

# **PED Budget Conference**

Wednesday, April 12, 2017

## **NMERB Update**

Jan Goodwin, Executive Director

Mary Lou Cameron, Board Chair

H. Russell Goff, Board Vice Chair

1. Information about ERB
  - General Info
  - Actuarial metrics
  - Assets and investment performance
2. ERB retirement structure and facts
3. Employer Reporting

# What's up at NMERB?

- 2017 retirement season
- Cybersecurity
- Rule changes
- Transparency

## SB 28- ERB's technical cleanup bill sponsored by Senator Gay Kernan

### Background:

- Archaic terminology
- Align statute with business practices

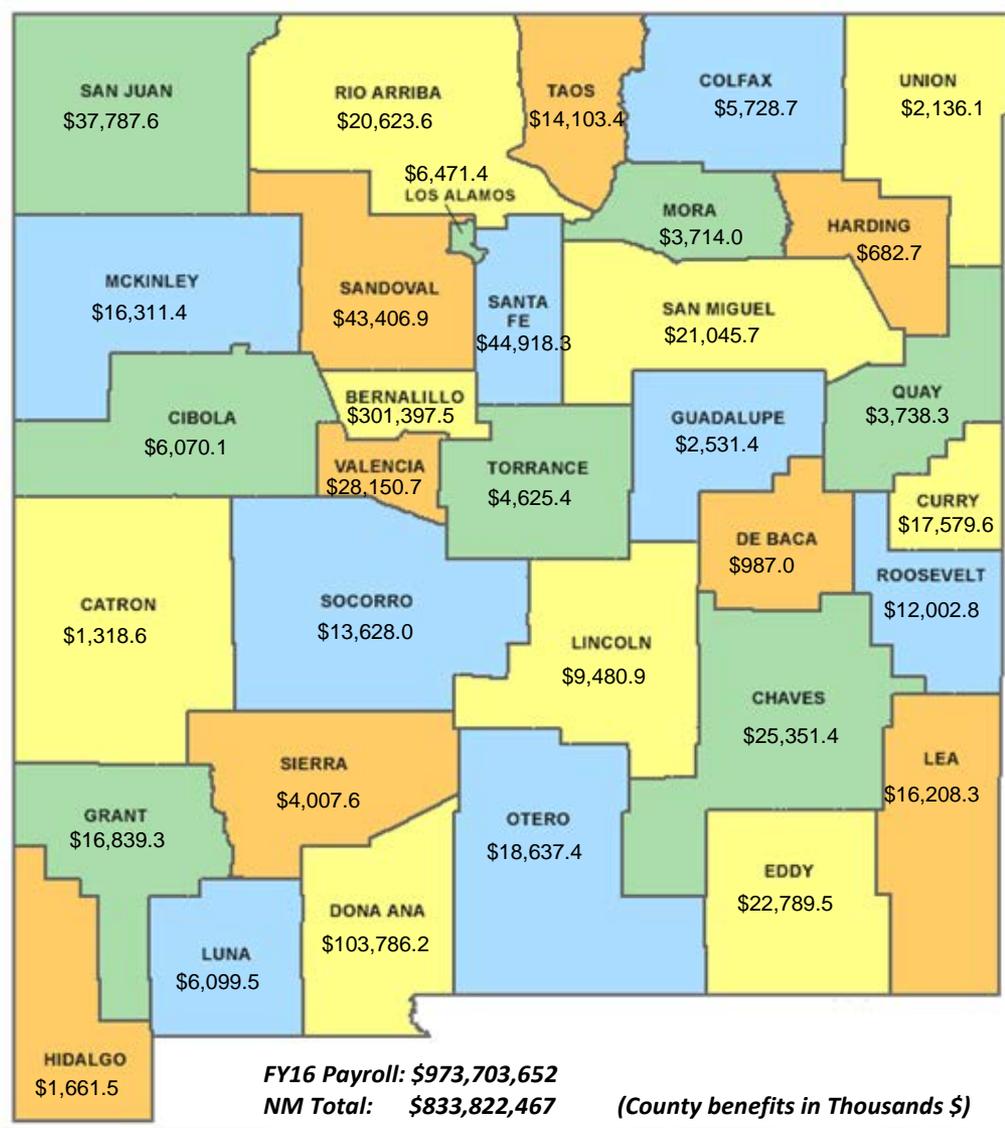
### Three categories of change:

