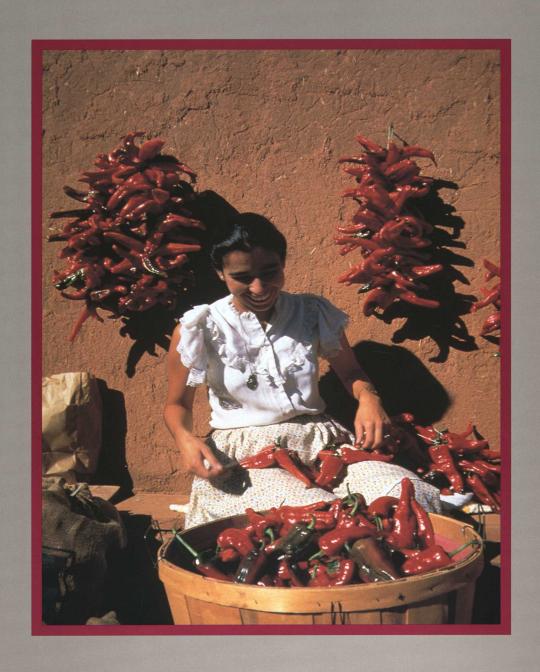
Public Employees Retirement Association of New Mexico



Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 1998

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO BOARD MISSION STATEMENT

The mission of the Board of the Public Employees
Retirement Association is to administer the Fund so as to
provide optimal, secure benefits and services to
association members while maintaining the integrity of
the Fund.

Cover Photograph Courtesy of New Mexico Magazine; Mark Nohl, Photographer

Public Employees Retirement Association of New Mexico

Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 1998

1120 Paseo de Peralta

Santa Fe, New Mexico 87501

(800) 342-3422 Voice (505) 827-4670 Fax

pera.state.nm.us



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Letter From The Board Chair

Robert Mascareñas Board Chair

To: Members of the Public Employees Retirement Association of New Mexico:

I am pleased to present the Public Employees Retirement Association of New Mexico Annual Report for the Fiscal Year ending June 30, 1998, to our members and the public. This year was a remarkable year for PERA with the passage of Constitutional Amendment 4 by the New Mexico Legislature in February 1998 for voters to decide in the November 1998 general election. The Constitutional Amendment will protect the PERA pension fund by its use only for pension fund purposes, and requiring that benefit enhancements be properly funded on an actuarially sound basis.

The PERA Fund continues to rank in the top quartile for public pension funds and returned 19.01% for the Fiscal Year ended June 30, 1998-almost at \$6.4 billion in total value. This sustained accomplishment is due to the diligent work of our PERA Board and staff, supported by a cadre of investment professionals. The foresight of our State policy makers through the passage of legislation has enabled PERA to compete in the global economy and seize investment opportunities. Certainly, the fantastic condition of the United States economy has been a significant, positive factor.

PERA's unfunded actuarial accrued liability policy target is 30 years. Gabriel, Roeder, Smith & Company, PERA's actuarial consultants, reported as of June 30, 1998, in the actuarial valuation, a decrease in PERA's unfunded actuarial accrued liability from 30 years in 1997 to 13 years in 1998. This indicates that PERA's financial health is excellent. If individual coverage funds within PERA deviate significantly from the 30 year target, PERA pursues making the necessary adjustments through legislation. When the Municipal Firefighter Plans exceeded the 30 year policy target, for example, a 2% increase in the firefighter's contribution rate was recommended on advice of our actuarial consultants. A permanent contribution increase adjustment of 1% employer and 1% employee was approved by the 1998 legislature with support from New Mexico firefighters.

An organization's most valuable resource is its people. At PERA, we have a dedicated staff that continues to improve services to PERA members and other members of the PERA community. PERA resources continue to be managed in a prudent and effective manner. The process for member retirements has become more efficient as demonstrated by the almost routine processing of 1,500 retirements that became effective January 1, 1998. The PERA Board of Directors is composed of a group of dedicated New Mexican public servants that represent State, County and Municipal members working to maintain and preserve our pension benefits.

This annual report was completed and issued after the November 1998 general election. New Mexico voters in that election passed Constitutional Amendment 4 with 77% voting in favor. On behalf of the PERA Board, I thank all that participated in achieving this success.

In closing, I thank my fellow PERA Board members for their support and for working to support the common interests of PERA members. I encourage the membership to stay informed and to participate in the process on particular issues of interest to them. I also encourage all PERA members to compete for positions on the PERA Board as vacancies occur. In addition, I want to express my enthusiasm and the honor I feel in serving as PERA Board Chair.

Robert Mascareñas Board Chair

Chair

PERA Board



Robert Mascareñas County of Bernalillo County Member



Vice Chair

Jerry Rael State Personnel Office State Member



Susan H. Biernacki City of Albuquerque Municipal Member



Lou Hoffman City of Albuquerque Municipal Member



Stephanie Jorgensen City of Albuquerque Municipal Member



Jeff Varela 2nd Judicial District Attorney Office State Member



Angela Adams Children, Youth and Families State Member



Danny Sandoval Children, Youth and Families State Member



Fabian Chavez Santa Fe, NM Retiree Member



Doug Crandall Albuquerque, NM Retiree Member



The Honorable Michael A. Montoya State Treasurer



The Honorable Rebecca Vigil-Giron Secretary of State

Ex-Officio Members

Elected Members



Letter From The Executive Director

Alice E. Herter Executive Director

To: Board of Trustees and Members of the Public Employees Retirement Association of New Mexico:

1998 was a banner year for PERA. Through the efforts of so many of our members and retirees, we were successful in amending our New Mexico Constitution to protect the retirement pensions of all public employees and teachers in our state. Constitutional Amendment No. 4 (the PERA/ERA amendment) was passed by 77% of the voters throughout New Mexico voting for it. In fact, this majority vote exceeded any other contested races or measures on the general election ballot. Its passage provides a level of security for the retirement benefits of public employees not previously available. This is a significant accomplishment for all PERA.

I am once again pleased to present to you the Annual Report for the New Mexico Public Employees Retirement Association for the fiscal year ended June 30, 1998. This report provides comprehensive information about the retirement programs PERA administers and the pension funds we manage. FY 98 has been an outstanding year for PERA. Our actuarial funding period has decreased over the past four years from 43 years in FY 94 to 13 years in FY 98. Our investment performance was exceptional, yielding an overall return of 19.01% for the PERA Fund.

