

Public Employees Retirement Association of New Mexico



**Comprehensive Annual Financial Report
For The Fiscal Year Ended June 30, 1999**

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Santa Fe, New Mexico 87501
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<http://www.state.nm.us/pera>



**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.

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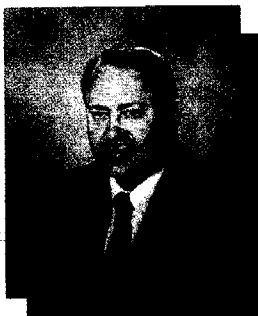
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Introduction

Letter From The Board Chair

PERA Board Members

Letter From The Executive Director



Lou Hoffman
Board Chair

Letter From The 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 ended June 30, 1999, to the members of the public.

PERA's average return on assets during the last decade of the second millennium was better than that of 82% of all funds in the Callan Associates database of public plan sponsors. PERA's return during the 1999 fiscal year was 14.8%, increasing assets by \$0.959 billion to a total of \$7.404 billion, ranking it in the 8th percentile of funds in the Callan Associates database of public plan sponsors. This sustained accomplishment is due to the diligent work of our PERA Board and staff, supported by a cadre of investment professionals. And the foresight of our State policy makers through the passage of enabling legislation has allowed PERA to compete in the global economy and seize investment opportunities. Certainly the strength of the world economy has been a significant, positive factor. Our return on international investments was 21.3% in fiscal year 1999 when the business cycles of Europe and Asia were generally perceived to be some 2 to 4 years behind the US economy.

For the year ended June 30, 1999, PERA's actuarial consultants, Gabriel, Roeder, Smith & Company, reported a decrease in PERA's overall accrued, unfunded liability to 9 years from 13 the previous year. Correspondingly, the aggregate funding ratio of accrued valuation assets to accrued liabilities increased to 99% from 91%. This means that PERA's financial health is as solid as a rock, especially when compared to an unfunded, accrued liability of 63 years only ten years ago when PERA was 75% funded. However, that doesn't mean that the PERA Board shouldn't be concerned about the soundness of the foundation that our valuation rests on, as well. The widely gyrating stock market experienced during the first months of calendar year 2000 is a reminder that success in securities investments can be transient. In that light, one must be concerned that our historical benchmark of accrued, actuarial liability is but one aspect of fiduciary stability. Consequently, the Board, in order to even more rigorously evaluate resource requirements and funding status, has committed itself during the current fiscal year to develop and implement a set of multidimensional criteria that will more robustly describe just how prepared PERA is to deal with the numerous uncontrollable contingencies that it confronts – enabling it to more prudently weigh those initiatives for changes to benefits and/or contribution levels that will be the inevitable offshoot of the fund's success.

Financial success notwithstanding, we also must not lose sight of the fact that 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 while continuing to manage all PERA resources in a prudent manner.

On behalf of the PERA Board, I thank all that participated in achieving this success.

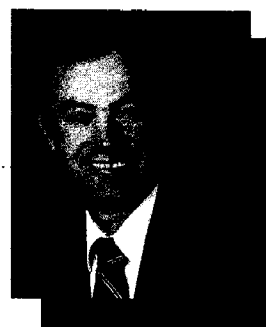
Lou D. Hoffman
Board Chair

Chair



Robert Mascareñas
County of Bernalillo
County Member

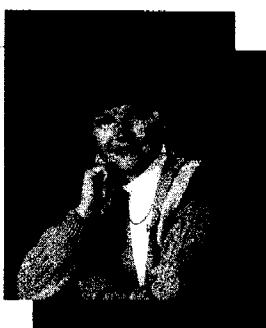
Vice Chair



Jerry Rael
State Personnel Office
State Member

PERA Board

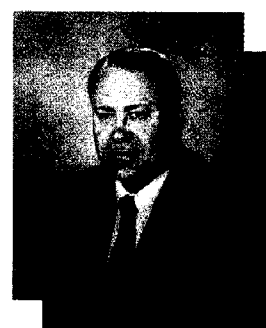
Elected Members



Susan H. Biernacki
City of Albuquerque
Municipal Member



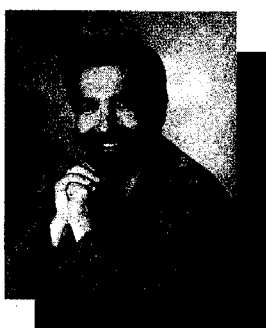
Stephanie Jorgensen
City of Albuquerque
Municipal Member