- Provisional membership
- Disability benefits
- Clarifying and technical changes

# ERB Highlights as of June 30, 2016

<b>Active ERB Members</b>	<b>60,057</b>
Retirees and Beneficiaries	45,797
Retiree Payroll	\$973,703,652
Member Contributions	\$295,946,396
Employer Contributions	\$396,988,557
Member Contribution Refunds	\$39,027,078
Active Member Payroll	\$2,612,044,476
Participating Employers	218
ERB Net Assets	\$11.5 billion
Average Benefit	\$21,972
Average Age at Retirement	61.51

# Fiscal Year 2016 Retiree Benefits by County



# ERB Actuarials at a Glance

<b>Fiscal Year</b>	<b><u>6/30/14</u></b>	<b><u>6/30/15</u></b>	<b><u>6/30/16</u></b>
<b>UAAL</b>	\$6.3B	\$6.5B	\$6.6B
<b>Funded Ratio</b>	63.1%	63.7%	64.2%
<b>Funding Period</b>	42.1 years	43.2 years	44.9 years

- Trends are going in the right direction
- Requires continued diligence by Board
- Experience studies every two years

# ERB's December 31, 2016 Investment Performance, net of fees

New Mexico Educational Retirement Board

## Total Fund Performance, Net of Fees

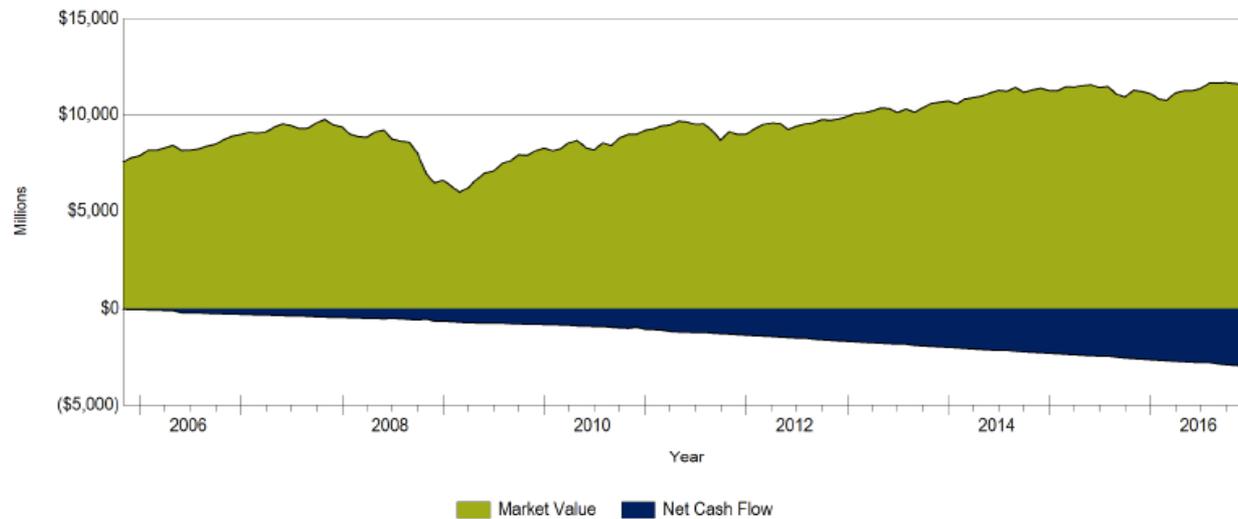
	Market Value (\$)	% of Portfolio	Ending December 31, 2016							Inception	
			1 Mo (%)	3 Mo (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total Fund</b>	<b>11,683,011,729</b>	<b>100.0</b>	<b>1.1</b>	<b>0.8</b>	<b>4.6</b>	<b>8.5</b>	<b>5.8</b>	<b>8.5</b>	<b>5.1</b>	<b>9.0</b>	<b>Jul-83</b>
<i>Policy Index</i>			<u>1.7</u>	<u>1.1</u>	<u>4.8</u>	<u>9.1</u>	<u>5.0</u>	<u>7.6</u>	<u>4.4</u>	-	<i>Jul-83</i>
Over/Under			-0.6	-0.3	-0.2	-0.6	0.8	0.9	0.7		
<i>Allocation Index</i>			1.6	0.8	4.4	8.5	4.9	7.5	5.1	-	<i>Jul-83</i>
60% MSCI ACWI (Gross) 40% Citi WGBI			1.1	-2.7	0.6	5.9	2.0	5.6	4.0	-	<i>Jul-83</i>

