

Legislative Division of the Public Employees Retirement Association of New Mexico

Annual Actuarial Valuation - Funding
As of June 30, 2023





October 26, 2023

The Retirement Board
Public Employees Retirement Association
33 Plaza La Prensa
Santa Fe, NM 87507

Re: Actuarial Valuation for Funding Purposes as of June 30, 2023

Members of the Board:

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Legislative Division of the Public Employees Retirement Association of New Mexico (Legislative Division) as of June 30, 2023. This report was prepared at the request of the Board and is intended for use by the Public Employees Retirement Association (PERA) staff and those designated or approved by the Board. This report may be provided to parties other than PERA only in its entirety and only with the permission of the Board.

Actuarial Valuation

The primary purposes of the actuarial valuation report are to determine the adequacy of the current State contributions, describe the current financial condition of the Legislative Division, analyze changes in the condition of the Legislative Division, and provide various summaries of the data.

Plan Provisions

Our actuarial valuation as of June 30, 2023 reflects the benefit and contribution provisions that were in effect as of June 30, 2023. The current plan provisions are outlined in Section E of this report.

Actuarial Assumptions and Methods

The assumptions and methods applied in this actuarial valuation were adopted by the Board of Trustees based on the experience investigation that covered the four-year period from July 1, 2015 through June 30, 2019. The current actuarial assumptions and methods are outlined in Section F of this report.

Data

This valuation was based upon information as of June 30, 2023, furnished by PERA staff, concerning system benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by PERA staff.

Certification

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of, where applicable, the Internal Revenue Code and ERISA.

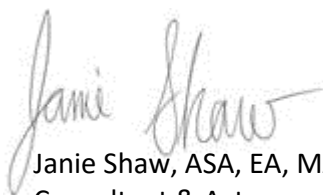
The signing actuaries are independent of the plan sponsor. The undersigned are Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Finally, each of the undersigned are experienced in performing valuations for large public retirement systems.

Respectfully submitted,

Gabriel, Roeder, Smith & Company



Paul Wood, ASA, MAAA
Senior Consultant & Actuary



Janie Shaw, ASA, EA, MAAA
Consultant & Actuary

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SECTION A

EXECUTIVE SUMMARY

Executive Summary

Item	2023	2022
Membership		
• Number of		
- Active members	110	113
- Retirees, beneficiaries, and disabled	210	206
- Inactive, vested	15	16
- Inactive, nonvested	17	8
- Total	<u>352</u>	<u>343</u>
Assets		
• Market value (MVA)	\$ 45,437,655	\$ 45,404,000
• Actuarial value (AVA)	\$ 46,822,823	\$ 46,590,656
• Return on market value	5.6%	-4.3%
• Return on actuarial value	6.0%	6.1%
Actuarial Information on AVA (smoothed)		
• Normal cost \$ (MOY)	\$ 1,866,409	\$ 1,815,599
• Actuarial accrued liability	\$ 39,160,702	\$ 37,740,246
• Unfunded actuarial accrued liability (UAAL)	\$ (7,662,121)	\$ (8,850,410)
• Funded ratio	119.6%	123.5%
Expected Member Contribution	\$ 110,000	\$ 113,000
Actuarially Determined Contribution (ADC) Amount*	\$ 1,147,166	\$ 992,668
Actuarial Information on MVA		
• Unfunded actuarial accrued liability (UAAL)	\$ (6,276,953)	\$ (7,663,754)
• Funded ratio	116.0%	120.3%

* Actuarially Determined Contribution, net of member contributions

SECTION B

DISCUSSION

Discussion

Introduction

This report presents the results of the June 30, 2023 actuarial valuation of the Legislative Division.

The primary purposes of this actuarial valuation report are to calculate the State contribution in accordance with the funding policy, describe the current financial condition of the Legislative Division, analyze the changes in condition of the Legislative Division, and provide various summaries of the data.

All of the tables referenced in the following discussion appear in Section C of this report.

Funding Adequacy

The Actuarially Determined Contribution to satisfy the funding policy is the dollar amount necessary to fund the annual normal cost, the expected administrative expenses of the Legislative Division, and fully amortize the UAAL over 25 years in constant dollar amounts. This resulting contribution amount is intended to be the annual appropriation from the State. As the Legislative Division is in a surplus funded position, the annual amortized amount of the surplus offsets some of the Legislative Division's annual normal cost amount. Members also contribute \$1,000 for each year of service. The Actuarially Determined Contribution determined by this actuarial valuation, net of member contributions, is \$1,147,166 compared to \$992,668 from the prior actuarial valuation. This ADC is reasonable as of the valuation date.

The unfunded actuarial accrued liability (UAAL) increased from \$(8.9) million as of June 30, 2022 to \$(7.7) million as of June 30, 2023. Additionally, the funded ratio—actuarial value of assets divided by the actuarial accrued liability—decreased from 123.5% to 119.5%, as of June 30, 2023. This decrease in the funded ratio is primarily due to there being no contributions made to the Legislative Division (outside of member contributions) during FY2023. **If contributions are not increased for the Legislative Division, the funded status is expected to continue to decrease.**

The funded status is one of many metrics used to show trends and develop future expectations about the health of a retirement system. The funded status measure itself is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations or assessing the need for or the amount of future contributions since it does not reflect normal cost contributions, the timing of amortization payments, or future experience other than expected.