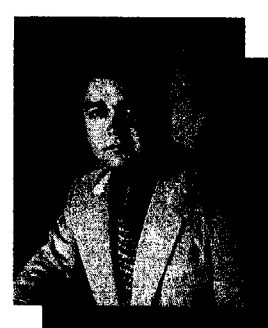
Lou Hoffman
City of Albuquerque
Municipal Member



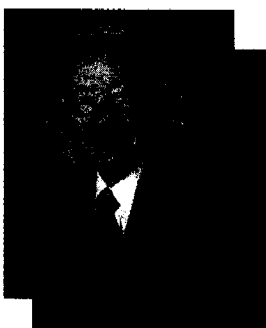
Angela Adams
Children, Youth and Families
State Member



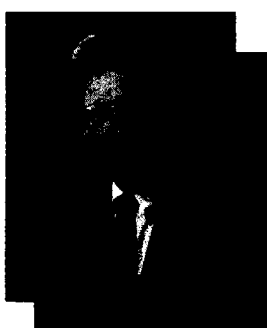
Danny Sandoval
Children, Youth and Families
State Member



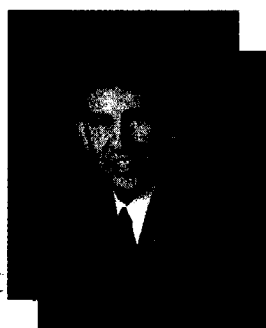
Jeff Varela
2nd Judicial District Attorney
Office
State Member



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



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:

PERA members and retirees often ask if their retirement funds are safe and secure. Underlying this concern is the implicit question of "Will there be enough money available to pay my retirement benefits?" Assuring the safety, security and availability of the PERA funds is the primary goal of the PERA Board and the PERA Association. As the numbers in this report demonstrate, PERA can now say to its members and retirees that, without question, their retirement benefits are indeed safe, secure and available for them when they retire.

I am pleased to present to you the Annual Report for the New Mexico Public Employees Retirement Association for the fiscal year ended June 30, 1999. This report provides comprehensive information about the retirement programs PERA administers and the pension funds we manage. FY 99 has been another outstanding year for PERA. Our actuarial funding period has decreased over the past five years from 43 years in FY 94 to 9 years in FY 99. Our investment performance in FY 99 was exceptional, yielding an overall return of 14.82% for the PERA Fund.

The success of our retirement system depends on 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 for many dedicated and hardworking public employees throughout the State of New Mexico.

Statistical Overview

As of June 30, 1999, PERA had 54,125 active members. Of this number, 21,272 are state members, 21,105 are municipal members, and the remaining members are participants in the judicial, magistrate, volunteer firefighters and legislative retirement programs. Also, as of June 30, 1999, PERA had 16,718 retirees and beneficiaries receiving pensions from PERA. Of this number, 9,410 are state retirees, 6,960 are municipal retirees, and the remaining retirees are from the judicial, magistrate, volunteer firefighters and legislative retirement plans. The pension payroll for all plans in FY 99 was \$258,475,438, and the average pension paid was \$15,460. The average age of PERA retirees is 65.4 years. PERA currently has 305 separate, affiliated public employers. In addition, we have 361 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 99, \$119,860,343 was received in employee contributions and \$177,448,442 in employer contributions for all plans. The net assets increased from all sources during the fiscal year ended June 30, 1999 by \$973,036,325. PERA's total net assets increased to \$7,403,877,527 as of June 30, 1999. \$942,319,868 of the

increase was from investment income and appreciation of investment assets. The remaining \$30,716,457 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 99 were \$258,475,438. PERA also refunded \$25,652,025 in contributions to members who terminated employment and chose to withdraw their PERA contributions. As of June 30, 1999, all of PERA's administrative and investment expenses represented less than 2/10ths of one percent 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 99, PERA's retirement benefit payments, refunds of contributions, administrative and investment expenses totaled \$281,247,789.