# Total Fund Asset Growth Summary as of December 31, 2016

New Mexico Educational Retirement Board

## Total Fund Asset Growth Summary

Market Value History  
Since NEPC began tracking performance, October 1, 2005 thru December 31, 2016

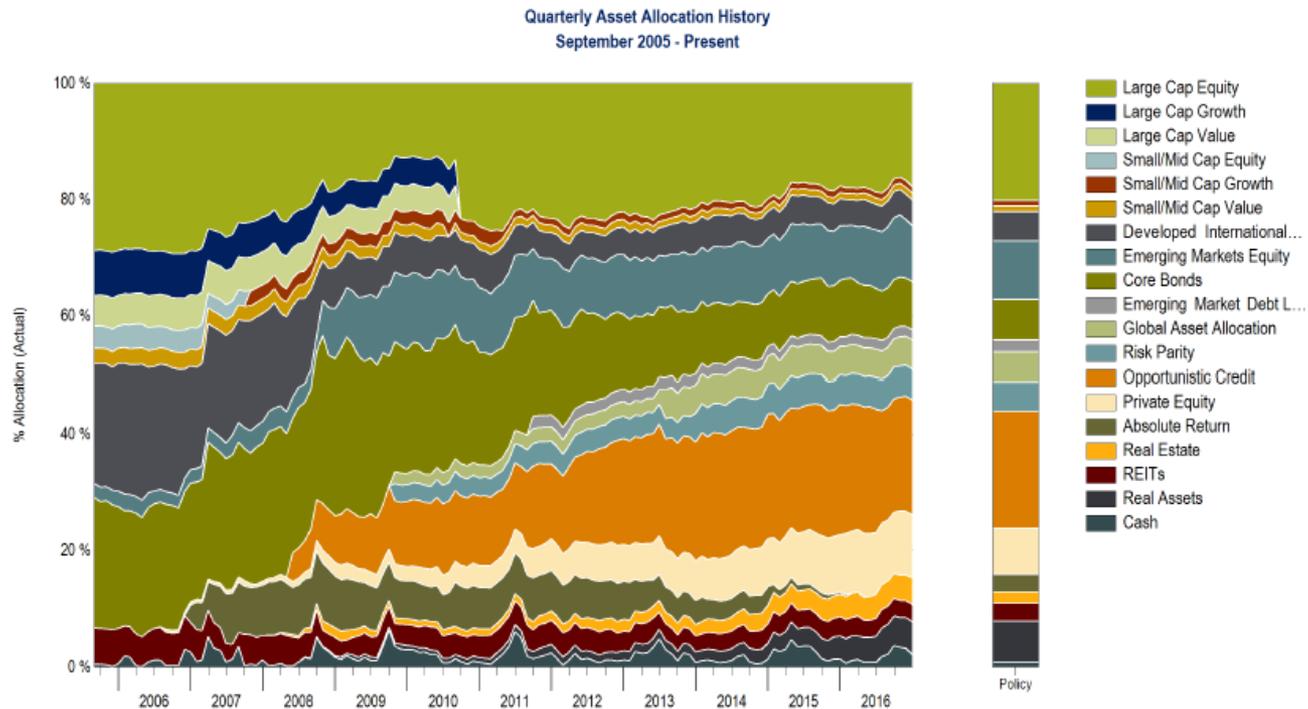


	Last Three Months	Fiscal Year-To-Date	One Year	Three Years	Five Years	Since 10/1/05
Beginning Market Value	\$11,685,080,041	\$11,366,601,630	\$11,110,179,629	\$10,728,154,275	\$8,992,700,340	\$7,694,652,364
Net Cash Flow	-\$96,756,484	-\$204,166,080	-\$366,967,920	-\$1,002,668,041	-\$1,630,609,806	-\$2,991,332,842
Net Investment Change	\$94,688,172	\$520,576,179	\$939,800,020	\$1,957,525,495	\$4,320,921,195	\$6,979,692,207
Ending Market Value	\$11,683,011,729	\$11,683,011,729	\$11,683,011,729	\$11,683,011,729	\$11,683,011,729	\$11,683,011,729

# ERB's Changing Asset Allocation

New Mexico Educational Retirement Board

## Total Fund Asset Allocation History



# February 2017 performance

New Mexico Educational Retirement Board

## Total Fund Performance Detail

	Market Value (\$)	% of Portfolio	1 Mo (%)	YTD (%)	3 Mo (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Total Fund</b>	<b>12,007,909,799</b>	<b>100.0</b>	<b>1.9</b>	<b>3.3</b>	<b>4.4</b>	<b>8.0</b>	<b>15.2</b>	<b>6.5</b>	<b>7.9</b>	<b>5.4</b>	<b>9.1</b>	<b>Jul-83</b>
Policy Index			1.7	3.1	4.0	8.0	15.4	5.8	7.0	4.7	-	Jul-83
Over/Under			0.2	0.2	-0.5	0.0	-0.2	0.7	0.9	0.7		
60% MSCI ACWI (Net)/40% CRI WGBI			1.8	3.9	5.0	4.4	12.3	2.5	4.7	4.0	-	Jul-83