The success of our retirement system is due to the dedicated efforts of many people. The PERA Board members volunteer a substantial amount of time establishing policies which give PERA direction and monitoring the investment performance and actuarial health of our retirement system. We are also fortunate to have a hardworking, dedicated staff at PERA who earnestly endeavor to provide quality services to all our participants. It is through their professional work that the day-to-day operations at PERA are implemented. PERA has also benefited greatly from the active participation of its retirees and members. Their suggestions and comments over this past year have been extremely helpful in assuring that we stay in touch with the needs of our participants. Additionally, I have been especially grateful for the positive support PERA has received from the Legislature. New Mexico's legislators have consistently supported the PERA policy of assuring that the PERA funds remain actuarially sound and that any benefit enhancements to the retirement program are properly funded. Finally, PERA values highly the cooperation of state agencies and our affiliated public employers in trying to assure that we provide public employees in New Mexico with a stable and sound retirement plan. Working together, we are able to provide safe and secure retirement benefits for many dedicated and hardworking public employees throughout the State of New Mexico.

Statistical Overview

As of June 30, 1998, PERA had 52,350 active members. Of this number, 20,759 are state members, 20,933 are municipal members, and the remaining members are participants in the judicial, magistrate, volunteer firefighters and legislative retirement programs. Also, as of June 30, 1998, PERA had 15,745 retirees and beneficiaries receiving pensions from PERA. Of this number, 8,916 are state retirees, 6,524 are municipal retirees, and the remaining retirees are from the judicial, magistrate, volunteer firefighters and legislative retirement plans. PERA's pension payroll for all plans in FY 98 was \$215,782,864, and the average pension paid was \$13,705. The average age of PERA retirees is 65.5 years. PERA currently has 278 separate affiliated public employers. In addition, we have 356 separate fire districts that participate in the volunteer firefighters plan.

Revenue and Expense Sources

PERA administers 27 different retirement plans. The revenue necessary to fund the retirement benefits paid under these plans comes primarily from three sources: (1) employee contributions, (2) employer contributions, and (3) investment earnings. In FY 98, \$114,197,409 was received as employee contributions and \$168,363,205 as employer contributions for all plans. The net assets increased from all sources during the fiscal year ended June 30, 1998 by \$1,051,677,706. PERA's total net assets increased to \$6,430,841,202 as of June 30, 1998. \$1,009,736,987 of the increase was from investment income and appreciation of investment assets. The remaining \$41,940,719 was the amount contributions and other noninvestment income exceeded distributions and PERA's administrative expenses.

The payment of retirement and survivor benefits constitutes the majority of PERA's expenditures. These total payments for all plans in FY 98 were \$215,782,864. The remaining expenditures for PERA were the refund of contributions to members who terminated employment and chose to withdraw their PERA contributions (\$25,023,875), and the costs of administering all of PERA's plans (\$13,350,824, inclusive of investment management fees). As of June 30, 1998, all of PERA's administrative and investment expenses represented less than 21/100 of one percent (21 basis points) of PERA's total assets. PERA's administrative expenses are controlled by an annual budget submitted by the Board for appropriation by the Legislature. In FY 98, PERA's retirement benefit payments, refunds of contributions, administrative and investment expenses totaled \$254,157,563.

Funding – Actuarial Soundness

One of the most important factors for any retirement system is its level of funding. If this level is satisfactory, the ratio of total fund assets to total liabilities will be larger, and more funds are available for investment purposes. Also, adequate funding provides members and retirees assurance that their benefits are secure.

In October 1996, the PERA Board revised its target funding period for the PERA Fund to 30 years. We experienced substantial funding progress this year as our funding period decreased from 43 years in FY 94 to 13 years in FY 98. The advantage of a well funded plan is that participants can see assets that are irrevocably committed to the payment of promised benefits. But even though our funding level is quite sound, PERA is committed to maintaining and improving this situation. The Board's policy is that it will only support benefit enhancements to PERA plans that are properly funded and actuarially sound. The Legislature has been supportive of this policy which provides further assurance that PERA will remain a well funded pension plan.

Investments

Proper funding and stable investment returns are critical to the financial soundness of the Association. For the fiscal year ending June 30, 1998, the total investment return, on a market value basis, was 19.01% for the PERA Fund before investment management fees and custody fees. These fees were about 12/100 of one percent (or 12 basis points). This outstanding performance demonstrates that the Board's investment policies during recent years have been successful. Because of this, the performance of the PERA Fund has increased from the bottom 6% of the public funds universe in the mid-eighties to today, where PERA has performed in the upper twenty-eighth percentile for the last fiscal year and the upper twenty-seventh percentile for the last ten years. As of June 30, 1998, 52.7% of the fund was invested in domestic equities that returned 26.49% compared to 18.71% for the Dow Jones Industrials and 30.27% for the S&P 500 Index. 37.4% of the fund was invested in domestic fixed-income securities that returned 11.81% compared to 10.54% for the Lehman Aggregate Index and 8.9% of the fund was invested in international securities that returned 8.7% compared to 6.1% for the EAFE (Europe, Australia and Far East) Index.

Investment performance is important because investment earnings are a major contributor to the total revenues received by PERA. The PERA Board and its Investment Committee spend considerable time and effort developing and reviewing the investment policy of the PERA Fund. Their heightened level of care has resulted in a substantial increase in earnings to the fund, evidenced by the growth in total combined assets under PERA's administration to the all-time high of \$6,430,841,202 this year from \$5,379,163,496 last year.

Asset Allocation

The foundation of PERA's investment policy is the type and extent of investment vehicles it uses. The Board's current investment plan sets target allocations of 45% to be invested in domestic equity investments, 15% to be invested in international equities and 40% to be invested in fixed-income. Within this broad allocation, the investments are further diversified into domestic core, growth and value stocks (both large and small capitalization), bonds, mortgage-backed securities, international stocks, and cash. Up to 15% of PERA's portfolio can be invested internationally. The fund's diversified asset allocation mix is designed to optimize performance and also protect the fund from declines that a particular asset class

may experience during a given period. Investment experts attribute about 90% of a portfolio's return to the plan sponsor's asset allocation policy.

Accounting and Internal Controls

PERA uses an accrual-based accounting system to record assets, liabilities, revenues and expenses of the Association. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. During the past year, PERA has continued to utilize successfully a general ledger system which we implemented four years ago. Among many other advantages, the utilization of this system has allowed PERA to generate quarterly financial statements for the Association and permits PERA's Comptroller to provide management with monthly expense statements and budget projections.