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 fund period decreased from 43 years in FY 94 to 9 years in FY 99. The advantage of a well-funded plan is that participants can see assets that are irrevocably committed to the payment of promised benefits. PERA is committed to maintaining its positive funding status. Through prudent management, PERA will assure that it remains 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 ended June 30, 1999, the total investment return, on a market value basis, was 14.82% for the PERA Fund inclusive of investment management and custody fees. This outstanding performance demonstrates that the Board's investment policies during recent years have been successful. The performance of the PERA Fund has increased from the bottom 6% of the public funds universe in the mid-1980s to today, where PERA performed in the upper eighth percentile for the last fiscal year and the upper eleventh percentile for the last five years. As of June 30, 1999, 48.6% of PERA's assets were invested in domestic equities that returned 23.62% compared to 24.66% for the Dow Jones Industrials and 22.76% for the S&P 500 Index. As of that same date, 35.8% of PERA's assets were invested in domestic fixed-income securities that returned 2.83% compared to 3.15% for the Lehman Aggregate Index. At the close of FY 99, 12.5% of PERA's assets were invested in international securities that returned 21.33% compared to 7.62% 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 \$7,403,877,527 at the close of this fiscal year, from \$6,430,841,202 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. 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 upgraded a general ledger system which we implemented six years ago. Among many other advantages, the utilization of this system has allowed PERA to provide management with monthly

expense statements and budget projections. PERA records its assets and liabilities in accordance with generally accepted accounting principles.

In developing the Association's accounting system, consideration was given to the adequacy of internal accounting controls. PERA continues to review and document its operations, allowing us to improve various record keeping and management controls. These controls are designed to provide assurance regarding safekeeping of assets and reliability of financial records.

Records

PERA maintains over 242,000 participant records for active members, inactive members, retirees and beneficiaries. Until four years ago, these records were maintained manually, in paper files. Beginning four years ago, PERA successfully implemented and is utilizing a computer-controlled imaging system for maintenance of 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 made immediately available for use by PERA benefit counselors when discussing retirement issues with members and retirees. Additionally, the imaging system 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.

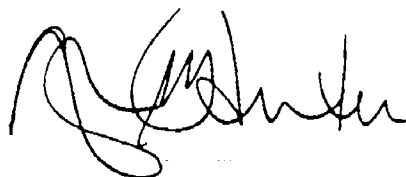
Professional Services

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 our Association's success. 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 significant amounts of time establishing 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. We are proud of PERA's status as one of the best retirement systems in the nation and we are continuing to explore ways in which we can provide more efficient responses to participant questions. 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, teamwork 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

About PERA

Executive Staff

Organization Chart

PERA At A Glance

General Information and Summary of Plan Provisions

Member Communications

Legislation

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
Lee Ann Rael, Comptroller
Arthur A. Trujillo, Financial Specialist III
Denise A. Vialpando, Financial Specialist II

Member Services

Renee Baros, Clerk Specialist
Rose Butler, Clerk IV
Mary M. Frederick, Manager V
Vincent J. Jaramillo, Manager IV
Judy Olson, Manager IV
Joyce Rivera, Financial Specialist 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
Becky Chavez, Custodial Worker I
Victor Diaz, Custodial Worker I
Janice Garcia, Custodial Worker I
Sergio Gutierrez, Maintenance Lead Worker
Simon S. Jiron, Custodial Worker I
Ron La Pointe, Maintenance Worker I
Eric Martinez, Maintenance Worker II
Jake Martinez, Maintenance Worker I
Joe Martinez, Custodial Worker I
Jose F. Marquez, Custodial Worker I
Mel E. Prada, Maintenance Supervisor
Chris Quintana, Laborer
Bertha A. Tagle, Custodial Worker I