<b>U.S. Equity Composite</b>	<b>2,476,959,323</b>	<b>20.6</b>	<b>3.9</b>	<b>5.9</b>	<b>7.8</b>	<b>14.6</b>	<b>25.3</b>	<b>10.2</b>	<b>13.8</b>	<b>7.4</b>	<b>11.3</b>	<b>Jan-85</b>
Russell 3000			3.7	5.7	7.7	15.0	26.3	9.9	13.9	7.6	11.1	Jan-85
Over/Under			0.2	0.2	0.1	-0.4	-1.0	0.3	-0.1	-0.2	0.2	
<b>U.S. Large Cap Equity Composite</b>	<b>2,190,609,501</b>	<b>18.2</b>	<b>4.0</b>	<b>5.9</b>	<b>8.0</b>	<b>14.1</b>	<b>24.9</b>	<b>10.6</b>	<b>14.0</b>	<b>7.4</b>	<b>6.0</b>	<b>Aug-99</b>
S&P 500			4.0	5.9	8.0	14.2	25.0	10.6	14.0	7.6	5.3	Aug-99
Over/Under			0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.2	0.7	
S&P 500 Index Fund	2,190,609,501	18.2	4.0	5.9	8.0	14.1	24.9	10.6	14.0	7.3	4.7	Jan-00
S&P 500			4.0	5.9	8.0	14.2	25.0	10.6	14.0	7.6	4.8	Jan-00
Over/Under			0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.3	-0.1	
<b>U.S. Small/Mid Cap Equity Composite</b>	<b>266,349,821</b>	<b>2.4</b>	<b>3.2</b>	<b>5.7</b>	<b>6.1</b>	<b>18.5</b>	<b>27.6</b>	<b>6.7</b>	<b>12.4</b>	<b>6.7</b>	<b>7.3</b>	<b>Aug-99</b>
NMERB Small/Mid Cap Equity Blended Index			2.4	3.8	5.8	17.4	31.7	7.3	13.1	7.4	8.2	Aug-99
Over/Under			0.8	1.9	0.3	1.1	-4.1	-0.6	-0.7	-0.7	-0.9	
Lord Abbett	144,030,928	12	1.7	2.6	3.3	13.4	25.7	7.3	12.1	--	12.9	Aug-10
Russell 2500 Value			1.9	2.4	5.3	18.9	35.2	8.3	13.7	7.0	13.9	Aug-10
Over/Under			-0.2	0.2	-2.0	-5.5	-9.5	-1.0	-1.6	--	-1.0	
Pinnade	142,318,894	12	4.7	9.1	9.2	24.0	29.5	6.2	12.6	--	15.2	Dec-11
Russell 2500 Growth			3.0	5.5	6.4	15.8	28.0	6.2	12.4	8.5	14.1	Dec-11
Over/Under			1.7	3.6	2.8	8.2	1.5	0.0	0.2	--	1.1	

