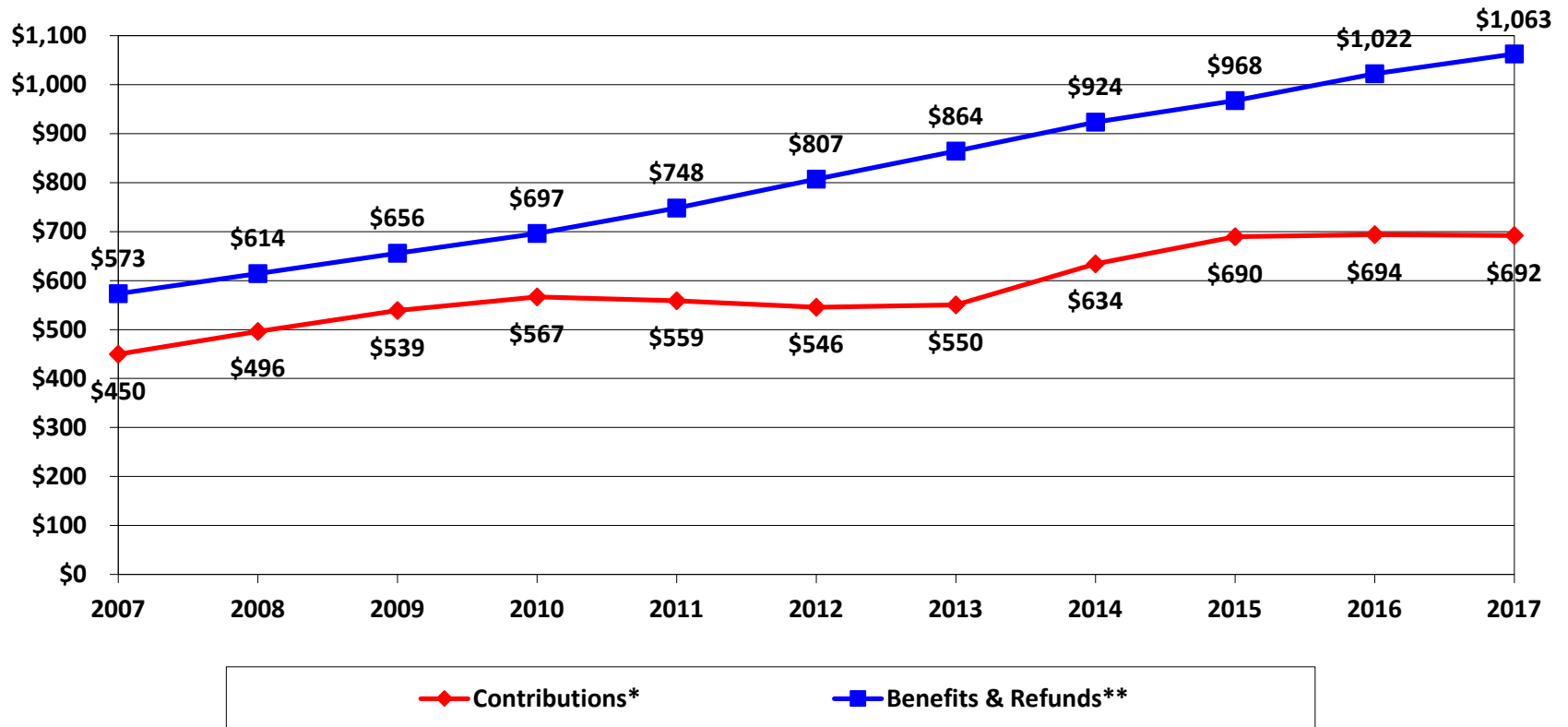
Assets

- Fair market value increased from \$ 11,532.8 million to \$12,509.4 million as of June 30, 2017
- Contributions
 - Member contributions = \$296 million, including service purchases
 - Currently 10.70% of pay
 - Employer contributions = \$390 million
 - Currently 13.90% of pay
 - ARP contribution = \$6 million (3% of ARP payroll)
- Total contributions of \$692 million, compared to \$693 million last year

Assets

- Total distributions—benefit payments, refunds and administrative expenses—totaled \$1,063 million
- Therefore, net external cash flow was -\$371 million, or -3.0% of market value of assets at end of year
 - Typical for a mature DB plan where investment earnings are expected to finance a large portion of benefit payments
 - Not projected to go below -5%
- Return of approximately 11.8% in FY 2017 (net of administrative and investment expenses)
 - 8.6% for last five years
 - 5.2% for last 10 years
 - 7.2% for last 15 years
 - 6.4% for last 20 years