In developing the Association's accounting system, consideration was given to the adequacy of internal accounting controls. PERA has conducted a number of internal audits of its operations, allowing us to improve various recordkeeping and management controls. These controls are designed to provide assurance regarding safekeeping of assets and reliability of financial records. Continual efforts are made by the Association to improve the level of assurance in order to guarantee a financially sound retirement system.

Records

PERA maintains over 242,000 participant records for active members, inactive members, retirees and beneficiaries. Until three years ago, these records were maintained manually, in paper files. Beginning three years ago, PERA successfully implemented and is utilizing a computer-controlled imaging system for maintenance of all PERA records. All new documents received in connection with Member Services are imaged as they are received. This system is one of the first of its kind in New Mexico state government and allows PERA records to be retrieved by computer and immediately available for use by PERA benefit counselors when discussing retirement issues with members and retirees. Additionally, it provides backup copies of all records in the event the original paper records were to be destroyed by flood, fire or other disaster. The security built into the system also assures that the integrity of the files is maintained regardless of file utilization throughout the agency.

Professional Services

PERA uses independent, professional consultants to perform services for the Association that are essential to its effective and efficient operation. The independent monitoring of PERA's investment performance is performed by Callan Associates. Actuarial services are provided by Gabriel, Roeder, Smith & Company. The annual financial audit was performed by Deloitte & Touche LLP under the direction of the New Mexico State Auditor. Additionally, the Board utilizes the services of investment management firms to invest the fund's assets in accordance with its policy directives. Professional legal services are also utilized as needed for litigation and administrative purposes. The utilization of these professional services assures the Board and the Association that the fund's assets are managed properly and that the financial status of the fund remains sound.

Conclusion

I am pleased to be a part of the management team here at PERA, and I want to express my gratitude to the many individuals who contribute to the success of the Association. Our many affiliated public employers work continuously and cooperatively with PERA to assure that public employees have a retirement plan that will provide them financial security both now and into the future. The PERA Board devotes substantial amounts of time establishing Association policies and monitoring the Association's performance to maintain the strength and soundness of the PERA Fund. And finally, I would like to acknowledge and commend the dedicated efforts of the PERA staff as they perform their daily responsibilities with a commitment to quality and customer service. While we are proud of PERA's status as one of the best retirement systems in the nation, we are continuing to explore new ways in which we can provide more efficient responses to participant questions and ways in which we can make the Association as user-friendly as possible. Attaining this goal requires the combined efforts of Board, staff, employers and participants. Together, we can refine our priorities and develop options for the future. Together, we can build trust, team work and communication at all levels. Together, we can assure public employees throughout New Mexico that their retirement benefits are and will remain safe and secure, now and in the future.

Respectfully Submitted

Alice E. Herter Executive Director

PERA At A Glance

Emplo	State 117 Municipal 71 Counties 34 Housing Authorities 26 Special Districts 29 Hospitals 1 Volunteer Fire 356 er contributions yer contributions sets	\$168,363,205
Membe	Municipal	
	Municipal71Counties34Housing Authorities26Special Districts29Hospitals1Volunteer Fire356	¢114 107 400
	Municipal71Counties34Housing Authorities26Special Districts29Hospitals1	
	Municipal71Counties34Housing Authorities26Special Districts29Hospitals1	
	Municipal71Counties34Housing Authorities26Special Districts29	
	Municipal	
	Municipal	
	Municipal71	
Participating E	mployers	634
Contribution R	efunds	\$25,023,875
Retirement Bei	nefits	\$215,782,864
	Legislative74	
	Volunteer Firefighters	
	Magistrate	
	Judicial	
	Municipal 6,524	
	State 8,916	
Retired Membe	ers and Beneficiaries	15,745
	Legislative 112	
	Volunteer Firefighters	
	Magistrate	
	Judicial	
	Municipal	
	State	
PERA Members	State	52,350

Executive Staff

Alice E. Herter, Executive Director
Bert J. Terrazas, Deputy Director Member Services
Kurt D. Weber, Deputy Director Operations
Carol A. Baca, General Counsel
Robert E. Gish, Investment Director
Gene P. Powers, Property Manager

Administration

Pamela Bustos, Secretary III
Jane Clifford, Executive Assistant
John W. Cunningham, Admin IV
Joseph E. Edgar, Liaison Officer
Rose Ellen Guillen, Admin Secretary
Amanda G. Romero, Admin Secretary
Steven R. Voet, Financial Management Consultant

Administrative Services

Lynn Coles, Financial Manager I Arlene F. Coriz, Human Resources Administrator Senior Mark J. Lovato, Financial Specialist III Sharon Moya, Financial Specialist II Arthur A. Trujillo, Financial Specialist III Denise A. Vialpando, Financial Specialist II

Member Services

Mary M. Frederick, Manager V
Renee Baros, Clerk Specialist
Vincent J. Jaramillo, Manager IV
Judy Olson, Manager IV
Joyce Rivera, Financial Specialist II
Erlinda Roybal, Admin II
Louis E. Scheier, Clerk Specialist
Claudine Serna, Information Specialist II
Nora E. Solano, Manager IV
Kathy A. Webb, Manager IV

Building and Grounds

Lillian Baca, Custodial Worker I
Steve Castellano, Laborer
Becky Chavez, Custodial Worker I
Victor Diaz, Custodial Worker I
Roseanne Gonzales, Clerk IV
Sergio Gutierrez, Maintenance Lead Worker
Simon S. Jiron, Custodial Worker I
Eric Martinez, Maintenance Worker II
Jake Martinez, Maintenance Worker I
Jose F. Marquez, Custodial Worker I

(As constituted on 4/1/99)

Mel E. Prada, Maintenance Supervisor
Ramon Salaz, Maintenance Worker I
Bertha A. Tagle, Custodial Worker I
Valentin Ulibarri, Custodial Worker Supervisor I
Pedro B. Valencia, Custodial Worker I
Raquel Velazquez, Custodial Worker I
Benny L. Vigil, Custodial Worker 1
John L. Waterman, Custodial Worker II
William David Wright, Maintenance Worker II

Contribution Accounting

Joseph W. Maes, Financial Specialist III Tina P. Martinez, Financial Specialist I Herbert Romero, Manager V