1 - Total Fund market value includes \$55,434 from Legacy Assets.

2 - U.S. Small/Mid Cap Equity Composite includes the performance history of the U.S. Small Cap Equity Composite through November 2011.

3 - NMERB Small/Mid Cap Equity Blended Benchmark is the Russell 2000 Index through November 2011 and the Russell 2500 Index from December 2011 - forward.

Note: Performance shown is net of fees.



February 28, 2017



# Major Types of Pension Benefits

- 1. Defined Benefit** – benefits are computed using a formula with factors such as length of employment, salary history and a multiplier
- 2. Defined Contribution** – benefits are based on contributions and any returns on investment, either gain or loss

# DB/DC Comparison

Issue	DB	DC
Amount of retirement benefit	Fixed at retirement – formula	Depends on investment performance
Who bears the risk?	Employer	Employee
Cost Of Living Adjustment (COLA)	Depends on plan	No

# DBs are more cost effective than DCs/401 (k)s

- Pool longevity risk
- Invest over a longer time horizon
- Professional management of assets
- Lower investment fees
- Use of a broader range of asset classes
- The cost to deliver the same benefit is 46% lower in DB plans than in a DC plan
- DB plans have higher investment returns than DC plans

# How your benefit is calculated

## Formula:

Years of service x Final Average Salary x 2.35%

## Examples:

25 years x \$50,000 x 2.35% = \$29,375

30 years x \$50,000 x 2.35% = \$35,250

35 years x \$50,000 x 2.35% = \$41,125

# When are you eligible to retire?

## Initial employment:

### Prior to July 1, 2010

25 years; Rule of 75; Age 65 & 5

### July 1, 2010-June 30, 2013

30 years; Rule of 80; Age 67 & 5

### On or after July 1, 2013

30 years (reduction if younger than age 55); Rule of 80; Age 67 & 5

# Required Monthly NMERB Submissions

The (4) monthly required submissions for NMERB Contributions Reporting are

- The Automated Clearing House (ACH) Deposit
- Form 100 Contribution Report
- Work Report File (W1)
- Member Detail File (M1)

The Member Detail File (M1) is a required submission each month, regardless of whether there are changes. If there are no changes, submit a blank file which contains only the header.

- Reconciliation of the monthly contributions reported is a 3-Way Match
- The payroll register of the Local Administrative Unit and the W1
- The Form 100 Contribution Report, ACH deposit, and the payroll register
- The W1, the ACH deposit, and Form 100 (including Job Category subtotals)

# Labeling the W1 and M1 Files

In the description box for the upload of the Work Report (W1) and Member Detail (M1) Files, do not enter any text; instead, follow the format for each file as shown below.