Plan Provisions

There were no changes to plan provisions for this actuarial valuation. The current plan provisions are outlined in Section E of this report.

Actuarial Assumptions and Methods

The assumptions and methods applied in this actuarial valuation were adopted by the Board of Trustees based on the experience investigation that covered the four-year period from July 1, 2015 through June 30, 2019. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of the Legislative Division.



The results of the actuarial valuation are dependent upon the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. A review of the impact of a different set of assumptions on the funded status of the Legislative Division is outside the scope of this actuarial valuation.

The current actuarial assumptions and methods are outlined in Section F of this report.

System Assets

This report contains several tables that summarize key information with respect to the total PERA assets as well as the amounts allocated to the Legislative Division.

Table 5 reconciles the changes in the total PERA assets during the year. Table 6 shows the development of the Actuarial Value of Assets (AVA) for all PERA divisions. The current AVA method recognizes each year's gain or loss over a closed four-year period. Table 7 presents the allocation of the PERA assets to each of the divisions.

When measured on a market value, the approximate investment return for the fiscal year ending June 30, 2023 was 5.6%. When measured on an actuarial value, the net investment return was 6.0%. A history of return rates can be found in the PERA actuarial valuation report.

Table 8 provides a history of the contributions paid into the PERA assets and the administrative expenses and benefit payments paid out of PERA. PERA paid administrative expenses and benefit payments, in excess of contributions received, of \$717 million (or 4.4% of assets) in fiscal year 2022 and \$656 million (or 4.0% of assets) in fiscal year 2023. PERA should continue to monitor this deficit as it could impact future liquidity needs.

Data

This valuation was based upon information as of June 30, 2023, furnished by PERA staff, concerning system benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by PERA staff.

The tables in Section G show key census statistics for the various groups included in the valuation.



SECTION C

TABLES

Table 1

Development of Employer Cost

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
1. Actuarial Accrued Liability for Active Members		
a. Present value of future benefits for active members	\$ 21,551,916	\$ 21,041,426
b. Less: present value of future normal costs	(7,035,215)	(6,085,629)
c. Actuarial accrued liability	<u>\$ 14,516,701</u>	<u>\$ 14,955,797</u>
2. Total Actuarial Accrued Liability for:		
a. Retirees and beneficiaries	\$ 23,522,927	\$ 21,731,723
b. Inactive members	1,121,074	1,052,726
c. Active members (Item 1c)	14,516,701	14,955,797
d. Total	<u>\$ 39,160,702</u>	<u>\$ 37,740,246</u>
3. Actuarial Value of Assets	\$ 46,822,823	\$ 46,590,656
4. Unfunded Actuarial Accrued Liability (UAAL) (Item 2d - Item 3)	\$ (7,662,121)	\$ (8,850,410)
5. Actuarially Determined Contribution (ADC) - Middle of Year		
a. Normal cost	\$ 1,866,409	\$ 1,815,599
b. Administrative expenses	40,000	40,000
c. 25-Year Amortization of UAAL	(649,243)	(749,931)
d. Expected Member Contribution	(110,000)	(113,000)
e. Total ADC Amount (Items 5a + 5b + 5c + 5d, NLT \$0)	<u>\$ 1,147,166</u>	<u>\$ 992,668</u>

Table 2
Actuarial Present Value of Future Benefits

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
1. Active Members		
a. Service Retirement	\$ 21,143,965	\$ 20,642,048
b. Disability Benefits	0	0
c. Death Before Retirement	407,951	399,378
d. Termination	0	0
e. Total	<u>\$ 21,551,916</u>	<u>\$ 21,041,426</u>
2. Inactive Members		
a. Vested Terminations	\$ 1,088,749	\$ 1,035,284
b. Non-Vested Terminations	32,325	17,442
c. Total	<u>\$ 1,121,074</u>	<u>\$ 1,052,726</u>
3. Annuitants		
a. Service Retirements	\$ 19,784,900	\$ 17,846,748
b. Beneficiaries	3,738,027	3,884,975
c. Disability Retirements	0	0
d. Total	<u>\$ 23,522,927</u>	<u>\$ 21,731,723</u>
4. Total Actuarial Present Value of Future Benefits	<u>\$ 46,195,917</u>	<u>\$ 43,825,875</u>

Table 3

Analysis of Normal Cost

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
1. Gross Normal Cost Rate		
a. Service Retirement	\$ 1,833,756	\$ 1,782,172
b. Disability Benefits	0	0
c. Death Before Retirement	32,653	33,427
d. Termination	0	0
e. Total	<u>\$ 1,866,409</u>	<u>\$ 1,815,599</u>
2. Plus: Administrative Expenses	\$ 40,000	\$ 40,000
3. Total Normal Cost	\$ 1,906,409	\$ 1,855,599
4. Less: Member Rate	\$ 110,000	\$ 113,000
5. Employer Normal Cost	\$ 1,796,409	\$ 1,742,599