Information Systems

Nathalie R. Edmonds, IS Data Based Admin I Angela M. Espinoza, IS Network Specialist I Michael A. Gonzales, IS Programmer Analyst II Fermin R. Montoya, IS Data Processing Manager II Kevin W. Payne, IS Systems Analyst Supervisor Greg R. Portillos, IS Manager III

Investments

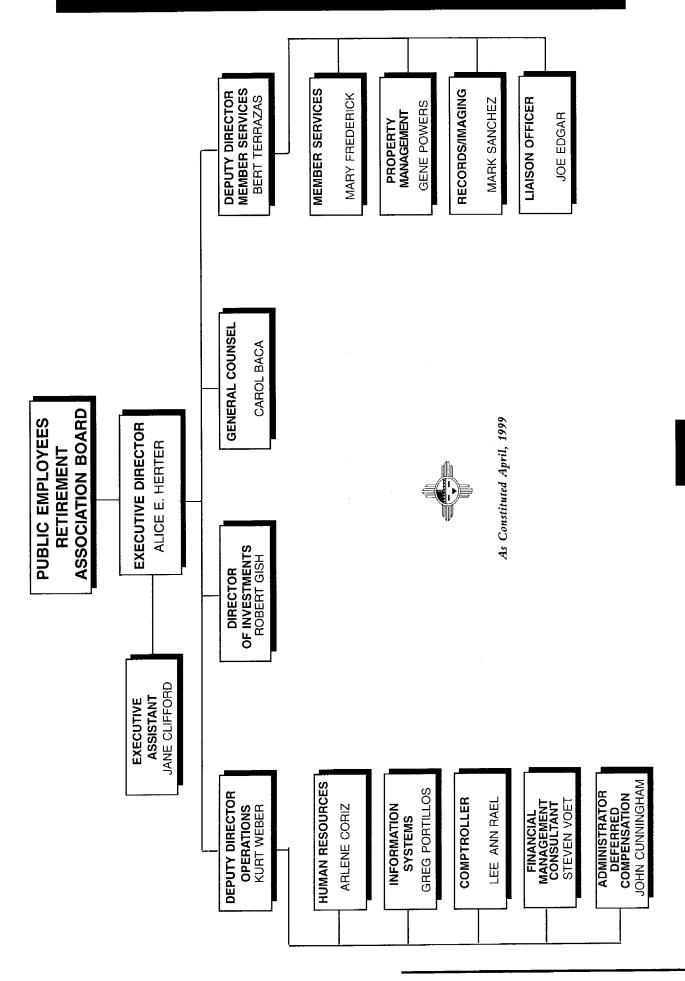
Sharon D. Barela, Financial Specialist III Barbara Montoya, Investment Officer II Sandra C. Perez, Investment Officer II Fred W. Reynolds, Investment Officer Principal

Office of Legal Counsel

Donna M. Encinias, Admin III Tracy M. Hughes, Assistant General Counsel Nona Gregg, Legal Assistant II Melinda Silver, Assistant General Counsel

Records

Alex F. Coriz, Clerk Specialist Brenda Cordova, Clerk IV Marco deWaart, Clerk IV Mark Sanchez, Administrator III Ronda Vigil, Clerk IV



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A Historical Perspective

New Mexico enacted legislation creating a public employee retirement system in 1947. New Mexico was the last state in the continental United States to establish a retirement system for its public employees.

At that time, members were required to contribute 3.5% of their gross salary and their employers matched with an equal amount. The maximum annuity any member could expect to receive was \$150 per month. There were no pre-retirement survivor benefits available.

In 1955, PERA had 217 pension recipients who received an average annual pension of \$1,161. In 1960, PERA recorded 593 pension recipients with an annual pension payroll of \$717,200 averaging \$1,209 per annuitant. In 1961, the plan was again improved to provide benefits of up to 50% of a member's final average salary.

Today, PERA administers 27different pension plans. These plans currently cover state employees, municipal employees, county employees, police, firefighters, judges, magistrates and legislators. We now have approximately 52,350 members and over 15,000 retirees, whose pensions average about \$13,705 (FY 98) per year.

PERA's Governing Body

PERA is governed by a Retirement Board consisting of 12 members. The State Treasurer and Secretary of State are members by reason of their office. Eight members of the Board are elected by the active membership of the Association. Four of the eight members are Municipal Division members, at least one of whom is employed by a county. The remaining four are State Division members. Two

board members are PERA Retirees elected to the board by the retired members. Persons elected to the Board serve staggered 4-year terms.

Summary of Plan Provisions

Membership

PERA membership is generally a condition of employment with the state of New Mexico and affiliated public employers. Certain exceptions to the above condition of employment exist.

Vested Membership

Members who terminate employment with at least five years of service credit and leave their accumulated member contributions on deposit with the Association are considered vested. They are entitled to a pension when they become eligible for normal retirement. In addition, disability and survivor benefits are available to vested members.

Cost-of-living Adjustments

Pensions are increased 3% each July 1, if retirement has been in effect for at least two full calendar years. If a member retires because of a disability or is at least age 65, the two calendar year waiting period is reduced to one full calendar year.

Contributions by Members and Employers

The contribution requirements by members and affiliated public employers are outlined on the following pages:

The Public Employees Retirement System Plan Summary

Contributions by Members and Employers

		of Salary ution Rate	Pension Factor Per Year of	Maximum Pension as Percent of Final Average Salary	
Coverage Plan	Member	Employer	Credited Service		
State General Member			• ••	000/	
Coverage Plan 1	3.83%	11.48%	2.0%	60% 75%	
Coverage Plan 2	6.18%	13.83%	2.5%	80%	
Coverage Plan 3	7.42%	16.59%	3.0%	00%	
State Police Member			/	000/	
Coverage Plan 1	7.60%	25.10%	3.0%	80%	
State Hazardous Duty Member			- Fo/	1000/	
Coverage Plan 1	4.00%	21.50%	2.5%	100%	
Coverage Plan 2	4.78%	25.72%	3.0%	100%	
Municipal General Member			2.00/	600/	
Coverage Plan 1	7.00%	7.00%	2.0%	60% 75%	
Coverage Plan 2	9.15%	9.15%	2.5%	80%	
Coverage Plan 3	13.15%	9.15%	3.0%	80%	
Coverage Plan 4	15.65%	11.65%	3.0%	00%	
Municipal Police Member			0.00/	60%	
Coverage Plan 1	7.00%	10.00%	2.0%	100%	
Coverage Plan 2	7.00%	15.00%	2.5%	100%	
Coverage Plan 3	7.00%	18.50%	2.5%	80%	
Coverage Plan 4	12.35%	18.50%	3.0%	80%	
Coverage Plan 5	16.30%	18.50%	3.5%	00%	
Municipal Fire Member		44.000/	0.00/	60%	
Coverage Plan 1	8.00%	11.00%	2.0% 2.5%	100%	
Coverage Plan 2	8.00%	17.50%	2.5%	100%	
Coverage Plan 3	8.00%	21.25%	2.5% 3.0%	80%	
Coverage Plan 4	12.80%	21.25%	3.5%	80%	
Coverage Plan 5	16.20%	21.25%	3.5 /6		

Interest is credited to member contribution accounts each June 30, at the rate set by the retirement board.

