



# NMERB Connection

NMERB Serving 100,000 active, inactive members, and retirees | Preparing for your NMERB Retirement | Second Quarter (2016)

**MISSION.** Providing secure retirement benefits for New Mexico’s educational employees—past, present, and future.

**VISION.** To be an effective and trusted manager of New Mexico’s retirement system.

**VALUES.** Innovation, Integrity, Respect, Service, Quality, and Stewardship.

**“I realized right away, almost immediately, that my [Defined Benefit] was important. It kept me in the job nearly 22 years.”**

Evelyn Trujillo  
Las Vegas City Schools

## NMERB’s Responsibility to You

Fiduciaries administer and manage the New Mexico Educational Retirement Board’s (NMERB) retirement trust fund. NMERB’s Board members, managers, and investment staff are considered fiduciaries of the fund.

**Your Defined Benefit (DB) plan is protected—by the fiduciary standard. This means that NMERB’s primary responsibility is to the health of the fund for members past, present, and future. The fiduciary’s duty is considered to be among the highest standards in law.**

A fiduciary by definition is responsible for someone (usually a beneficiary) or something (often a trust fund). The fiduciary is required to place the beneficiary above the fiduciary’s own interests.

**NMERB’s primary responsibility is to you—our members.**

According to NMERB’s Board policies, “As Trustees, Board Members are fiduciaries to the educational retirement system and the Fund, and must prudently administer the fund for the sole and exclusive benefits of members, retired members and beneficiaries of the educational retirement system.”

The duty of a fiduciary is clearly for the benefit of the beneficiary. According to renowned Supreme Court Justice Benjamin Cardozo: “A trustee bears an unwavering duty of complete loyalty to the beneficiary of the trust, to the exclusion of the interests of all other parties.”

**This is an exacting standard. We’re happy to provide this level of support to you, our members and to ensure the health of the NMERB Defined Benefit plan.**

Learn more about NMERB’s Board Governance and Funding Policy at [www.nmerb.org](http://www.nmerb.org) in the Board of Trustees portion of the Board and Management tab. You can also see our investment policies in the Investment Information tab of our website.

## NMERB Notice of Rule Changes:

The New Mexico Educational Retirement Board (NMERB) adopted the following changes to the New Mexico Administrative Code at its April 22, 2016 meeting. All changes are effective July 1, 2016. The changes are summarized here: [Notice of Upcoming Rule Changes](#). Finally, the Board voted to table consideration of proposed changes to NMERB Rules 2.82.2 and 2.82.9 until its June 24, 2016 regular meeting. A summary of those changes is available in the [Public Comment Notice](#).

To view changes, please visit: [www.nmerb.org](http://www.nmerb.org).

## Be Aware Of These 12 Retirement Risks

By Kate Stalter, Better Money Decisions

**The classic images of retirement include attractive couples walking hand-in-hand on the beach, or lounging in Adirondack chairs as they gaze across the water.**

Of course, in reality, retirement means many different things. Some people enjoy visiting new places, others take up new hobbies or even start businesses. Some throw themselves into a full schedule of volunteer work and advocacy.

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But there are plenty of potential pitfalls along the road to that dream retirement. Sadly, people often fail to acknowledge the risks - or they're simply unaware of the obstacles that could derail their best-laid plans.

It's not that these challenges inevitably damage one's retirement dreams. By remaining cognizant of the pitfalls, pre-retirees are better equipped to deal with them.

### Here are 12 specific retirement risks:

**1. Longevity risk:** The risk of outliving sustainable income. People often underestimate the amount of money they will need to cover living expenses over a long life span. In most cases, it's worth a review of one's financial resources before making the decision to retire on a specific date.

**2. Government-program risk:** The risk that programs such as Social Security and Medicare, will not provide sufficient retirement income. A large number of people retire with few assets, and find themselves dependent on the relatively small amounts available through Social Security

**3. Market risk:** The risk of losing retirement assets temporarily or permanently because of a market downturn or poor investment performance. In many cases, investors make the mistakes of trying to pick stocks and time the market. Rather than lowering risk, attempts to outsmart the market generally worsen performance.