Valentin Ulibarri, Custodial Worker Supervisor I
Benny L. Vigil, Custodial Worker I
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 Base 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
Mando Lujan, Laborer
Mark Sanchez, Administrator III
Ronda Vigil, Clerk IV

**PUBLIC EMPLOYEES
RETIREMENT
ASSOCIATION BOARD**

**EXECUTIVE
ASSISTANT**
JANE CLIFFORD

EXECUTIVE DIRECTOR
ALICE E. HERTER

**DEPUTY DIRECTOR
OPERATIONS**
KURT WEBER

**DIRECTOR
OF INVESTMENTS**
ROBERT GISH

GENERAL COUNSEL
CAROL BACA

**DEPUTY DIRECTOR
MEMBER SERVICES**
BERT TERRAZAS

HUMAN RESOURCES
ARLENE CORIZ

**INFORMATION
SYSTEMS**
GREG PORTILLOS

COMPTROLLER
LEE JANN RAEI

**FINANCIAL
MANAGEMENT
CONSULTANT**
STEVEN VOET

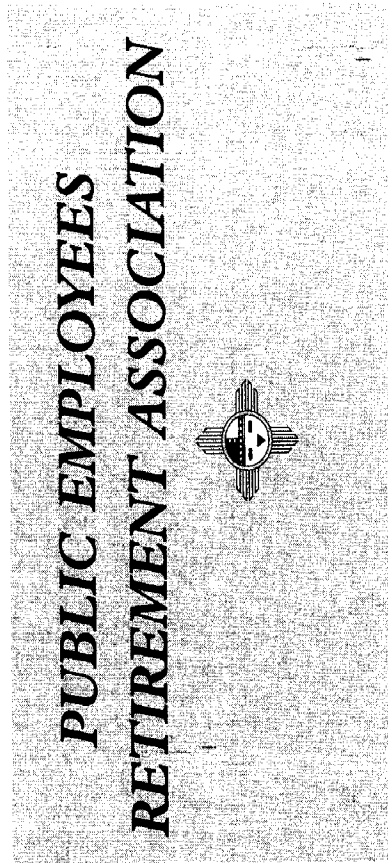
**ADMINISTRATOR
DEFERRED
COMPENSATION**
JOHN CUNNINGHAM

MEMBER SERVICES
MARY FREDERICK

**PROPERTY
MANAGEMENT**
GENE POWERS

RECORDS/IMAGING
MARK SANCHEZ

LIAISON OFFICER
JOE EDGAR



The Public Employees Retirement System Plan Summary

Contributions by Members and Employers

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

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

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 in the table shown on the previous page.

Volunteer 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.**

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 under the Legislative Retirement Plan is \$250 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 legisla-

tor or lieutenant governor prior to January 1, 1960. Contributions to support the plan come from legislative appropriations and participating legislators who pay \$100 per year of service.

Magistrate 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. The maximum pension allowable is 75% of final salary with fifteen or more years of service.

Judicial Retirement Act

The normal retirement pension amount under 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:**

(1) Pre 7/1/80 Plan: 37.5% of final salary plus

7.5% of final salary for each year of service in excess of five years.

The maximum pension allowable is 75% of final salary with ten or more years of service.

(2) 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.