Judicial Retirement Act

The normal retirement pension amount for the Judicial Retirement System is based upon:

- Final salary which is the judicial member's salary received during the last 12 months in office prior to retirement;
- Years and months of service; and
- The coverage plan applicable:

Pre 7/1/80 Plan: 37.5% of final average salary plus 7.5% of final average salary for each year of service in excess of five years. Maximum is 75% of final salary with ten or more years of service.

Post 7/1/80 Plan: 37.5% of final salary plus 3.75% of final salary for each year of service in excess of five years. Maximum is 75% of final salary with 15 or more years of service.

The pension is payable monthly during the remainder of a volunteer firefighter's life and a survivor benefit is available for a surviving spouse.

Legislative Retirement Act

The pension amount* is \$350 multiplied by the years of service credit earned by a legislator or lieutenant governor after December 31, 1959, and \$40 multiplied by the years of credited service earned as a legislator or lieutenant governor prior to January 1, 1960. The plan was reactiviated in 1996.

* Contributions to support the plan come from legislative appropriations and participating legislators who pay \$100 per year of service.

agistrate Retirement Act

The normal retirement pension amount for the Magistrate Retirement System is based upon:

- Final salary which is the magistrate's salary received during the last year in office prior to retirement; and
- Years and months of service.

The annual benefit is 37.5% of final salary plus 3.75% of final salary for each year of service in excess of five years. Maximum is 75% of final salary with 15 or more years of service.

olunteer Firefighters Retirement Act

The normal retirement pension amount for a volunteer (non salaried) firefighter is:

- \$200 per month for firefighters with 25 or more years of service; or
- \$100 per month for firefighters with 10 to 24 years of service.

Communications

Annual Statements and 1099-R

Annual statements of account for individual members are mailed directly to each member in September. The statement provides a summary of account transactions and member contribution balances. Member 1099-R forms are mailed out each January.

Member and Employer Seminars

PERA conducts member and employer seminars at locations throughout the state. In addition to the seminars, PERA representatives are available to counsel individual members about retirement benefits. A comprehensive Retirement Kit is is also mailed to members upon request.

Newsletters

Approximately 50,000 copies of the PERA newsletter, La Voz, are distributed each quarter. The La Voz Retiree Edition is sent out to more than 15,000 retirees. La Voz is disseminated in order to inform members about legislative updates, investments, counseling schedules and other important matters.

The purpose of this voluntary participation plan is to allow state and public employees to participate in a supplemental retirement program using tax deferred income. As of June 30, 1998, the plan had nearly 11,925 contributing participants deferring approximately \$5 million dollars per quarter. Total assets of the plan were at \$182.6 million as of **June 30, 1998**.

1991-1998 Plan Assets as of December 31

1991 - \$55.4 million 1992 - \$64.2 million 1993 - \$78.0 million 1994 - \$92.8 million 1995 - \$13.6 million 1996 - \$137.2 million 1997 - \$165.2 million 1998 - \$182.6 million * * (as of 6/30/98)

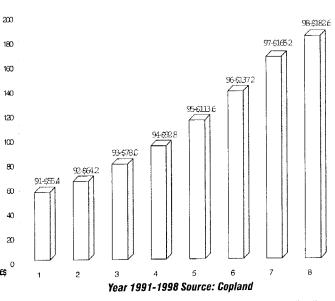
Historical Plan Assets

Deferred Compensation

In 1981, the New Mexico Legislature adopted the State of New Mexico Deferred Compensation

Act, as authorized by 26 USC Section 457 (Internal Revenue Code). The plan allows state, county and municipal public employees to defer a portion of their salary through payroll deductions into approved investment options administered by a third party administrator. The Deferred Compensation

Program Manager at PERA oversees the activities of the third party administrator.



Source: The Copeland Companies (Unaudited)



Constitutional Amendment 4

The passage of Constitutional Amendment 4 by New Mexico voters in the November 1998 general election was the most significant retirement legislation sponsored by the Public Employees Retirement Association of New Mexico during FY98.

Senate Joint Resolution 6, Constitutional Amendment 4, passed the Senate by a vote of 34-1 and the House by a vote of 61-0 during the 1998 New Mexico State Legislative Session.

In the following November 1998 general election,
New Mexican voters overwhelmingly passed
Constitution Amendment 4. There were 332,420
"For" votes cast vs. 97,874 "Against" votes cast for the amendment.

Constitutional Amendment 4, also known as the Pension Protection Act, insures the fiscal and actuarial integrity of the Public Employees Retirement System (PERA) for the benefit of all New Mexicans today and into the future. Briefly stated, it does this by:

- 1.) Protecting the pension benefits of all PERA members and retirees.
- Prohibiting the use of PERA funds for non pension purposes;
- 3.) Reaffirming that the PERA fund is a trust fund governed by a retirement board elected by PERA members and retirees with sole and exclusive responsibility over the PERA fund; and

4.) Prohibiting benefit enhancements unless the cost is funded in accordance with acceptable actuarial standards.

With the passage of Constitutional Amendment 4,
The State of New Mexico joined 30 other states with
such amendments on the books protecting public
retirement funds.