Table 4
Historical Summary of Active Member Data

Valuation as of June 30,	Active Members			
	Number	Percent Increase	Average Age	Average Service
(1)	(2)	(3)	(4)	(5)
2014	126	5.9%	59.9	9.3
2015	121	-4.0%	58.5	8.6
2016	122	0.8%	59.6	9.0
2017	111	-9.0%	59.4	9.0
2018	120	8.1%	60.0	9.1
2019	99	-17.5%	59.0	8.9
2020	118	19.2%	59.7	8.7
2021	114	-3.4%	58.3	8.4
2022	113	-0.9%	58.9	7.5
2023	110	-2.7%	58.9	7.4

Table 5
Reconciliation of Plan Net Assets
Total PERA with Legislative Division

	Year Ending	
	June 30, 2023 (1)	June 30, 2022 (2)
1. Market value of assets at beginning of year	\$ 16,354,646,875	\$ 17,813,948,280
2. Revenue for the year		
a. Contributions for the year		
i. Member Contributions	\$ 364,138,526	\$ 314,280,368
ii. Employer Contributions	454,461,748	395,408,293
iii. State Appropriations	0	2,414,400
iv. Service Purchases	9,075,044	12,439,944
v. Total	\$ 827,675,318	\$ 724,543,005
b. Net investment income	\$ 900,552,527	\$ (742,505,048)
c. Total revenue	\$ 1,728,227,845	\$ (17,962,043)
3. Disbursements for the year		
a. Benefit payments	\$ 1,417,002,889	\$ 1,367,737,863
b. Refunds of member contributions	51,448,291	57,591,001
c. Administrative expenses	15,593,783	16,010,498
d. Total expenditures	\$ 1,484,044,963	\$ 1,441,339,362
4. Increase in net assets (Item 2c - Item 3d)	\$ 244,182,882	\$ (1,459,301,405)
5. Market value of assets at end of year (Item 1 + Item 4)	\$ 16,598,829,757	\$ 16,354,646,875
6. Estimated Rate of Return on Market Value of Assets	5.6%	-4.3%

Table 6
Development of Actuarial Value of Assets
Total PERA with Legislative Division

				Year Ending June 30, 2023
1.	Actuarial value of assets at beginning of year			\$ 16,782,083,585
2.	Net new investments			
	a. Contributions for the year (Table 5: Item 2a.v)			\$ 827,675,318
	b. Disbursements for the year (Table 5: Item 3d)			(1,484,044,963)
	c. Subtotal			(656,369,645)
3.	Assumed investment return rate for fiscal year			7.25%
4.	Expected return on Actuarial value			\$ 1,192,907,660
5.	Expected Actuarial value of assets (Item 1 + Item 2c + Item 4)			\$ 17,318,621,600
6.	Actual net earnings on Market value (Table 5: Item 2b)			\$ 900,552,527
7.	Excess return (Item 6 - Item 4)			\$ (292,355,133)
8.	Development of amounts to be recognized as of June 30, 2023:			
		Original Deferrals of		
	Fiscal Year	Excess (Shortfall) of	Portion	Recognized for this
	End	Investment Income	Recognized	valuation
		(1)	(2)	(3) = (1) * (2)
	2020	\$ (1,328,985,588)	25%	\$ (332,246,397)
	2021	2,679,471,206	25%	669,867,802
	2022	(1,913,234,552)	25%	(478,308,638)
	2023	(292,355,133)	25%	(73,088,783)
	Total			\$ (213,776,016)
9.	Actuarial value of assets as of June 30, 2023 (Item 5 + Item 8, Column 3)			\$ 17,104,845,584
10.	Market value of assets as of June 30, 2023 (Table 5: Item 5)			\$ 16,598,829,757
11.	Ratio of actuarial value to market value			103.0%

Table 7
Allocation of Assets Across Divisions

Division	Market Value of Assets	Actuarial Value of Assets	Approximate % of Total Fund Balance
State General	\$ 5,848,714,490	\$ 6,027,012,729	35.4%
State Police	1,529,059,278	1,575,672,696	9.2%
Municipal General	5,742,356,294	5,917,412,199	34.7%
Municipal Police	2,316,967,974	2,387,600,813	14.0%
Municipal Fire	1,116,294,066	1,150,324,324	6.7%
All PERA Divisions (w/o Legislative)	\$16,553,392,102	\$17,058,022,761	100.0%
Legislative	45,437,655	46,822,823	
All PERA Divisions (w/ Legislative)	\$16,598,829,757	\$17,104,845,584	

Table 8
History of Cash Flow
Total PERA with Legislative Division

Year Ending June 30, (1)	Distributions and Expenditures				External Cash Flow for the Year (6)	Market Value of Assets (7)	External Cash Flow as Percent of Market Value (8)
	Contributions (2)	Benefit Payments and Refunds (3)	Administrative Expenses (4)	Total (5)			
2013	\$ 520.9	\$ (887.8)	\$ (8.6)	\$ (896.4)	\$ (375.5)	\$ 12,708	-3.0%
2014	548.5	(952.7)	(10.3)	(963.0)	(414.5)	14,429	-2.9%
2015	576.1	(1,012.2)	(9.9)	(1,022.1)	(446.0)	14,256	-3.1%
2016	590.3	(1,069.3)	(10.8)	(1,080.1)	(489.8)	13,827	-3.5%
2017	605.3	(1,129.2)	(11.5)	(1,140.7)	(535.4)	14,799	-3.6%
2018	602.3	(1,183.7)	(12.7)	(1,196.4)	(594.1)	15,210	-3.9%
2019	621.3	(1,248.3)	(13.6)	(1,261.9)	(640.6)	15,508	-4.1%
2020	720.6	(1,299.9)	(14.3)	(1,314.2)	(593.6)	14,692	-4.0%
2021	688.7	(1,355.2)	(12.7)	(1,367.9)	(679.2)	17,814	-3.8%
2022	724.5	(1,425.3)	(16.0)	(1,441.3)	(716.8)	16,355	-4.4%
2023	827.7	(1,468.5)	(15.6)	(1,484.1)	(656.4)	16,599	-4.0%

