

February 15, 2017

Ms. Jan Goodwin
Executive Director
New Mexico Educational Retirement Board
P.O. Box 26129
Santa Fe, NM 87502-0129

Subject: 2017 Cost of Living Adjustment for Retirees

Dear Jan:

Section 22-11-31 of the New Mexico Statutes Annotated provides for cost-of-living adjustments to certain members whose benefits are in pay status. The annuity is adjusted annually and cumulatively commencing on July 1 of the year in which a member attains the age of 65 (age 67 if the member became a member on or after July 1, 2013) or on July 1 following the year a member retires, whichever is later. These cost-of-living adjustments also apply to members who were disabled at retirement, except that the benefits are adjusted annually and cumulatively commencing on July 1 of the third full year following the year in which the member was approved by the Board for disability or retirement.

Adjustment Factor

If the plan's funded ratio for the next preceding fiscal year is 100% or greater, Section 22-11-31(C)(1) defines the adjustment factor as $\frac{1}{2}$ of the percentage increase of the consumer price index between the next preceding calendar year and the preceding calendar year. The adjustment factor cannot exceed four percent, nor be less than two percent. However, if the percentage increase of the consumer price index is less than two percent, the adjustment factor will be equal to the percentage increase of the consumer price index.

If the plan's funded ratio for the next preceding fiscal year is greater than 90% but less than 100%, Section 22-11-31(C)(2) indicates that the adjustment factor for all non-disability retirements will be 95% of the adjustment factor defined in Section 22-11-31(C)(1) if the member had 25 or more years of service credit at retirement and whose annuity is less than or equal to the median adjusted annuity for the fiscal year next preceding the adjustment date. For all other retirees eligible for an adjustment, the adjustment factor will be 90% of the adjustment factor defined in Section 22-11-31(C)(1).

If the plan's funded ratio for the next preceding fiscal year is 90% or less, Section 22-11-31(C)(3) indicates that the adjustment factor for all non-disability retirements will be 90% of the adjustment factor defined in Section 22-11-31(C)(1) if the member had 25 or more years of service credit at retirement and whose annuity is less than or equal to the median adjusted annuity for the fiscal year next preceding the adjustment date. For all other retirees eligible for an adjustment, the adjustment factor will be 80% of the adjustment factor defined in Section 22-11-31(C)(1).

Finally, annuities shall not be decreased in the event that there is a decrease in the consumer price index between the next preceding calendar year and the preceding calendar year.

July 1, 2017 Adjustment

The adjustment factor defined in Section 22-11-31(C)(1) and applicable on July 1, 2017 to retirement benefits for retirees whose 65th birthday (67th birthday if the member became a member on or after July 1, 2013) falls in or before the current calendar year is **1.3%**. This adjustment factor will apply to all disability retirements who have been retired for at least three years, i.e., members who began receiving a disability retirement benefit in calendar year 2013 or earlier.

The funded ratio as reported in the actuarial valuation report for the next preceding fiscal year, or the actuarial valuation report as of June 30, 2016, was **64.2%**. Additionally, the median adjusted annuity for fiscal year next preceding the adjustment date, or the median monthly benefit of all non-disability retirements as of June 30, 2016, is **\$1,605.46**.

Since the plan's funded ratio as of June 30, 2016 is 90% or less, all non-disability retirements with 25 or more years of service credit at retirement and whose monthly annuity is less than or equal to \$1,605.46 will receive an annual adjustment of **1.17%**. All remaining non-disability retirements will receive an annual adjustment of **1.04%**.

Note that these adjustments only apply for members who retired in calendar year 2016 or earlier; members who retired in 2017 are ineligible.

Procedures

The adjustment factors have been determined based on the following procedures:

1. The data set is the CPI-U Consumer Price Index for each month in 2015 and 2016. The index is for U.S. cities, all urban consumers, and all items, not seasonally adjusted. Attached is a table showing the monthly and average CPI-U index for the last ten years.
2. The average of the twelve monthly indices is determined for 2015 and 2016. These values are 237.017 for 2015 and 240.007 for 2016. (Note that as of January 1, 2007, the Bureau of Labor Statistics changed their CPI calculation methodology to include three decimal places instead of one decimal place.)
3. The percentage increase from 2015 to 2016 is calculated based on these averages. The increase this year is 1.262%. Since the percentage increase is less than two percent, the adjustment factor is equal to the increase of the consumer price index. Therefore, the adjustment factor defined in Section 22-11-31(C)(1) this year is 1.262%. Annuities shall not be decreased in the event that there is a decrease in the consumer price index between the two years.