Financial Section

Financial Statements

Statement Of Plan Net Assets Statement of Changes In Plan Net Assets Fund Balances



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Financial Section

Statement Of Plan Net Assets June 30, 1998

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund	Total
ASSETS					
Cash and cash equivalents	190,114,022	\$ 963,676	\$ 1,040,600	\$ 700,327	\$ 192,818,625
Receivables:					
Accrued investment income	32,901,391	320,295	131,742	116,763	33,470,191
Accounts receivable-brokers	273,298,008	176,388	71,114	63,379	273,608,889
Contributions receivable	13,959,761	148,009	184,034		14,291,804
Accounts receivable-other	538,111	11,459	15,481	3,340	568,391
Interfund receivable	51,063	23,747			74,810
Investments, at fair value:					
U.S. Government and agency securities	916,735,412				916,735,412
Corporate equity securities	2,339,403,306				2,339,403,306
Corporate obligations	597,302,337				597,302,337
International securities	544,439,901				544,439,901
Equity in pooled investment funds	1,696,998,099	46,643,456	21,647,535	18,586,588	1,783,875,678
Total	6,094,879,055	46,643,456	21,647,535	18,586,588	6,181,756,634
Securities lending collateral investments	324,833,699				324,833,699
Investment in building	3,436,512				3,436,512
Total Investments	6,423,149,266	46,643,456	21,647,535	18,586,588	6,510,026,845
Property and equipment, net	1,221,770				1,221,770
Other assets	28,063				28,063
Total Assets	6,935,261,455	48,287,030	23,090,506	19,470,397	7,026,109,388
LIABILITIES					
Accounts payable-brokers	265,957,639	277,337	118,556	103,984	266,457,516
Accounts payable-other	2,819,600				2,819,600
Accrued expenses and other liabilities	1,082,561				1,082,561
Interfund payable	23,747	28,919	17,142	5,002	74,810
Securities lending liability	324,833,699	<u></u>		•	324,833,699
Total Liabilities	594,717,246	306,256	135,698	108,986	595,268,186
NET ASSETS HELD IN TRUST FOR	PENSION BE	NEFITS			
9	6,340,544,209	\$ 47,980,774	\$ 22,954,808	\$ 19,361,411	\$ 6,430,841,202

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Financial Section

Statement of Changes In Plan Net Assets June 30, 1998

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund	Total
ADDITIONS					
Contributions:				Φ	100 000 00E
Employer \$	165,248,660	\$ 2,042,957		\$	\$ 168,363,205 1,141,974,109
Member	113,692,756	340,448	64,205		1,141,374,103
Appropriation from State of New Mexico -				1,000,000	1,000,000
Fire Protection Fund	1 740 770	5,418		1,000,000	1,755,188
Service Credit Puchased	1,749,770	5,410			
Total Contributions	280,691,186	2,388,823	1,235,793	1,000,000	285,315,802
Investment Income:				202.044	404 040 077
Interest	120,380,863	526,846	231,427	203,841	121,342,977 78,653,299
Dividends	76,760,735	1,035,538	458,673	398,353	76,655,299 906,615
Real Estate Operating Income, Net	906,615	0.000.400	3,380,146	2,855,209	814,583,530
Net Appreciation in Fair Value of Investment	801,481,755	6,866,420	3,300,140	2,000,200	27,394,047
Securities Lending Income	27,394,047				572,757
Other investment Income	572,757 1,027,496,772	8,428,804	4,070,246	3,457,403	1,043,453,225
Less Investment Expense	(33,705,661)	(5,741)	(2,613)	(2,223)	(33,716,238)
Net Investment Income	993,791,111	8,423,063	4,067,633	3,455,180	1,009,736,987
Other Income	1,773,069	18,482			1,791,551
Total Additions	1,276,255,366	10,830,368	5,303,426	4,455,180	1,296,844,340
DEDUCTIONS					
Benefit Payments	212,129,746	2,794,381	712,069	146,668	215,782,864
Refunds To Terminated Employees	24,999,564		24,311		25,023,875
Administrative Expenses	4,347,585	7,335	4,975		4,359,895
Total Deductions	241,476,895	2,801,716	741,355	146,668	245,166,634
NET INCREASE	1,034,778,471	8,028,652	4,562,071	4,308,512	1,051,677,706
NET ASSETS HELD IN TRUST FOR P	ENSION BENE	FITS			
Beginning of Year	5,305,765,738	39,952,122	18,392,737	15,052,899	5,379,163,496
Ç -	\$ 6,340,544,209	\$ 47,980,774	\$ 22,954,808	\$ 19,361,411	\$ 6,430,841,202
- -					

Financial Section

Fund Balances June 30, 1998

Public

Employees

Judicial

Retirement

Magistrate

Retirement

	Retirement Fund	Fund	Fund
Member Contribution Fund	\$ 957,137,420	\$ 2,947,911	\$ 952,207
Employers Accumulation Fund	1,772,940,886	11,299,146	9,736,998
Retirement Reserve Fund	3,610,465,903	33,733,717	12,265,603
Income Fund			
Total	\$ 6,340,544,209	\$ 47,980,774	\$ 22,954,808

Member Contribution Fund represents the accumulated contributions deducted from members' compensation, less refunds and transfers of contributions as provided for by statute. Annually on June 30, the members' accounts are credited with interest on member contributions and previously earned interest at a rate determined by the PERA Board. The rate for the 1998 fiscal year was 5.25%.

Employers Accumulation Fund represents the accumulated contributions made by affiliated public employers. Each year following receipt of the report of the annual actuarial valuation, the excess, if any, of the reported actuarial present value of benefits to be paid over the balance in the Retirement Reserve Fund, discussed below, is transferred to the Retirement Reserve Fund from the Employers Accumulation Fund.

Retirement Reserve Fund represents the accumulated balance available to pay pension benefits to retired members and eligible survivors of deceased members or retirees and to pay residual refunds due to eligible beneficiaries and survivors as provided for in the statute.

Income Fund represents the accumulation of interest, dividends, rents, and other income of PERA less administrative expense paid out of this fund. At least annually, the balance in this fund is transferred to other funds in a manner determined by the Board. The distribution rate as determined by the Board for fiscal year 1998 was 5.25% of member account balances to the Member Contribution Fund. The remaining balance of the Income Fund was distributed to the Retirement Reserve Fund.