Amounts in millions

Table 9
Total Experience Gain or Loss

Item (1)	Year Ending	
	June 30, 2023 (2)	June 30, 2022 (3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	\$ (8,850,410)	\$ (13,414,247)
2. Normal cost (incl. admin) for the year	\$ 1,858,285	\$ 1,054,879
3. Less: expected contributions for the year	\$ (1,105,668)	\$ (68,400)
4. Interest at 7.25%		
a. On UAAL	\$ (641,655)	\$ (972,533)
b. On normal cost	67,363	38,239
c. On contributions	(40,080)	(2,480)
d. Total	\$ (614,372)	\$ (936,774)
5. Expected UAAL (Sum of Items 1 - 4)	\$ (8,712,165)	\$ (13,364,542)
6. Actual UAAL	\$ (7,662,121)	\$ (8,850,410)
7. Total gain (loss) for the year (Item 5 - Item 6)	\$ (1,050,044)	\$ (4,514,132)
B. Source of gains and (losses)		
8. Contribution (Shortfall)/Surplus with interest	\$ (1,035,906)	\$ 32,953
9. Asset gain (loss) for the year	(625,994)	(478,540)
10. Liability experience gain (loss) for the year	611,856	(807,840)
11. Assumption change	0	0
12. Benefit change	0	(3,260,705)
13. Total	\$ (1,050,044)	\$ (4,514,132)

Table 10
Solvency Test

Year Ending June 30, (1)	Actuarial Liability For			Total Actuarial Liability (AAL) (5)	Actuarial Value of Assets (6)	Cumulative portion of AAL covered		
	Total Active Member Contributions (2)	Retirees, Beneficiaries and Inactive Members (3)	Active Members (Employer Financed) (4)			Total Active Member Contributions (7)	Retirees, Beneficiaries and Inactive Members (8)	Active Members (Employer Financed) (9)
2014	\$ 765,491	\$ 14,602,470	\$ 10,465,381	\$ 25,833,342	\$ 33,392,919	100%	100%	100%
2015	744,611	16,230,264	9,635,456	26,610,331	36,868,121	100%	100%	100%
2016	808,856	16,858,156	10,275,939	27,942,951	40,450,852	100%	100%	100%
2017	753,758	18,105,164	9,197,764	28,056,686	42,479,371	100%	100%	100%
2018	808,527	18,493,679	11,637,539	30,939,745	42,602,900	100%	100%	100%
2019	751,334	21,102,594	9,666,906	31,520,834	43,139,113	100%	100%	100%
2020	823,365	20,052,792	11,269,908	32,146,065	44,466,366	100%	100%	100%
2021	772,206	21,486,872	10,507,454	32,766,532	46,180,779	100%	100%	100%
2022	839,405	22,784,449	14,116,392	37,740,246	46,590,656	100%	100%	100%
2023	869,643	24,644,001	13,647,058	39,160,702	46,822,823	100%	100%	100%

SECTION D

RISKS ASSOCIATED WITH MEASURING THE ACCRUED LIABILITY AND ACTUARIALLY DETERMINED CONTRIBUTION

Risks Associated with Measuring the Accrued Liability and Actuarially Determined Contribution

The determination of the accrued liability and the actuarially determined contribution requires the use of assumptions regarding future economic and demographic experience. Risk measures, as illustrated in this report, are intended to aid in the understanding of the effects of future experience differing from the assumptions used in the course of the actuarial valuation. Risk measures may also help with illustrating the potential volatility in the accrued liability and the actuarially determined contribution that result from the differences between actual experience and the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period, or additional cost or contribution requirements based on the Plan's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. **Investment risk** – actual investment returns may differ from the expected returns;
2. **Asset/Liability mismatch** – changes in asset values may not match changes in liabilities, thereby altering the gap between the accrued liability and assets and consequently altering the funded status and contribution requirements;
3. **Contribution risk** – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
4. **Salary and Payroll risk** – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
5. **Longevity risk** – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;
6. **Other demographic risks** – members may terminate, retire or become disabled at times or with benefits other than assumed resulting in actual future accrued liability and contributions differing from expected.

The effects of certain trends in experience can generally be anticipated. For example, if the investment return since the most recent actuarial valuation is less (or more) than the assumed rate, the cost of the plan can be expected to increase (or decrease). Likewise, if longevity is improving (or worsening), increases (or decreases) in cost can be anticipated.

The ADC developed on Table 1 may be considered as a minimum contribution that complies with the Board's funding policy and State statute. The timely receipt of the ADC is critical to support the financial health of the System. Users of this report should be aware that contributions made consistent with the ADC do not necessarily guarantee benefit security.