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## Keep Calm and Carry on

A letter from NMERB Chief Investment Officer Bob Jacksha

The recent volatility in the markets has made some NMERB retirees wonder if NMERB will continue to be able to pay the retirees their monthly pension benefits.

**The short answer is that NMERB has the capacity to pay the monthly retirement benefits our members have worked so hard to earn and count on for their financial security. Please continue reading for the whole story.**

According to Wikipedia, Keep Calm and Carry On: "...was a motivational poster produced by the British government in 1939 in preparation for the Second World War. The poster was intended to raise the morale of the British public, threatened with widely predicted mass air attack on major cities. Although 2.45 million copies were printed, and although the Blitz happened, the poster was hardly ever publicly displayed and was little known until a copy was rediscovered in 2000. It has since been re-issued by a number of private companies, and has been used as the decorative theme for a range of products."

**After a few years of seemingly to only go up, volatility has returned to the stock market, reminding us that the market also goes down. Daily and even intraday swings in the market are rather pronounced. The headlines in the financial press seem designed to induce panic and fear. Perhaps a little perspective is needed?**

As I write this today, the S&P 500 Index is trading at a level of 1916, down from 2059 at the beginning of the calendar year, a decrease of about 7.0 percent. The drop in equities in emerging market has been more pronounced. The MSCI Emerging Markets Index closed 801 yesterday, down from 956 at the beginning of the year, a drop of almost 16.25 percent. An undesirable outcome for the markets, yes.

### **Something to be concerned about, but not a calamity.**

Over the last few years, investment markets have been supported (if not outright inflated) by the Federal Reserve's and foreign central banks' loose monetary policies. The central banks have been keeping interest rates low and purchasing financial assets in the marketplace, a process known as quantitative easing (QE). In the United States, the Federal Reserve has ended QE and announced their inclination to raise interest rates at an undetermined date, but very likely in the near future.

We realize that market corrections and bear markets will occur and rely on diversification to soften the blow. For the details of our asset allocation you may refer to page 24 of our latest quarterly performance report, which you may download here: <http://www.nmerb.org/pdfs/Q22015NMERBIPA.pdf> or our Investment Dashboard here: <http://www.nmerb.org/pdfs/assetvaluedashboard.pdf>.

### **March 31, 2016 Update: "As you were"**

Recently, an Associated Press (AP) article noted the investment losses in the month of January 2016. That article is correct, January was a difficult month for investments and the value of the NMERB fund decreased about \$300 million. We have received some questions as to whether or not this will cause NMERB to make further changes to the fund benefit and contribution structure, or as we also call it, the plan design. The short answer is "NO".

**Changes to the fund design should not be made based on short-term outcomes.**

Short-term changes would result in a whipsaw of up and down movements in benefits and contributions as short term results can easily reverse themselves from one time period to the next.

**The plan design is based on long term (multiple years) average outcomes and projections.**

Based on those long term factors, the plan design was adjusted in recent years. At this point in time, we do not anticipate any further changes. If there are any adjustments required in the future, they are years down the road. The NMERB Board has a process for periodically reevaluating the assumptions built into the plan design.

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**(12 Retirement Risks continued...)**

**4. Excess withdrawal risk:** The risk of drawing down assets too quickly. Our firm routinely sees people who are spending money at a rapid rate, and are on track to run out of money in the foreseeable future. This can be addressed by doing a financial plan - and sticking to it!

**5. Lifestyle risk:** This is related to excess withdrawal risk. It happens when the available resources are insufficient to cover the current or expected standard of living.

**6. Asset allocation risk:** The risk of investing either too conservatively or too aggressively, relative to your objectives and time horizon. Often, we see portfolios that have no cohesive strategy; instead, the investments are a seemingly random collection of stocks, bonds and mutual funds. That lack of thoughtful, diversified allocation often leads to a portfolio that doesn't generate enough income to meet one's goals, or takes too much risk for a given situation.

(continued next issue...)

**(Next issue: Six other retirement risks...)**

**PERA Smart Save**

By Karyn Lujan,  
PERA Smart Save Manager



**What is it?**

The PERA Smart Save Deferred Compensation Plan is a 457b supplemental retirement plan. It is an optional program intended to complement your default defined benefit plan, such as your ERB plan.