Contributions vs. Benefits and Refunds



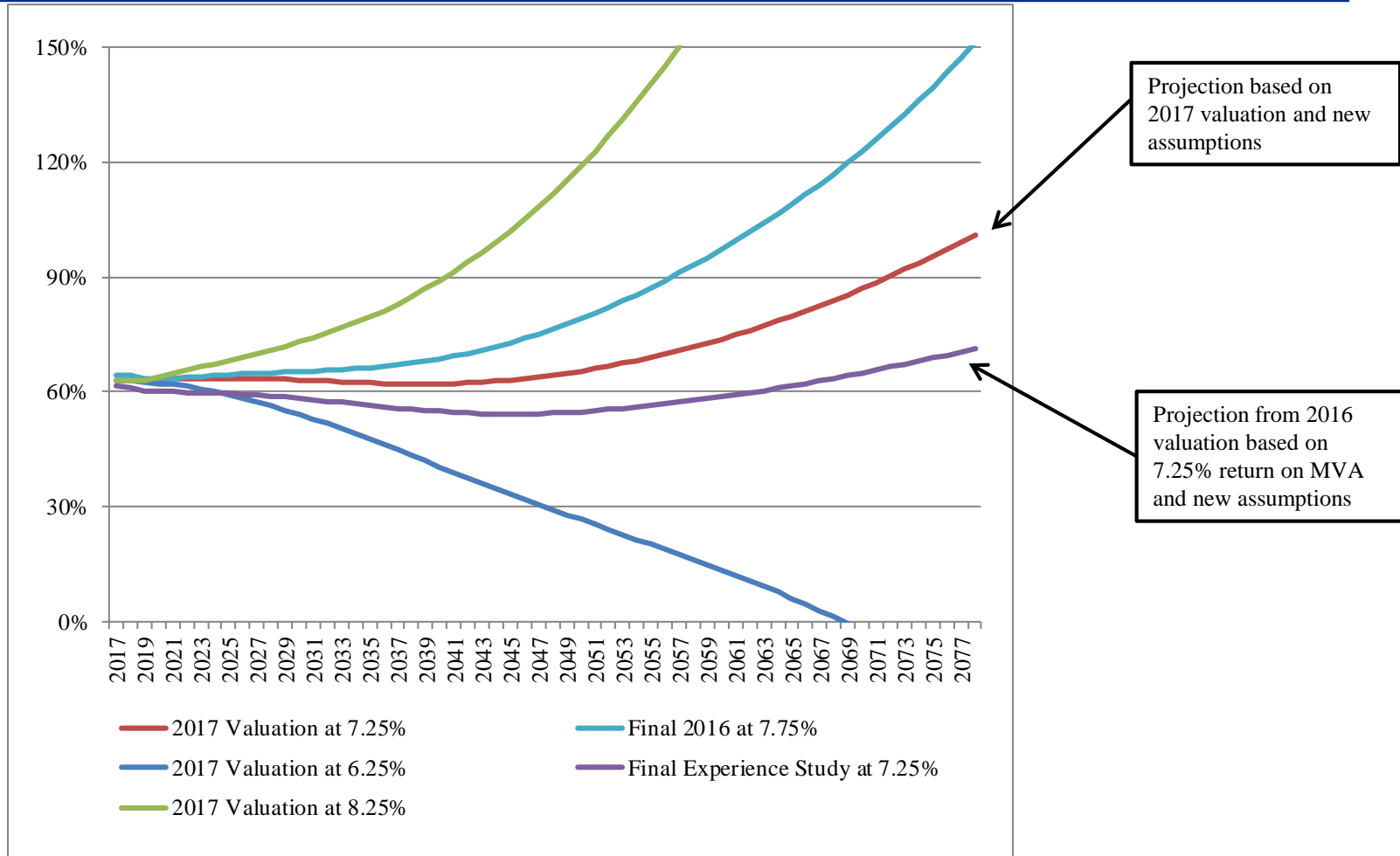
* Includes member contributions, employer contributions, and service purchases

** Includes administrative expenses

Funding Valuation Results

- “Valuation” Funding Period is 124.6 years
 - Based on the Actuarial Value of Assets, the current normal cost level, and a 1.9% COLA assumption for each year in the future
- “Open Group” Funding Period is 61 years
 - Based on the market value of assets, lower normal cost rate in the future for Tier 3 benefits, and accumulated savings from COLAs lower than 1.9%
- Funding Policy Contribution is 20.19%
 - 25-year amortization (30 years from 2012), plus employer normal cost
 - Shortfall (20.19% - 13.90%) of 6.29%
 - Does not incorporate lower normal cost for future members and future COLAs less than 1.9%

Projection – Funded Ratios



GASB 67

Accounting disclosures for **pension plans**

NMERB was one of the first pension plans in the US to adopt

GASB 68

Accounting disclosures for **participating employers**

Both GASB statements separate accounting disclosures and presentation from the funding considerations for pensions

Probably not much:

- Balance sheet and income statement will look different, but cash flows (one of the most important considerations for credit rating agencies) remains unchanged
- A negative balance in net position is not necessarily a sign of financial distress
- According to Rating Agency Standard & Poors:
“While there will be a range of new information reported under the GASB 67/68 and year-over-year comparisons may be challenging, we don’t expect significant credit differentiation based solely on the new reporting”.

March 24, 2015

What Does GASB 68 Do?