Plan Maturity Measures

Risks facing a pension plan evolve over time. A young plan with virtually no investments and paying few benefits may experience little investment risk. An older plan with a large number of members in pay status and a significant trust may be much more exposed to investment risk. Generally accepted plan maturity measures include the following:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Ratio of actives to retirees and beneficiaries	0.5	0.5	0.6	0.6	0.5	0.7	0.6	0.7	0.7	0.7
Ratio of net cash flow to market value of assets	-5.4%	-5.2%	-4.4%	-2.5%	-4.5%	-4.4%	-2.0%	1.8%	2.2%	2.4%
Duration of the actuarial accrued liability*	8.0	8.0	7.9							

*Duration measure not available before 2021

Ratio of Actives to Retirees and Beneficiaries

A young plan with many active members and few retirees will have a high ratio of active to retirees. A mature open plan may have close to the same number of actives to retirees resulting in a ratio near 1.0. A super-mature or closed plan may have significantly more retirees than actives resulting in a ratio below 1.0.

Ratio of Net Cash Flow to Market Value of Assets

A positive net cash flow means contributions exceed benefits and expenses. A negative cash flow means existing funds are being used to make payments. A certain amount of negative net cash flow is generally expected to occur when benefits are prefunded through a qualified trust. Large negative net cash flows as a percent of assets may indicate a super-mature plan or a need for additional contributions.

Duration of Actuarial Accrued Liability

The duration of the actuarial accrued liability may be used to approximate the sensitivity to a 1% change in the assumed rate of return. For example, duration of 10 indicates that the actuarial accrued liability would increase approximately 10% if the assumed rate of return were lowered 1%.

Additional Risk Assessment

Additional risk assessment is outside the scope of the annual actuarial valuation. Additional assessment may include scenario tests, sensitivity tests, stochastic modeling, stress tests, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

Risks Measures – Low Default Risk Obligation Measure

Introduction

In December 2021, the Actuarial Standards Board (ASB) adopted a revision to Actuarial Standard of Practice (ASOP) No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions. The revised ASOP No. 4 requires the calculation and disclosure of a liability referred to by the ASOP as the “Low-Default-Risk Obligation Measure” (LDROM). The rationale that the ASB cited for the calculation and disclosure of the LDROM was included in the Transmittal Memorandum of ASOP No. 4 and is presented below (emphasis added):

“The ASB believes that the calculation and disclosure of this measure provides **appropriate, useful information for the intended user regarding the funded status of a pension plan**. The calculation and disclosure of this additional measure is **not intended to suggest that this is the “right” liability measure** for a pension plan. However, the ASB does believe that **this additional disclosure provides a more complete assessment of a plan’s funded status and provides additional information regarding the security of benefits that members have earned as of the measurement date.**”

Comparing the Accrued Liabilities and the LDROM

One of the fundamental financial objectives of the Legislative Division of the Public Employees Retirement Association of New Mexico (Legislative Division) is to finance each member’s retirement benefits over the period from the member’s date of hire until the member’s projected date of retirement (entry age actuarial cost method) as a level percentage of payroll. To fulfill this objective, the discount rate that is used to value the accrued liabilities of the Legislative Division is set equal to the expected return on the Fund’s diversified portfolio of assets (referred to sometimes as the investment return assumption). For the Legislative Division, the investment return assumption is 7.25%

The LDROM is meant to approximately represent the lump sum cost to a plan to purchase low-default-risk fixed income securities whose resulting cash flows essentially replicate in timing and amount the benefits earned (or the costs accrued) as of the measurement date. The LDROM is very dependent upon market interest rates at the time of the LDROM measurement. The lower the market interest rates, the higher the LDROM, and vice versa. The LDROM results presented in this report are based on the entry age actuarial cost method and discount rates based upon the intermediate rate from the FTSE Pension Discount Curve and Liability Index published by the Society of Actuaries. This rate is 4.90% as of June 30, 2023. This measure may not be appropriate for assessing the need for or amount of future contributions. This measure may not be appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan’s benefit obligation.

The difference between the two measures (Valuation and LDROM) is one illustration of the savings the sponsor anticipates by taking on risk in a diversified portfolio.

Valuation Accrued Liabilities	LDROM
\$39,160,702	\$49,039,544

SECTION E

SUMMARY OF PLAN PROVISIONS

Summary of Plan Provisions for the Legislative Division of the Public Employees Retirement Association of New Mexico

Members who serve in the New Mexico Legislature have the option to participate in the Legislative Division. Plan 2 applies to State legislators and lieutenant governors who serve terms of office which end after December 31, 2002.

State legislators and lieutenant governors must elect to be a member no later than 180 days after first taking office to be covered under the Legislative Division. Members earn service credit by:

- Fulfilling the obligations of the position of a legislator for more than six months of the calendar year and participate in the legislative session; and
- Making required contributions to PERA for each year of service credit.

Retirement Eligibility

Plan 1 and Plan 1 Enhanced:

Age 65 with 5 or more years of credited service; age 64 with 8 or more years of credited service; age 63 with 11 or more years of credited service; age 60 with 12 or more years of credited service; or any age with 14 or more years of credited service.

Plan 2:

Age 65 with 5 or more years of credited service or any age with 10 or more years of credited service.

Retirement Annuity

Plan 1: \$250 a year times credited service.