Fund Market Values
Investment Philosophy
Asset Allocation
Investment Performance
PERA Return On Investments
Fees Paid To Outside Investment Managers



und Market Values

Under the direction of the PERA Board and the Executive Director, the Director of Investments is responsible for administering the investment programs for each of PERA's retirement funds. On June 30, 1998, the PERA Retirement Fund alone, the largest of PERA's separate investment funds, had a market value of \$6,340,544,209 compared to \$5,305,765,738 on June 30, 1997. In addition to the PERA Fund, PERA is responsible for the investment of four separate investment funds: the Volunteer Firefighters Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, and the Legislative Retirement Fund. The Volunteer Firefighters Retirement Fund had a market value of \$19,361,411 in FY98 compared to \$15,052,899 in FY97; the Judicial Retirement Fund had a market value of \$47,980,774 in FY98 compared to \$39,952,122 in FY97; the Magistrate Retirement Fund had a market value of \$22,954,808 in FY98 compared to \$18,392,737 in FY97. An additional fund, the Legislative Retirement Fund (included in the PERA Fund total) had a value of \$4,002,067 in FY98 compared to \$3,504,322 for FY97.

nvestment Philosophy

The PERA Board's investment plan establishes the investment management policy guidelines for the different funds. The primary objective of the plan is to obtain sound long-term rates of return, consistent with the degree of risk assumed. To accomplish this, the plan establishes policy guidelines pertaining to diversification among asset classes, investment style and investment security.

To implement the investment policy, PERA contracts with nine investment managers and one securities firm for professional investment services. The managers invest the funds allocated to them in a diversity of investment styles, which in total are structured to produce rates of return that are bettern than the overall market, as mea-

sured by the S&P 500 equity index and the Lehman Aggregate Bond index.

The Volunteer Firefighters, Judicial and Magistrate Retirement Funds participate in equity investments through the purchase of unitized shares in PERA's indexed equity account managed by one of the professional investment services measured against the S&P 500. Except for short-term cash, these funds participate in fixed-income investments through the purchase of unitized shares in PERA's Lehman Government/Corporate Index bond account.

sset Allocation

According to some of the nation's best investment professionals, ninety percent of a pension fund's total fund return is attributable to asset allocation. Therefore, by policy, the PERA Board established a widely diversified asset allocation plan designed to ensure a desired, consistent rate of return, with prudent market and economic risk.

The asset allocation for the PERA Trust Fund on June 30, 1998, is graphically displayed in the chart entitled *Current PERA Asset Allocation*. It includes a highly diversified portfolio of equity, fixed-income and short-term cash investments. The Board's asset allocation targets for the Fund are 60% equity, of which up to 15% may be international equity securities, and 40% fixed-income securities. The actual asset allocation as of June 30, 1998, was 52.7% domestic equities, 37.4% domestic fixed-income, 8.9% international equities, and 9/10 of one percent (0.9%) in cash equivalents. PERA's building in Santa Fe, New Mexico accounts for 2/10 of one percent (0.2%) of actual asset allocation. In 1992, the PERA building was appraised at \$11,365,000.

The asset allocation objective for the Volunteer Firefighters, Judicial and Magistrate Retirement Funds is to invest 60% in equities and 40% in fixed-income investments.

nvestment Performance

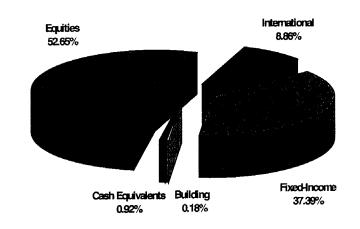
Total investment performance for the 98th fiscal year for the PERA Fund was 18.89%, net of manager fees and administrative expenses (19.01% before fees and expenses), compared to 19.31% (after estimated fees) in the 97th fiscal year, and 16.7% (after estimated fees) in the 96th fiscal year. The Fund grew from a market value of \$4.367 billion on June 30, 1996 to \$5.306 billion on June 30, 1997 to \$6.340 billion on June 30, 1998. PERA's high domestic equity returns of 26.49% this year compared very favorably to 18.71% for the Dow Jones Industrial Average, and 30.27% for the S&P500 Index. International returns of 8.7% compared to 6.1% for the EAFE (Europe, Australia, and Far East) Index. Domestic fixed-income returns were 11.81% compared to 10.54% for the Lehman Aggregate Index. These returns balanced the portfolio enabling PERA to earn a return of 19.01% (before fees and expenses) for the PERA Fund for all equity and fixed-income investments. This compared to 17.96% for the median fund in the Callan Associates, Inc., database of public funds.

PERA's domestic equity returns of 26.49% were 3.78% (378 basis points) less than the S&P 500, 30.27%, for the year. However, this was offset by PERA's slightly higher allocation to large capitalization domestic equities and smaller allocation to small capitalization domestic equities than most public funds. These factors, together with the superior performance of PERA's international equity account and PERA's favorable fixed-income performance, produced returns on the total of combined funds

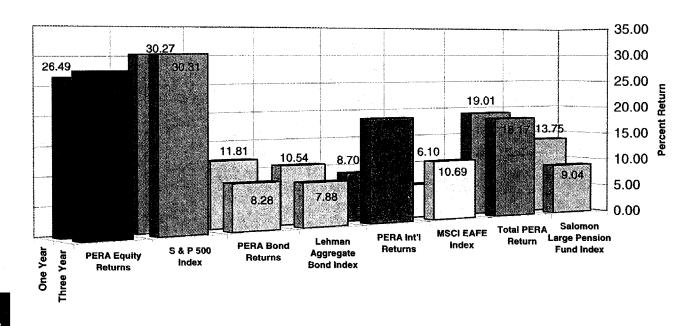
administered by PERA exceeding the median for similar public funds. PERA's international equity investments exceeded the EAFE Index 2.6% (260 basis points), and PERA's fixed-income returns of 11.81% compared to 10.54% for the Lehman Aggregate Index bond account. Thus, PERA's total return of 19.01% outperformed the median public fund returns of 17.96% by 1.05% (105 basis points).

Consistent long-term performance is the goal of PERA's investment program. In addition to achieving this goal during the fiscal year ending June 30, 1998, PERA's annualized return on the total fund for the last three fiscal years was 18.17% compared to 17.23% for the median public fund. For the last five years, PERA's total annualized return was 14.57% compared to 13.89% for the mean public fund.

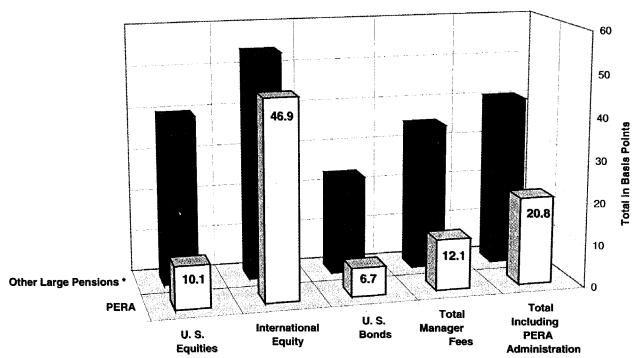
Current PERA Fund Asset Allocation June 30, 1998



PERA Return on Investments as of June 30, 1998



Average Fees Paid to Investment Managers PERA vs. Large Pension Funds



^{*} Cost Effective Management, Inc.