The format for labeling the W1 and M1 is as follows:

ABC042017W1    and    ABC042017M1

The parts of the label identify:

- The Local Administrative Unit – (*ABC*)
- The month of the reported contributions – (04 for April)
- The reporting year – (*2017*)
- The type of electronic file – (*W1* or *M1*)

# Universal Reporting and the “EX” Excludable Job Category

Universal reporting (effective 8/1/2016) states that a new Job Category “EX” is used to reflect all employees excluded from NMERB coverage (those who do not meet the definition of membership; .26 FTE or higher percentage worked).

Do not, however, report as “EX,” those non-member employees which are:

- NMERB Retirees, Return to Work, Exception – report as “RE” or “RW”
- Part Time “PT” employees – report as “PT”
- Be aware that any Retiree, Return to Work, is not reported as “PT”

Those excludable employees who are reported as “EX” are:

- On-call Substitutes (other than NMERB Retirees, Return to Work, Exception)
- PERA Retirees, Return to Work (Short Term, On-Call Substitutes only)
- Students

# Salary Excluded for NMERB Contributions

Do not include payments to members which do not “increase an employee’s annual base pay.”

## 2.82.3.8 NMAC

B. The following items shall **not** be considered annual salary for the purposes of contributions to the fund and computation of the member’s annual benefit:

(1) **Bonuses**, awards and prizes, pay supplements or salary supplements or other “one-time” payments which do not increase an employee’s annual base pay or which are made in lieu of an increase in base pay, and similar additional payments, as well as allowances or reimbursements for travel, housing, food, equipment or similar items.

(2) **Lump-sum payments to the member for accrued sick leave made at any time, and lump-sum payments of accrued annual leave (also referred to as “vacation leave”)** made after July 1, 2010. Lump-sum payments for accrued annual leave made on or before July 1, 2010 shall be includable as annual salary only to the extent that it does not include payment for more than thirty (30) days of such leave.

(3) Payments made by a local administrative unit to a member where services are not rendered. By way of example, and with limitation to such examples: (a) payments by an employer to “buy-out” the remaining term of a member’s employment contract or in connection with an early retirement program are not payments for services rendered, irrespective of whether payment is made in a lump-sum or distributed over a period of time, and (b) payments as a result of a legal settlement, whether related to the member’s employment or otherwise, are not payments for services rendered, unless such payments are specifically made for salary that was not previously paid.

(4) Stipends, salary, or other compensation paid to student teachers.

(5) Stipends or one-time payments for attending training sessions where such payments are not reimbursements for travel expenses.

(6) Allowances or reimbursements for, or expenses related to, travel, housing, food, equipment, cars, or similar items.

(7) After July 1, 2012, additional pay or a pay differential that is based solely on a member performing duties at (a) a location that is different than the location at which the member regularly performs his or her job duties or (b) that is based on the member performing duties outside of the United States and its insular areas, territories, and possessions (e.g., a location differential or hazard or hazardous duty pay).



# Salary Included for NMERB Contributions

To correctly report NMERB contributions, include only salary subject to NMERB contributions.

2.82.3.8 SALARY COVERED: A. Except as otherwise set forth herein and subject to the limitations set forth in Section 22-11-21.2, a member's annual salary for the purpose of contributions to the fund and computation of the member's benefit shall consist of total compensation or wages paid to the member for services rendered during each of the four calendar quarters of a fiscal year, beginning July 1 and ending June 30, excluding any salary earned while employed under the return to work program of the Educational Retirement Act.

(1) Salary includes payments made directly to the member or to a third party on behalf of or for the benefit of the member. Salary includes, without limitation: (a) base salary, compensation, or wages; 2.82.3 NMAC 2

(b) salary, compensation or wages for additional services rendered; examples include: teaching courses in addition to or above a full teaching load during the September to May academic year; teaching courses or performing research during summer (e.g., June through August) where such courses or research are not included in the duties on which the member's salary is based; and, performing work in addition to that specified in the employee's job description; performing administrative duties, such as serving as a department head, head of a faculty or staff group, or for providing other additional services;

(c) salary, compensation or wages based on professional certifications or qualifications, or skills such as being bilingual or multilingual;

(d) overtime, shift differential, and 'on-call' or call back pay.

