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Dear Mr. Walz,

Your editorial of December 26, 2010 makes a number of points that, as the Educational Retirement Board's Chair, I strongly disagree with. Specifically, the editorial states that the ERB relied upon an unrealistic investment rate of return over the next 30 years to cover pension liabilities, the ERB "chose to be popular with its constituency" instead of forcing educators to face some hard truths, the State's promised 13.9% portion of the pension contribution is too high, and the pension fund is structured like a "pyramid scheme."

The editorial notes that the pension fund's 10 year average return on investment was 2.6%. It is not noted, however, that this average reflected the impact of two of the most serious market downturns in the last 100 years – downturns which occurred within a single 10 year period. For a more accurate picture, the ERB's investment returns must be looked at from a broader perspective. Over 20 year and 25 year periods, the ERB's investment returns were 8.4% and 9.0%, respectively. Those returns are higher than the 8.0 % currently used in the ERB's actuarial model. More recently, the ERB earned 18.2% in the fiscal year ended June 30, 2010, placing it in the top 2% of all public pension funds in the U.S. with over $1 billion in assets. While these figures show that the ERB can and has earned more than 8% over time, the Board knows that rate must be periodically reviewed as part of its regular business process to determine whether its continued use is appropriate. The ERB is reviewing the 8% rate with its actuaries and investment advisor and will determine this Spring whether to continue using that rate in its actuarial model.

Investment professionals agree that asset allocation is responsible for over 90% of investment performance. Until 2005, state law limited ERB's investment options to stocks and bonds publicly traded in the U.S., excluding a number of asset classes. Aware that a broader range of investment options would better insulate the State's public pension funds from large swings in the stock and bond markets such as occurred in 2000 through 2003, the 2005 Legislature amended the law governing the ERB's and the Public Employees Retirement Association's investments. Since then, the ERB has been diversifying its investments at a measured pace. In October 2010, the ERB revised its investment allocation as part of its effort to enable the pension fund to better weather financial downturns and to provide more consistent, less volatile returns. ERB's actuaries and investment advisor will consider the new investment allocation, as well as general market conditions, when making their recommendation whether the 8% investment return assumption continues to be warranted.

Regarding the statement that the ERB "chose to be popular" rather than force educators "to face some hard but necessary truths" when it recommended the contribution increases, those who attended the meetings where changes were considered know the decision was not popular. The ERB's goal is to reach 80% funding of pension liabilities within 30 years. The ERB arrived at that goal after listening to legislators and others and consulting with its outside actuaries. As with any goal, there are many ways to reach it. The ERB could have pushed the burden of improving the funding level onto new members, as other plans have, in the form of reduced benefits and higher contributions. However, this would not improve the fund's financial status for many years. Instead, the ERB voted to increase contributions for all members, current and future. That decision was far from popular. While many members accepted the necessity of the decision, others questioned whether their contributions need to be raised, particularly now, and still do not support the decision. Board members were criticized for the decision – repeatedly. The recommendation to increase contributions came less than two years after the ERB recommended the Legislature increase the length of service required for new members to receive retirement benefits, another recommendation that was neither "popular" nor universally supported. As with recommending increased contributions, recommending longer service requirements was part of the ERB's commitment to the long term health of the pension fund and to maintaining similar benefits for members over time.

In 2005, the Legislature increased the contribution rates for public education employers (effectively the State) to 13.9% and for public education employees to 7.9% over several years. Employee contribution rates increased as planned. In addition, for those earning over $20,000 annually, another 1.5% was added when the Legislature shifted that amount from the employers to the employees for two years as part of balancing the State's budget, resulting in a 9.4% employee contribution rate. As has been widely acknowledged, the employers are not likely to resume paying that 1.5% in the near future – if ever. The ERB is asking the Legislature to increase contributions to the agreed 13.9% level, not at once, but over 6 years. This gradual implementation will allow the Legislature to plan for the increase. Pensions for educational employees are a valuable tool in recruiting qualified educators and an important element of the compensation package employees consider when they go into teaching. Funding the planned and promised contribution increase is a vital part of improving New Mexico's educational system.

While some public pension funds elsewhere may offer those types of pensions, often without adequately funding them, such is not the case in New Mexico. The Legislature has controlled the level of benefits and has appropriated the employer contributions as provided for in statute, currently 10.9% for ERB and 15.09% for PERA for most state employees. The ERB, and educators, understand the difficult fiscal situation that New Mexico is facing and that the employer contribution cannot be increased to 13.9% in the short term. However, the longer that funding commitments to the pension plan are delayed, the more difficult the problem becomes. By gradually increasing employers' contributions over six years, we will begin to address the problem, rather than letting it continue to grow.

As the December 26, 2010 editorial notes, pension plans should not be structured like "pyramid schemes" – and the ERB is not. Pension plans are designed to be prefunded by employer and employee contributions during the members' working careers. While members are working, the contributions are put to work in investments. These investments allow the members to retire secure in the knowledge that their pensions have been earned and will be paid. At every pension plan, contributions come in from employers and employees while pensions also are being paid to retirees. This does not a "pyramid scheme" make. Use of this rhetorical flourish may be entertaining to some but it is misleading and does nothing to further the important discussion of how to structure and pay for public pensions. This discussion should take place soon, free of misleading rhetoric. It also needs to take place with the implicit understanding that reasonable pension benefits, properly funded, are sustainable and provide a well-earned secure retirement. New Mexico's public servants, and all employees, deserve financially secure retirements. In the long run, this is in best interest of all New Mexicans.

Sincerely,

Mary Lou Cameron

Mary Lou Cameron
ERB Chair