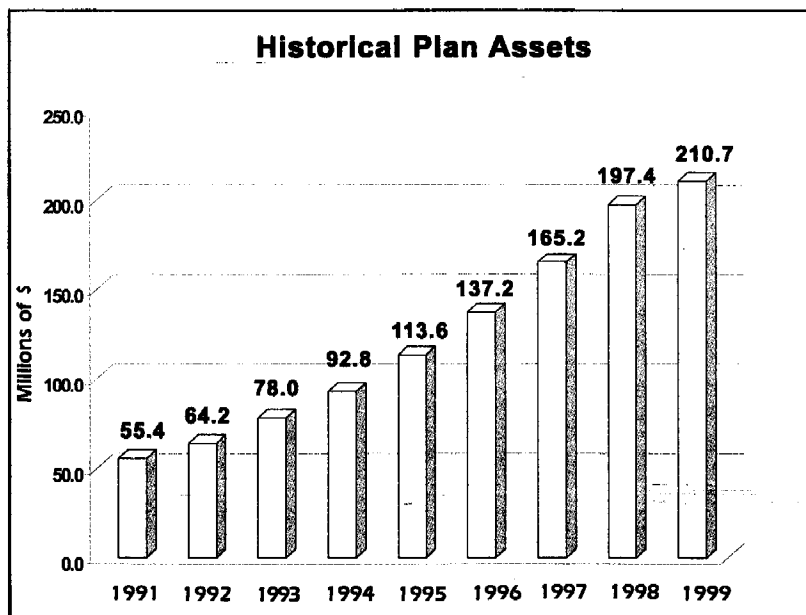
The maximum pension allowable is 75% of final salary with fifteen or more years of service.

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. The plan is administered by a third-party administrator whose activities are monitored by the Deferred Compensation Program Manager at PERA and the PERA Board.

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, 1999, the plan had nearly 12,000 active participants deferring approximately \$5 million per quarter. Total assets of the plan were \$210.7 million as of June 30, 1999.



1991-1999 Plan Assets as of December 31

1991 - \$55.4 million
1992 - \$64.2 million
1993 - \$78.0 million
1994 - \$92.8 million
1995 - \$113.6 million
1996 - \$137.2 million
1997 - \$165.2 million
1998 - \$197.4 million
1999 - \$210.7 million *

* (as of 6/30/99)

Member Communications

Member Services

Quality service to our members is one of the most important functions of PERA. The staff of the Member Services Division serves PERA's active members and retirees. The benefits counselors and support staff provide information over the telephone, by answering written requests, by individual member office counseling visits and through group presentations.

The staff at PERA is responsible for preparing retirement calculations and estimates, assisting members with fulfilling retirement procedures, preparing uniformed service calculations, processing refund requests, replying in writing to written and telephone inquiries and assisting members with death benefit claims. In FY 99 – from July 1998 to July 1999 – the PERA staff processed over 1,094 retirement applications. Member Services also prepares the adjustments to retiree pension checks to reflect the yearly Cost-of-Living-Adjustments (COLA) increases granted by the New Mexico State Legislature.

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 17,000 retirees and beneficiaries. **La Voz** informs members about legislative updates, investments, counseling schedules and other important matters.

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 also mailed to members upon request.

Annual Statements and 1099-R Forms

Annual statements of account for individual members are mailed directly to each member in July. The

statement provides a summary of account transactions and member contribution balances. Member 1099-R forms are mailed out each January.

PERA's Internet Website

PERA's Internet Website contains updated and valuable information concerning PERA current events, administration, investments and member services. The address for the PERA Website is <http://www.state.nm.us/pera>.

Imaging Technology

PERA has converted its paper files to computer imaging. This technology allows a staff member to view images of member documents on a computer monitor instead of looking at the actual member file. Electronic imaging improves staff productivity and provides a staff member with instant access to member documents when responding to inquiries.

Interactive Voice Response System

PERA's Interactive Voice Response (IVR) system allows members to retrieve or request information using their touch-tone telephone. The IVR system offers the following options to members:

- Check on current member account balances
- Determine the status of refund checks
- Request retirement information
- Make account changes such as requesting a change of address
- Request a form to purchase service credit
- Make changes in pension deductions
- Inquire about retirement checks
- Ask about direct deposit options
- Report a death in the family

Legislation

Constitutional Amendment 4

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.

Constitutional Amendment 4 was the most significant retirement legislation sponsored by the Public Employees Retirement Association of New Mexico during FY 99. In the November 1998 general election, New Mexico voters overwhelmingly passed Constitutional Amendment 4. A total of 430,294 votes were cast on the amendment. Of this total, 77% of the votes (332,420) were cast "For" the amendment and 23% of the votes (97,874) were cast "Against"

the amendment. The turnout for Constitutional Amendment 4 represented the greatest majority of the votes cast for any issue on the ballot in that election.