Plan 1 Enhanced: \$500 a year times credited service.

Plan 2: 14% of the per diem rate in effect, pursuant to Section 2-1-8 NMSA on the January 1 of the calendar year that the member retires multiplied by 60 and further multiplied by credited service.

Deferred Annuity

A Legislative member who terminates with 5 or more years of credited service may apply for a superannuation annuity upon reaching voluntary retirement date, provided accumulated contributions are not withdrawn. The annuity is based upon Legislative service credit at time of termination.

Survivor Pensions – Death in the Line of Duty

Pensions are paid to the eligible spouse and eligible children if survivor coverage has not been elected under the Elective Survivor Pension Beneficiary provision. The amount of pension payable for life to an eligible spouse is 80% of the accrued normal retirement pension.

Survivor Pensions – Death Not in the Line of Duty

Requires 5 years of credited service. Benefit applies to members and vested former members who have not elected coverage under the Elective Survivor Pension Beneficiary provision. Pensions are paid to an eligible spouse OR eligible children. The amount of pension payable for the life of an eligible spouse is up to 80% of accrued normal retirement pension. An eligible child pension is paid if there is not an eligible spouse or following the death of an eligible spouse. The amount of pension payable to each eligible child



is an equal share of 50% of accrued normal retirement pension. An eligible child is an unmarried natural or adopted child who is under age 18. A child's pension terminates upon death, marriage or reaching age 18. The pension of any remaining eligible children is recalculated whenever a child's pension is terminated.

Member Contributions

Plan 1: \$100 for each year of credited service.

Plan 1 Enhanced: \$200 for each year of credited service.

Plan 2: \$1,000 for each year of credited service.

Elective Survivor Beneficiary Pensions

Applicable to members with 5 or more years of credited service and vested former members who have elected option B and designated a survivor pension beneficiary who has an insurable interest. The amount of pension is the amount of accrued normal retirement pension under optional form of payment B (100% continuation to beneficiary).

Disability Retirement

Applicable to members and vested former members with 5 or more years of credited service. The 5 year credited service requirement is waived if the disability is incurred in the line of duty. The amount of disability pension is the accrued normal retirement pension at time of disability retirement. If the disability is in the line of duty, the credited service used is the amount that would have been acquired when first eligible for normal retirement.

State's Contributions

Annual appropriations to finance portions of benefits not financed by members' contributions, determined by actuarial valuation.

Cost of Living Increases

Effective July 1, 2020, there will be no COLA increases for fiscal years 2021, 2022, and 2023 (July 1, 2020, July 1, 2021, and July 1, 2022). In lieu of these COLAs, an annual non-compounding additional payment equal to 2% of annual benefit as of June 30, 2020 (inclusive of all past COLAs) will be payable.

Beginning July 1, 2023 and each July 1 thereafter, the COLA increase will be determined as an amount equal to the smoothed investment rate of return on the actuarial value of assets on June 30 of the preceding calendar year, less the COLA "hurdle rate,*" multiplied by the funded ratio on June 30 of the preceding calendar year; or 0.5%, whichever is greater, subject to the following:

- If the funded ratio of the fund is less than 100% on June 30 of the preceding calendar year, the COLA amount shall not exceed 3.0%.
- If the funded ratio of the fund is greater than or equal to 100% on June 30 of the preceding calendar year, the COLA amount shall not exceed 5.0%.
- The minimum COLA amount for any year will be 0.5%.

Cost of Living Increases (Continued)

Pensions are increased by the COLA amount determined above each July 1 subject to the following eligibility periods:

- Retirees who have been retired for at least 2 full calendar years.
- Retirees who attained at least age 65 and have been retired for at least 1 full calendar year.
- Disabled retirees who have been retired for at least 1 full calendar year.
- Survivor beneficiaries who have received a survivor pension for at least 2 full calendar years.
- Survivor beneficiaries of a deceased retiree who otherwise would have been retired for at least 2 full calendar years.

For certain retirees, pensions are increased each July 1 by 2.5% subject to the eligibility periods listed above, provided the conditions below are met:

- Retirees who retired with at least 25 years of service and whose annual pension is \$25,000 or less.
- Disabled retirees whose annual pension is \$25,000 or less.
- Retirees and survivor beneficiaries who attained at least age 75 prior to July 1, 2020.

*The COLA “hurdle rate” is the investment rate of return required to fund a COLA in excess of 0.5% as determined by the fund’s actuaries.

SECTION F

ACTUARIAL ASSUMPTIONS AND METHODS

Summary of Actuarial Assumptions and Methods

The assumptions and methods applied in this actuarial valuation were adopted by the Board of Trustees based on the experience investigation that covered the four-year period from July 1, 2015 through June 30, 2019.

I. Valuation Date

The valuation date is June 30 of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

II. Actuarial Cost Method

The actuarial valuation is used to determine the adequacy of the State contribution and to describe the current financial condition of the Legislative Division.

The actuarial valuation uses the Entry Age Normal actuarial cost method. Under this method, the first step is to determine the contribution (as a level dollar amount) required to provide the benefits to each member, or the normal cost. The normal cost consists of two pieces: (i) the member's contribution, and (ii) the remaining portion of the normal cost which is the employer's normal cost. The total normal cost is based on the benefits payable to each individual active member.