Actuarial Letter of Transmittal
Summary of Actuarial Assumptions
Fiscal Estimates
Financing Periods
June 30, 1998 Summary of Actuarial Valuation Conclusions



Actuarial Letter Of **Transmittal**



GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

1000 Town Center • Suite 1000 • Southfield, Michigan 48075 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

May 11, 1999

The Retirement Board Public Employees Retirement Association Santa Fe, New Mexico 87504-2123

Attention: Alice Herter, Executive Director

We certify that the annual actuarial valuation as of June 30, 1998 of the Public Employees Retirement Association of New Mexico was made in accordance with recognized actuarial methods.

The valuation was based on data submitted by PERA concerning financial information and people data, which we examined for reasonableness. The asset values used for the valuation were smoothed market values.

We believe the experience assumptions used in making the valuation provide a reasonable measure of the obligations and periods over which unfunded accrued obligations will be financed under the statutory contribution rates.

Respectfully submitted,

Kenneth G. Alberts Sandra W. Rodwan

KGA/SWR:ct

Summary of Actuarial Assumptions

Purpose of Actuarial Validation

The purpose of the actuarial valuation is to ascertain whether or not PERA is meeting its statutory obligations which are:

- Pension payments to current and future retired members, vested former members and survivor pension beneficiaries;
- Refunds of member contributions to non vested former members; and
- Administrative and investment expenses incurred in the operation of PERA.

The statutory funding resources are:

- Member contributions (fixed statutory rates)
- Affiliated public employer contributions (fixed statutory rates); and
- Investment earnings of PERA assets.

The basic funding objective of PERA is to avoid transfers of the cost of statutory obligations between generations of taxpayers. This objective will be realized if PERA's funding resources are sufficient to finance:

- Costs allocated to the current year attributable to service rendered by PERA members in the current year (normal costs); and
- Costs allocated to prior years attributable to service rendered by PERA members in prior years (unfunded actuarial accrued liability).

The Board policy is to finance the unfunded actuarial accrued liability over 30 years. The Board adopted this policy in October 1996.

PERA's actuarial valuation measures:

- The relationship between PERA obligations and funding resources to determine if the funding objective is being met; and
- The contribution rate needed to comply with the Board's 30-year funding objective for financing the unfunded actuarial accrued liability.

iscal Estimates

Calculations Used

Funding objective contribution requirements and actuarial present values are calculated by applying estimates of future plan activities (actuarial assumptions) to the benefit provisions and member demographic information of PERA.

The estimates of future inflation, real investment return in excess of inflation and salary increases were first used for the June 30, 1995 actuarial valuation. The fiscal estimates are used in combination with the demographic estimates to determine the present value of amounts expected to be paid in the future. Descriptions of these assumption variables are outlined below:

- Inflation: Five percent (5%) per annum, compounded annually. This is the rate at which growth in the supply of money and credit is assumed to exceed the supply of goods and services.
- Real Investment Return: Three percent (3%)
 per annum, compounded annually. This is the
 rate of return (net of administrative and investment expenses) to be produced by investing a
 pool of assets in an inflation-free environment.
- Salary Increases: Salary increases occur in recognition of individual merit and longevity, inflation-related depreciation of the purchasing power of salaries, and other factors such as productivity gains and competition from other employers for personnel.

inancing Periods

The existence of an unfunded actuarial accrued liability is not necessarily bad, any more than a mortgage on a house loan is bad. An unfunded actuarial accrued liability does not represent a debt that is payable today. It is important, however, to control the amount of unfunded actuarial accrued liability and the trend in the amount of this liability.

The financing periods for unfunded actuarial accrued liability supported by current statutory contribution rates and the additional contribution resources needed to immediately reduce these periods to 30 years are outlined in the charts on the following page. It is important to note that as of June 30, 1998 the amortization period for each group was within the 30-year funding objective set by the Board.

PERA Financing Periods

FY97 vs. FY98

Division	Funding		Additional Funding for 30 Years **		
	FY97	FY98	FY97	FY98	
State General	40 Years	24 Years	1.06%	00.00%	
State Police/Haz. Duty	0 Years	0 Years	0.00%	00.00%	
Municipal General	30 Years	7 Years	0.00%	00.00%	
Municipal Police	10 Years	0 Years	0.00%	00.00%	
Municipal Fire	81 Years	24 Years	4.21%	00.00%	

- * The number of years needed to finance the unfunded actuarial accrued liability with current statutory contribution rates.
- ** The additional contributions (percents of payroll) needed to immediately reduce the funding period to thirty years, to meet Board policy.



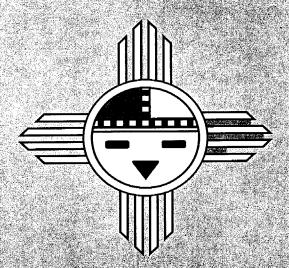
June 30, 1998 Summary of Actuarial Valuation Conclusions

The conclusions based upon the June 30, 1998 annual actuarial valuation of PERA are as follows:

- PERA experienced significant funding progress during the year ended June 30, 1998, with the aggregate funding ratio of accrued valuation assets to accrued obligations increasing to 98% from 88%;
- The funding progress was primarily the result of favorable fiscal experience (investment return and salary increases) and the increase in the Municipal Fire statutory contribution rates;
- Future funding progress will be primarily determined by rates of investment earnings and salary increases. Retirement rates are expected to have a significant impact in all Divisions. Of lesser but important influence are mortality decreases and member withdrawals;

- PERA has an actuarial balance between resources and obligations;
- The financing periods for all Divisions are within the 30 year period targeted under the Retirement Board's funding policy;
- Future ability to properly monitor PERA's actuarial balance is dependent upon continued diligence with respect to data quality and a period of benefit stability permitting derivation of underlying benefit utilization patterns.

Public Employees Retirement Association of New Mexico



1120 Paseo de Peralta

P.O. Box 2123

Santa Fe, New Mexico 87504

(800) 342-3422 Voice (505) 827-4670 Fax

pera.state.nm.us