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

Constitutional Amendment 4, also known as the Pension Protection Act, insures the fiscal and actuarial integrity of the Public Employees Retirement System for the benefit of all New Mexicans today and into the future.

Constitutional Amendment 4 Provisions

Briefly stated, Constitutional Amendment 4:

- 1.) Protects the pension benefits of all PERA members and retirees.**
- 2.) Reaffirms 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;**
- 3.) Prohibits the use of PERA funds for non-pension purposes; and**
- 4.) Prohibits benefit enhancements unless the cost is funded in accordance with acceptable actuarial standards.**

Financial

Statement of Plan Net Assets

Statement of Changes In Plan Net Assets

Fund Balances

Statement Of Plan Net Assets

June 30, 1999

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund	Total
ASSETS					
Cash and cash equivalents	\$ 592,398,062	\$ 376,440	\$ 961,772	\$ 137,246	\$ 593,873,520
Receivables:					
Accrued investment income	35,580,020	386,195	183,200	169,498	36,318,913
Accounts receivable - brokers	178,610,914	189,420	89,521	79,606	178,969,461
Contributions receivable	14,413,365	115,702	95,941		14,625,008
Accounts receivable - other	272,133	9,637	10,527		292,297
Interfund receivable	83,684				83,684
Investments at fair value:					
U.S. Gov. and agency securities	1,159,884,305				1,159,884,305
Corporate equity securities	2,567,147,421				2,567,147,421
Corporate obligations	511,480,181				511,480,181
International securities	931,343,015				931,343,015
Equity in pooled investment funds	<u>1,782,423,142</u>	<u>53,282,352</u>	<u>25,218,535</u>	<u>22,783,194</u>	<u>1,883,707,223</u>
Total	6,952,278,064	53,282,352	25,218,535	22,783,194	7,053,562,145
Securities lending collateral investments	363,492,319				363,492,319
Investment in building	<u>3,094,872</u>				<u>3,094,872</u>
Total investments	7,318,865,255	53,282,352	25,218,535	22,783,194	7,420,149,336
Property and equipment, net	1,291,547				1,291,547
Other assets	<u>27,988</u>				<u>27,988</u>
Total assets	8,141,542,968	54,359,746	26,559,496	23,169,544	8,245,631,754
LIABILITIES					
Accounts payable - brokers	473,877,398	50,433	23,852	21,377	473,973,060
Accounts payable - other	3,249,649				3,249,649
Accrued expenses and other liabilities	1,046,120				1,046,120
Interfund payable		46,558	27,993	9,133	83,684
Securities lending liability	<u>363,401,714</u>				<u>363,401,714</u>
Total liabilities	<u>841,574,881</u>	<u>96,991</u>	<u>51,845</u>	<u>30,510</u>	<u>841,754,227</u>
CONTINGENCIES					
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
	<u>\$7,299,968,087</u>	<u>\$ 54,262,755</u>	<u>\$ 26,507,651</u>	<u>\$ 23,139,034</u>	<u>\$7,403,877,527</u>