The Unfunded Actuarial Accrued Liability (UAAL) is the liability for future benefits which is in excess of (i) the actuarial value of assets, and (ii) the present value of future normal costs. The employer contribution provided in excess of the employer normal cost is applied to amortize the UAAL.

The funding period is calculated as the number of years required to fully amortize the UAAL, assuming that: (a) future market earnings, net of investment-related expenses, will equal 7.25% per year, (b) there will be no liability gains/losses or changes in assumptions, (c) the other active members who leave employment will be replaced by new entrants each year, and (d) employer contributions continue to be actuarially determined.

The Entry Age actuarial cost method is an "immediate gain" method (i.e., experience gains and losses are separately identified as part of the UAAL). However, they are amortized over the same period applied to all other components of the UAAL.

III. Actuarial Value of Assets

The actuarial value of assets is derived as follows: prior year actuarial value of assets is increased by contributions and expected income and reduced by refunds, benefit payments and expenses. To this amount, 25% of the difference between the expected investment income of the actuarial value and actual investment income on the market value for each of the previous four years is added. The returns are computed net of investment-related expenses.

IV. Actuarial Assumptions

Investment Return: 7.25% per year, net of investment-related expenses (composed of an assumed 2.50% inflation rate and a 4.75% real rate of return)

Annual Post-Retirement Cost of Living Adjustment Rate: 1.60% per year beginning 7/1/2023.

Administrative Expenses: \$40,000

Rates of Separation from Active Membership: None

Rates of Active Member Disability: None

Rate of increase in the per diem: 3.0% per annum. The current assumed per diem rate is \$210 as of July 1, 2023.

The rate of retirement from active membership (effective with the June 30, 2020 valuation): 50% of members eligible for retirement are assumed to retire, with 100% assumed to retire at age 80.

Decrement Timing: All decrements – mortality, service retirement, disability retirement, and termination of employment for reasons other than death or retirement – are assumed to occur at the beginning of the valuation year.

Mortality Decrements:

RPH-2014 Blue Collar mortality table with female ages set forward one year. Future improvement in mortality rates is assumed using 60% of the MP-2017 projection scale generationally.

Sample Mortality Rates (Base Rates)								
Pre-Commencement			Post-Commencement			Post-Commencement		
Age	Male	Female	Age	Male	Female	Age	Male	Female
25	0.000733	0.000244	35	0.001793	0.001169	80	0.053460	0.042932
30	0.000717	0.000317	40	0.002156	0.001611	85	0.088524	0.072752
35	0.000797	0.000417	45	0.003275	0.002671	90	0.146859	0.125111
40	0.000958	0.000598	50	0.005604	0.004235	95	0.223428	0.197901
45	0.001455	0.001013	55	0.007342	0.005165	100	0.313988	0.291040
50	0.002490	0.001685	60	0.009893	0.006890	105	Disabled retirees use the same assumption as healthy lives.	
55	0.004071	0.002510	65	0.014089	0.010092	110		
60	0.006743	0.003606	70	0.021101	0.016038	115		
65	0.011612	0.005456	75	0.032952	0.026199	120		

Marriage Assumption: All members are assumed to be married for purposes of death-in-service benefits.

Beneficiary Characteristics: Males are assumed to be three years older than females.

Form of Payment: Straight life.

Census Data and Assets

- The valuation was based on members of the Legislative Division as of June 30, 2023 and does not take into account future members, with the exception of determining the funding period.
- All census data was supplied by PERA and was subject to reasonable consistency checks.
- There were data elements that were modified for some members as part of the valuation in order to make the data complete. However, the number of missing data items was immaterial.
- Asset data was supplied by PERA.

Other Actuarial Valuation Procedures

- No provision was made in this actuarial valuation for the limitations of Internal Revenue Code Sections 415 or 401(a)17.

Actuarial Model

This report was prepared using ProVal's valuation model, a software product of Winklevoss Technologies. We are relying on the ProVal model. We performed tests of the ProVal model with this assignment and made a reasonable attempt to understand the developer's intended purpose of, general operation of, major sensitivities and dependencies within, and key strengths and limitations of the ProVal model. In our professional judgment, the ProVal valuation model has the capability to provide results that are consistent with the purposes of the valuation.



SECTION G

DETAILED SUMMARIES OF MEMBERSHIP DATA

Table A

Summary of Membership Data

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
<u>Actives</u>		
a. Number	110	113
b. Average age	58.9	58.9
c. Average service	7.4	7.5
<u>Vested inactive members</u>		
a. Number	15	16
b. Average Age	58.0	57.5
c. Total annualized deferred monthly benefits	\$ 131,244	\$ 128,170
d. Average annualized deferred monthly benefit	\$ 8,750	\$ 8,011
<u>Nonvested inactive members</u>		
a. Number	17	8
<u>Service retirees*</u>		
a. Number	166	160
b. Average Age	74.9	75.6
c. Total annualized monthly benefits	\$ 1,949,358	\$ 1,808,597
d. Average annualized monthly benefit	\$ 11,743	\$ 11,304
<u>Disabled retirees</u>		
a. Number	0	0
b. Average Age	0	0
c. Total annualized monthly benefits	\$ 0	\$ 0
d. Average annualized monthly benefit	\$ 0	\$ 0
<u>Beneficiaries</u>		
a. Number	44	46
b. Average Age	82.0	81.4
c. Total annualized monthly benefits	\$ 523,221	\$ 531,847
d. Average annualized monthly benefit	\$ 11,891	\$ 11,562