4. There are also special rules that apply if the percentage increase in CPI-U is greater than 2.0% in absolute value, which doesn't apply this year. As such, the resulting adjustment factor is equal to the percentage determined in Item 3.
5. We received data for 45,797 annuitants that were in receipt of their benefit as of July 1, 2016. This data includes 837 annuitants that are receiving disability retirement benefits and 1,185 annuitants that retired and began receiving retirement benefits on July 1, 2016. According to the provisions of Section 22-11-31, the median benefit is determined based on all annuities and retirement benefits paid for the fiscal year next preceding the adjustment date but excluding disability retirement benefits. Therefore, to determine the median adjusted annuity, we first excluded the 837 disability retirees and the 1,185 new retirees who began receiving their benefit after June 30, 2016 (note that there were three annuitants that fell into both categories). We then took the middlemost benefit of the remaining annuitants. If there is an even number of remaining annuitants, then the median is found by taking the average of the two middlemost numbers. The median adjusted annuity stated in this letter should be validated by ERB prior to any adjustments being paid to retired members.
6. Based on prior procedures, the adjustment factor defined in Section 22-11-31(C)(1) has been rounded to one decimal place. The adjustment factors defined in Sections 22-11-31(C)(2) and 22-11-31(C)(3) have been rounded to two decimal places to ensure that they are the appropriate proportion of the adjustment factor defined in Section 22-11-31(C)(1), if applicable.

We believe the procedure used to determine the increase complies with Section 22-11-31. We have also enclosed a history of the ERB COLAs since 1990.

If you have any questions about this information, please do not hesitate to call or write.

Sincerely,
Gabriel, Roeder, Smith & Company



R. Ryan Falls, FSA, MAAA, EA
Senior Consultant

jh

cc: Rick Scroggins
Joe Herm

Enclosures

Consumer Price Index for Last Ten Calendar Years

CPI-U, Current Series, All Items, Not Seasonally Adjusted

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Average
2016	236.916	237.111	238.132	239.261	240.229	241.018	240.628	240.849	241.428	241.729	241.353	241.432	240.007
2015	233.707	234.722	236.119	236.599	237.805	238.638	238.654	238.316	237.945	237.838	237.336	236.525	237.017
2014	233.916	234.781	236.293	237.072	237.900	238.343	238.250	237.852	238.031	237.433	236.151	234.812	236.736
2013	230.280	232.166	232.773	232.531	232.945	233.504	233.596	233.877	234.149	233.546	233.069	233.049	232.957
2012	226.665	227.663	229.392	230.085	229.815	229.478	229.104	230.379	231.407	231.317	230.221	229.601	229.594
2011	220.223	221.309	223.467	224.906	225.964	225.722	225.922	226.545	226.889	226.421	226.230	225.672	224.939
2010	216.687	216.741	217.631	218.009	218.178	217.965	218.011	218.312	218.439	218.711	218.803	219.179	218.056
2009	211.143	212.193	212.709	213.240	213.856	215.693	215.351	215.834	215.969	216.177	216.330	215.949	214.537
2008	211.080	211.693	213.528	214.823	216.632	218.815	219.964	219.086	218.783	216.573	212.425	210.228	215.303
2007	202.416	203.499	205.352	206.686	207.949	208.352	208.299	207.917	208.490	208.936	210.177	210.036	207.342
2006	198.300	198.700	199.800	201.500	202.500	202.900	203.500	203.900	202.900	201.800	201.500	201.800	201.592
2005	190.700	191.800	193.300	194.600	194.400	194.500	195.400	196.400	198.800	199.200	197.600	196.800	195.292

**New Mexico Educational Retirement Board
COLA History Since 1990**

COLA Effective July 1,	COLA for disability retirements eligible for adjustment	COLA for members with 25 years of service at retirement and receiving less than median adjusted annuity	COLA for all remaining members eligible for adjustment	Monthly median adjusted annuity
2017	1.3%	1.17%	1.04%	\$ 1,605.46
2016	0.1%	0.09%	0.08%	1,586.22
2015	1.6%	1.44%	1.28%	1,566.22
2014	1.5%	1.35%	1.20%	1,543.06
2013	2.0%	1.80%	1.60%	1,504.20
2012	2.0%	same	same	N/A
2011	1.6%	same	same	N/A
2010	0.0%	same	same	N/A
2009	2.0%	same	same	N/A
2008	2.0%	same	same	N/A
2007	2.0%	same	same	N/A
2006	2.0%	same	same	N/A
2005	2.0%	same	same	N/A
2004	2.0%	same	same	N/A
2003	1.6%	same	same	N/A
2002	2.0%	same	same	N/A
2001	2.0%	same	same	N/A
2000	2.0%	same	same	N/A
1999	1.6%	same	same	N/A
1998	2.0%	same	same	N/A
1997	2.0%	same	same	N/A
1996	2.0%	same	same	N/A
1995	2.0%	same	same	N/A
1994	2.0%	same	same	N/A
1993	2.0%	same	same	N/A
1992	2.1%	same	same	N/A
1991	2.7%	same	same	N/A
1990	2.4%	same	same	N/A