Statement Of Changes In Plan Net Assets

June 30, 1999

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund	Total
ADDITIONS					
Contributions:					
Employers	\$ 174,324,519	\$ 2,046,226	\$ 1,077,697		\$ 177,448,442
Members	119,376,940	323,107	160,296		119,860,343
Appropriation from State of New Mexico Fire Protection Fund				\$ 1,000,000	1,000,000
Service credits purchased	2,447,861		675		2,448,536
Total contributions	296,149,320	2,369,333	1,238,668	1,000,000	300,757,321
Investment income:					
Interest	108,085,931	27,709	42,407	18,615	108,174,662
Dividends	102,136,700	1,707,613	821,189	749,186	105,414,688
Real estate operating income, net	829,251				829,251
Net appreciation in fair value of investments	725,277,337	5,140,354	2,396,577	2,186,353	735,000,621
Securities lending income	15,441,806				15,441,806
Other investment income	1,305				1,305
	951,772,330	6,875,676	3,260,173	2,954,154	964,862,333
Less investment expense	(22,524,000)	(9,708)	(4,626)	(4,131)	(22,542,465)
Net investment income	929,248,330	6,865,968	3,255,547	2,950,023	942,319,868
Other income	2,069,678				2,069,678
Total additions	1,227,467,328	9,235,301	4,494,215	3,950,023	1,245,146,867
DEDUCTIONS					
Benefit payments	237,554,751	2,945,389	895,589	172,400	241,568,129
Refunds to terminated employees	25,612,467		39,558		25,652,025
Administrative expenses	4,876,232	7,931	6,225		4,890,388
Total deductions	268,043,450	2,953,320	941,372	172,400	272,110,542
NET INCREASE	959,423,878	6,281,981	3,552,843	3,777,623	973,036,325
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of year	6,340,544,209	47,980,774	22,954,808	19,361,411	6,430,841,202
End of year	<u>\$ 7,299,968,087</u>	<u>\$ 54,262,755</u>	<u>\$ 26,507,651</u>	<u>\$ 23,139,034</u>	<u>\$ 7,403,877,527</u>

Fund Balances

June 30, 1999

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund
Member Contribution Fund	\$ 1,037,574,400	\$ 3,226,872	\$ 972,568
Employers Accumulation Fund	1,948,378,789	3,350,790	10,814,695
Retirement Reserve Fund	4,314,014,898	37,685,093	14,720,388
Income Fund			
Total	<u>\$ 7,299,968,087</u>	<u>\$ 54,262,755</u>	<u>\$ 26,507,651</u>

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 1999 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 PERA income less administrative expenses 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 1999 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.



Investments

Fund Market Values

Investment Philosophy

Asset Allocation

Investment Performance

Graph - PERA Return On Investments

Graph - PERA Fees Paid To Investment Managers

Fund 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 which had total net assets of \$7,403,877,527 on June 30, 1999. The PERA Retirement Fund alone, the largest of PERA's separate investment funds, had a total net value of \$7,299,968,087 compared to \$6,340,544,209 on June 30, 1998. 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 net value of \$23,139,034 in FY 99 compared to \$19,361,411 in FY 98; the Judicial Retirement Fund had a net value of \$54,262,755 in FY 99 compared to \$47,980,774 in FY 98; the Magistrate Retirement Fund had a net value of \$26,507,651 in FY 99 compared to \$22,954,808 in FY 98. An additional fund, the Legislative Retirement Fund (included in the PERA Fund total) had a net value of \$4,711,381 in FY 99 compared to \$4,001,561 for FY 98.

Investment 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 eleven 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 struc-

tured to produce rates of return that are better than the overall market, as measured 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.

Asset Allocation

According to some of the nation's best investment professionals, 90% 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.

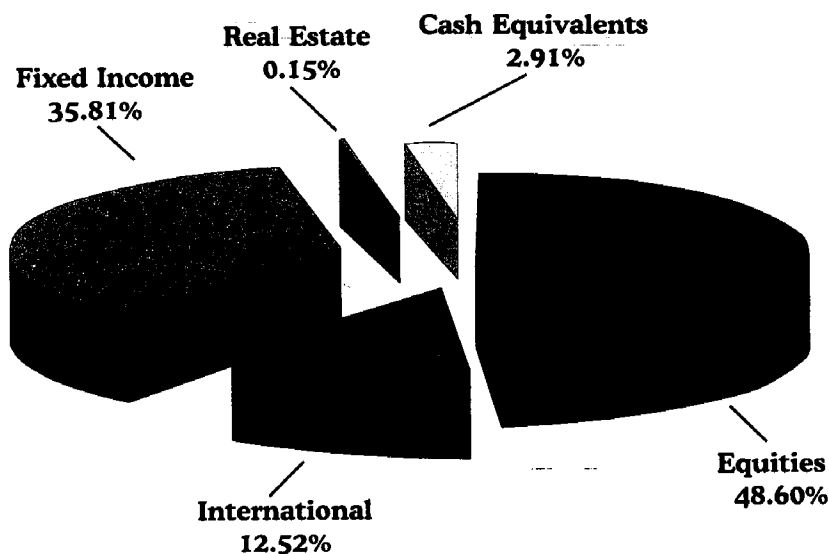
The asset allocation for the combined PERA Trust Fund on June 30, 1999, is graphically displayed in the chart entitled **Current PERA Fund Asset Allocation**. It includes a highly diversified portfolio of equity, fixed income and short-term cash investments. The Board's asset allocation targets for the 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, 1999, was 48.6% domestic equities, 35.8% domestic fixed income, 12.5% international equities, and 2.9% 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.