*Includes 4 co-payees

Table B
Active Members
Distribution by Age and Service

Nearest Age	Years of Credited Service at Retirement							Total
	Under 5	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30+	
Under 30	2							2
30 to 34								
35 to 39	6	1						7
40 to 44	9	1						10
45 to 49	6		1					7
50 to 54	9	1	4					14
55 to 59	5	4	6	1				16
60 & Over	18	12	8	5	3	6	2	54
Total	55	19	19	6	3	6	2	110

Table C
Number of Annual Retirement Allowances of Benefit Recipients

Type of Pension	Number	Total Annual Benefits	Average Annual Pension
<u>Normal Retirement Pensions</u>			
Single Life Pension Terminating Upon Death	90	\$ 990,721	\$ 11,008
Two Life 100% Survivor Pension			
Retired Member Recipient	61	735,822	\$ 12,063
Survivor Recipient	25	290,072	\$ 11,603
Two Life 50% Survivor Pension			
Retired Member Recipient	18	262,966	\$ 14,609
Survivor Recipient	6	32,680	\$ 5,447
Total Normal Retirement Pensions	200	\$ 2,312,261	\$ 11,561
<u>Pre-Retirement Survivor Pensions</u>			
Spouse Recipient	10	\$ 160,318	\$ 16,032
Total Pre-Retirement Survivor Pensions	10	\$ 160,318	\$ 16,032
Total Pensions Being Paid	210	\$ 2,472,579	\$ 11,774

Table D

Schedule of Retirants Added to and Removed from Rolls

Number Added	Increase Annual Allowance	Number Removed	Decrease Annual Allowance	Net Change Annual Allowance	Total Retirees & Beneficiarie	Annual Allowance	Increase in Annual Allowance	Average Annual Allowance	% Change in Average Allowance
13	\$ 205,025	9	\$ 72,890	\$ 132,135	210	\$ 2,472,579	5.65%	\$ 11,774	3.64%

Table E

Distribution of Retirees by Years of Service at Retirement

Division	Years of Credited Service at Retirement								Total
	Under 5	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30+		
Average Monthly Benefit	\$ 502	\$ 547	\$ 959	\$ 1,156	\$ 1,438	\$ 1,281	\$ 1,800	\$ 993	
Number of Retirees	11	38	51	22	21	8	11	162	

Table F

Distribution of Recent Retiree Ages at Retirement

Division	2022-23 Retirees	All Current Retirees
Number	13	162
Average Monthly Benefit at Retirement	\$ 1,230	\$ 993
Average Age at Retirement	60.83	63.58

SECTION H

GLOSSARY

Glossary

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of Future Plan Benefits which is not provided for by future Normal Costs. It is equal to the Actuarial Present Value of Future Plan Benefits minus the actuarial present value of future Normal Costs.

Actuarial Assumptions: Assumptions as to future experience under the Fund. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and future investment and administrative expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

Actuarial Cost Method or Funding Method: A procedure for allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability. These items are used to determine the ADC.

Actuarial Gain or Actuarial Loss: A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Fund's assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

- a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.),
- b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
- c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of those benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive, nonretired members either entitled to a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.

Actuarial Valuation: The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB.

Actuarial Value of Assets or Valuation Assets: The value of the Fund's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly actuaries use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ADC.

Actuarially Determined: Values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.

Amortization Method: A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.

Amortization Payment: That portion of the pension plan contribution or ADC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Actuarially Determined Contribution (ADC) or Annual Required Contribution (ARC): A calculated contribution for a defined benefit pension plan for the reporting period, most often determined based on the funding policy of the plan. Typically the calculated contribution has a normal cost payment and an amortization payment.

Closed Amortization Period: A specific number of years that is counted down by one each year and therefore declines to zero with the passage of time. For example if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.

Decrements: Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.

Defined Benefit Plan: An employer-sponsored retirement benefit that provides workers, upon attainment of designated age and service thresholds, with a monthly benefit based on the employee's salary and length of service. The value of a benefit from a defined benefit plan is generally not affected by the return on the assets that are invested to fund the benefit.



Defined Contribution Plan: A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, and the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.

Employer Normal Cost: The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.

Experience Study: A periodic review and analysis of the actual experience of the Fund which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.

Funded Ratio: The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA.

Funding Period or Amortization Period: The term "Funding Period" is used in two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ADC. This funding period is chosen by the Board of Trustees. In the second sense, it is a calculated item: the number of years in the future that will theoretically be required to amortize (i.e., pay off or eliminate) the Unfunded Actuarial Accrued Liability, based on the statutory employer contribution rate, and assuming no future actuarial gains or losses.

GASB: The Governmental Accounting Standards Board is an organization that exists in order to promulgate accounting standards for governmental entities.

Normal Cost: That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated. Under the entry age normal cost method, the Normal Cost is intended to be the level cost (when expressed as a percentage of pay) needed to fund the benefits of a member from hire until ultimate termination, death, disability or retirement.

Open Amortization Period: An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

Valuation Date or Actuarial Valuation Date: The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date