(2) Retirement contributions shall be made by a local administrative unit and a member on base salary earnings before the salary is reduced due to the local administrative unit and member entering into a voluntary "cafeteria" plan.

(3) The salary or compensation paid to a member under a school bus owner-driver contract shall be covered for contributions and benefit calculation purposes. Contributions for compensation paid under a school bus owner-driver contract shall be based upon and limited to the compensation amount paid to a person who drives a single school bus owned by that person over a regularly established route under a regular contract in that person's name with a local administrative unit.

(4) Tips or other remuneration paid to a member by a third party are considered salary to the extent that a local administrative unit reports such amounts as the member's income for tax purposes.



# Prior Period Adjustments for Terminations

Prior Period Adjustments are required when the final pay for an employee who terminates is reported in the current month, but the termination date is in a previous month.

Remember to edit the Work Report File (W1) by:

- Faxing an “Adjustments to Monthly Reports,” (1) Form 9 appropriate for that member’s Job Category), to your analyst
- Changing the “Period to be Adjusted” to the period (last day of the month) in which the termination occurred, on both the Work Report File (W1) and the Form 9
- Stating the purpose on the Form 9

The Form 9 shows authorization from the LAU for its NMERB analyst to move the final pay back to the month of the termination. This ensures that the member’s service credit is accurately calculated.

# ERB Schedule of Contribution Rates

Fiscal Year	wage category	Date Range	Member Rate	Employer Rate	Total	% Employee Pays
58-59		7/1/1957 -6/30/1959	3.00%	4.00%	7.00%	42.86%
60-74		7/1/1959 -6/30/1974	4.00%	6.50%	10.50%	38.10%
75-79		7/1/1974 -6/30/1979	5.50%	6.50%	12.00%	45.83%
80-81		7/1/1979 -6/30/1981	6.50%	6.50%	13.00%	50.00%
82-84		7/1/1981 -6/30/1984	6.80%	6.80%	13.60%	50.00%
85-93		7/1/1984 -6/30/1993	7.60%	7.60%	15.20%	50.00%
94-2005		7/1/1993 -6/30/2005	7.60%	8.65%	16.25%	46.77%
2006		7/1/2005 -6/30/2006	7.675%	9.40%	17.075%	44.95%
2007		7/1/2006 -6/30/2007	7.75%	10.15%	17.90%	43.30%
2008		7/1/2007 -6/30/2008	7.825%	10.90%	18.725%	41.79%
2009		7/1/2008 -6/30/2009	7.90%	11.65%	19.55%	40.41%
2010 & 2011	\$20k or less	7/1/2009 -6/30/2011	7.90%	12.40%	20.30%	38.92%
2010 & 2011	Over \$20K	7/1/2009 -6/30/2011	9.40%	10.90%	20.30%	46.31%
2012	\$20k or less	7/1/2011 - 6/30/2012	7.90%	12.40%	20.30%	38.92%
2012	Over \$20K	7/1/2011 - 6/30/2012	11.15%	9.15%	20.30%	54.93%
2013	\$20k or less	7/1/2012 - 6/30/2013	7.90%	12.40%	20.30%	38.92%
2013	Over \$20K	7/1/2012 - 6/30/2013	9.40%	10.90%	20.30%	46.31%
2014	\$20k or less	7/1/2013 - 6/30/2014	7.90%	13.15%	21.05%	37.53%
2014	Over \$20K	7/1/2013 - 6/30/2014	10.10%	13.15%	23.25%	43.44%
2015	\$20k or less	7/1/2014 - future	7.90%	13.90%	21.80%	36.24%
2015	Over \$20K	7/1/2014 - future	10.70%	13.90%	24.60%	43.50%

## Investments and general topics

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## Plan or retirement issues

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