Separates the accounting and funding concepts for pensions

Provides new information for readers of financials:

- Comprehensive reporting of a government's net pension obligations and expenses
- Each employer includes its share of the actuarial present value of retirement benefits in its financials
- Reflects the pension liability where employment exchange takes place
- Provides 10-year trend information - net pension liability, allocation rate, deferral amounts, pension expense

Fiscal Year	Discount Rate	Net Pension Liability		
		1% Decrease	Current Single Rate Assumption	1% Increase
2017	5.90%	\$ 14,466,972,041	\$ 11,113,468,372	\$ 8,372,251,980
2016	7.75%	9,531,509,131	7,196,433,561	5,258,980,529
2015	7.75%	8,715,594,530	6,477,266,299	4,596,837,569

NEW MATERIAL: AGENCIES

- New requirements for pension plan reporting (GASBS 68)
 - Additional review of allocation reports by second audit firm
 - Plans will prepare Employer Guides to help agencies understand and correctly use the allocation reports
 - New section of Audit Rule (2.2.2.10.DD NMAC) establishes same requirements for RHCA (GASBS 75)

Z. GASBS 68, accounting and financial reporting for pensions:

- (1) PERA and ERB shall each prepare schedules of employer allocations as of June 30, 2016 and June 30, 2017. The state auditor requires the following:
 - (a) Prior to distribution of the schedule of employer allocations, **PERA and ERB shall obtain audits of their respective schedules.** These audits shall be conducted in accordance with government auditing standards and AU-C 805, special considerations - audits of single financial statements and specific elements, accounts, or items of a financial statement.
 - (b) Pursuant to AU-C 805.16, the PERA and ERB auditors shall each issue a separate auditor's report and express a separate opinion on the AU-C 805 audit performed (distinct from the agency's regular financial statement and compliance audit). 2.2.2 NMAC 27
 - (c) **PERA and ERB shall each obtain at least one concurring review of their respective schedules of employer allocations by an outside IPA firm (different from the firm performing the AU-C 805 audit). The firm selected to perform the concurring review is subject to OSA approval.**
 - (d) The AU-C 805 audits and resulting separate reports on the PERA and ERB schedules of employer allocations shall be submitted to the OSA for review and release pursuant to Subsection A of 2.2.2.13 NMAC, prior to distribution to the participant employers.
 - (e) As soon as the AU-C 805 reports become public record, PERA and ERB shall make the information available to their participant employers.
 - (f) **PERA and ERB shall each prepare an employer guide that illustrates the correct use of their respective schedule of employer allocations report by their participant employers.** The guides shall explicitly distinguish between the plan-level reporting and any employer-specific items. The calculations and record-keeping necessary at the employer level (for adjusting journal entries, amortization of deferred amounts, etc.) shall be described and illustrated. The 2016 employer guides shall be made available to the participant employers by June 30, 2017. **The 2017 employer guides shall be made available to the participant employers by June 30, 2018.**
- (2) Regarding whether the pension liability shall be included in the stand-alone financial statements of funds, see implementation guide-GASB statement 68, question and answer 122, which says, "except for blended component units, which are discussed in questions 34 and 35, statement 68 does not establish specific requirements for allocation of the employer's proportionate share of the collective net pension liability or other pension-related measures to individual funds. However, for proprietary and fiduciary funds, consideration shall be given to NCGA statement 1, paragraph 42, as amended, which requires that long-term liabilities that are "directly related to and expected to be paid from" those funds be reported in the statement of net position or statement of fiduciary net position, respectively." Stand-alone state agency financial statements that exclude the proportionate share of the collective net pension liability of the state of New Mexico based on the above guidance, shall include note disclosure referring the reader to the statewide CAFR for the state's net pension liability and other pension-related information. The stand-alone report for the New Mexico component appropriation funds shall include note disclosure of the net pension liability for all the state agencies of the state of New Mexico.

Potential Threats

- Hacking Attack
- Virus or malware
- Phishing
- Spoofing
- Ransomware

Potential Damages

- Service or payment interruption
- Loss or disclosure of member data
- Time and Financial Costs
- Reputational Damage
- Loss of Member Confidence

The retirement board of the public employees retirement system and the board of the educational retirement system shall be the trustees for their respective systems and have the sole and exclusive **fiduciary duty and responsibility for administration** and investment of the trust fund held by their respective systems.

N.M. Const. Art. XX, Section 22.

Fiduciary duty includes the duty to act prudently.

Amend Open Meeting Act (OMA) and Inspection of Public Records Act (IPRA) to provide for narrow exceptions that allow discussions and records pertaining to IT and Network Security to be confidential and not accessible by malicious entities.

Under OMA

Allow executive session for those portions of meetings addressing:

- (a) Security assessments or deployments of information resources technology;
- (b) Network security information; or
- (c) The deployment, or a specific occasion for the implementation, of security personnel, critical infrastructure or security devices.

Under IPRA

Exempt from disclosure confidential electronic network security information:

- a) revealing components, including passwords, personal identification numbers, access codes and encryption, of a public body's electronic network security system;
- b) collected, assembled or maintained by or for a public body to prevent, detect or investigate criminal or fraudulent activity; or
- c) concerning an assessment, made by, or made for or maintained by a public body, of the vulnerability of the network to criminal activity