The PERA Smart Save plan is governed by the NM Deferred Compensation Act (NMSA 10-7a, 1-10) and is sponsored by the NM Public Employees Retirement Association (PERA). Though the plan is PERA-sponsored, all NM public schools are eligible to adopt the plan as a "local public body." Currently, there are eight NM public schools that offer the PERA Smart Save Plan to its employees.

**How does it work?**

PERA Smart Save is a *defined contribution plan*, which means your retirement savings is based on your individual contributions plus investment earnings – you select your own investment options from a menu of mutual funds offered by the plan. Like your mandatory ERB contributions, you defer paying taxes on that part of income you pay into your retirement savings. Investment earnings in the plan are also tax deferred. NM PERA contracts with two other entities that each play a different role in PERA Smart Save. The first is Nationwide Retirement Solutions which provides all recordkeeping and outreach services; the second is Meketa Investment Group which provides investment recommendations for the funds offered in the plan. In consultation with Meketa, PERA's plan manager and chief investment officer together present the investment recommendations to the PERA Board. The PERA Board has final approval on all aspects of the plan. As fiduciary, the PERA Board is required to act in the best interest of the plan's participants.

**What are the benefits?**

Aside from the obvious benefit of having extra money saved for retirement, there are other immediate benefits; participants commonly use their Smart Save funds to purchase additional service credit towards retirement - the transaction is tax free. And though it is not encouraged, participants are also allowed to borrow against this account or withdraw funds for unforeseen emergencies.

**How do we participate?**

If your school would like to participate in this valuable program, your school board must formally pass a resolution to adopt the plan. (PERA and/or Nationwide is available to present to your school board.) Nationwide will then work with your payroll department to establish the employer account. Once this is complete, your employees can start participating in PERA Smart Save and be on their way to a prosperous retirement.

For more information, contact Karyn Lujan, PERA Deferred Compensation Plan Manager, at (505) 476-9386 or [PERA-smartsave@state.nm.us](mailto:PERA-smartsave@state.nm.us).

**(Letter from CIO Bob Jacksha continued...)**

Every two years, NMERB's actuary conducts an experience study. The results are evaluated at an NMERB Board of Trustees meeting, to determine the accuracy of all of the assumptions built into the plan design and make any changes deemed necessary.

The assumptions include numerous relevant factors including the investment earnings rate, mortality rates, inflation, work force growth, salary increases, etc. When changes are made, the actuarial position and outlook of the fund is reevaluated.

If there were significant changes in the actuarial outlook for the fund, it would then be reasonable to consider whether or not changes to the plan design would be necessary.

To read the full letter: [Keep Calm and Carry On](#), from CIO Bob Jacksha, please visit: [www.nmerb.org](http://www.nmerb.org).

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## **College Saving Plan**

Saving for your child’s education with a 529 plan

Saving for college can be daunting especially with the cost of college rising every year.

According to the most recent survey of college pricing, the College Board reports that a moderate college budget for an in-state public college for the 2015–2016 academic year averaged \$24,061. A moderate budget at a private college averaged \$47, 831.

State sponsored 529 plans allow taxpayers to either prepay or contribute to an account for paying a student’s qualified higher education expenses. 529 plan distributions are tax-free as long as they’re used to pay qualified higher education expenses for a designated beneficiary. Qualified expenses include: tuition, required fees, books and supplies.

**To ease the financial burden of saving for college, savvy parents are saving and investing through a 529 plan, which in some states, such as New Mexico, are tax advantaged.**

As with other savings strategies, a 529 plan helps you to harness the discipline of putting money away early and often and eventually benefit from the powerful force of compounding, or earning more and more interest on interest and principal as your account grows over time.

**Saving for the future can seem like a hardship today. Bills need to be paid.**

Mouths need to be fed and things around the house need to be fixed. Developing a household budget that reflects your priorities and managing that budget is challenging.

Only you can decide how much you can afford to invest and what action you’re willing to take. 529 plans are valuable tools to help you plan for the future that you envision for you and your loved ones.

For more information on how to get started with the 529 College savings plan, visit the NM Higher Education Department’s 529 resource page: [www.hed.state.nm.us](http://www.hed.state.nm.us)

## **Contact NMERB**

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**Upcoming Newsletter:** Retirement 101

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