Current PERA Fund Asset Allocation

June 30, 1999



Investment Performance

Total investment performance for the 99th fiscal year for the PERA Fund was 14.82%, net of manager fees and administrative expenses (14.96% before investment fees), compared to 18.89% (after estimated fees) in the 98th fiscal year, and 19.31% (after estimated fees) in the 97th fiscal year. The Fund grew from a market value of \$5.306 billion on June 30, 1997, to \$6.341 billion on June 30, 1998, to \$7.300 billion on June 30, 1999.

PERA's high domestic equity returns of 23.62% this year compared very favorably to 24.66% for the Dow Jones Industrial Average, and 22.76% for the S&P 500 Index. International returns of 21.33% compared to 7.62% for the EAFE (Europe, Australia, and Far East) Index. Domestic fixed-income returns were 2.83% compared to 3.15% for the Lehman Aggregate Index. These returns balanced the portfolio enabling PERA to earn a return of 14.96% (before investment fees) for the PERA Fund for all equity and fixed-income investments. This compared to 10.04% for the median fund in the Callan Associates database of public funds.

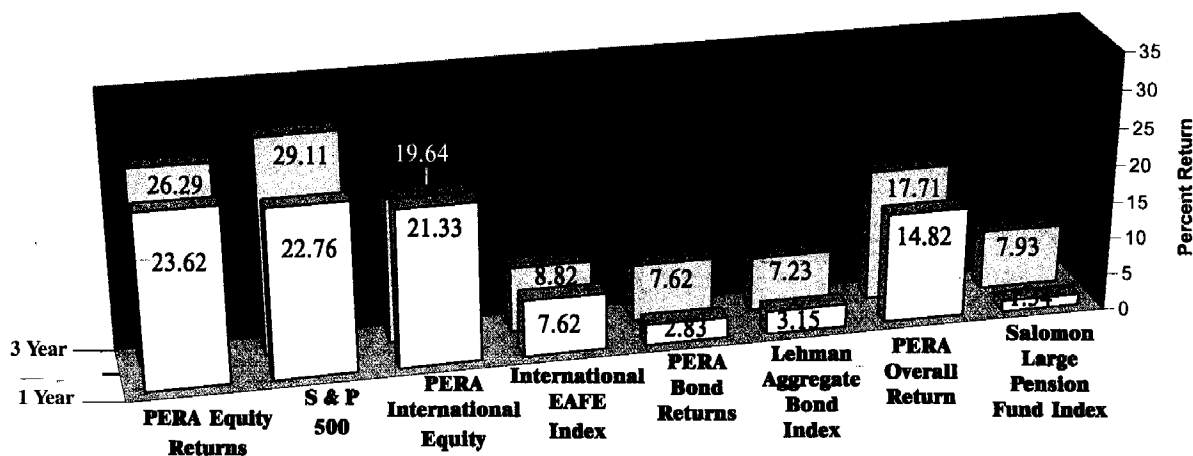
PERA's return on international equity investments exceeded the EAFE Index by 13.71% (1,371 basis points), and PERA's fixed-income returns were slightly below the Lehman Aggregate Index by .32% (32 basis points).

Thus, PERA's total return of 14.96% (before investment fees of .14% (14 basis points)) outperformed the median public fund returns of 10.04% by 4.92% (492 basis points).

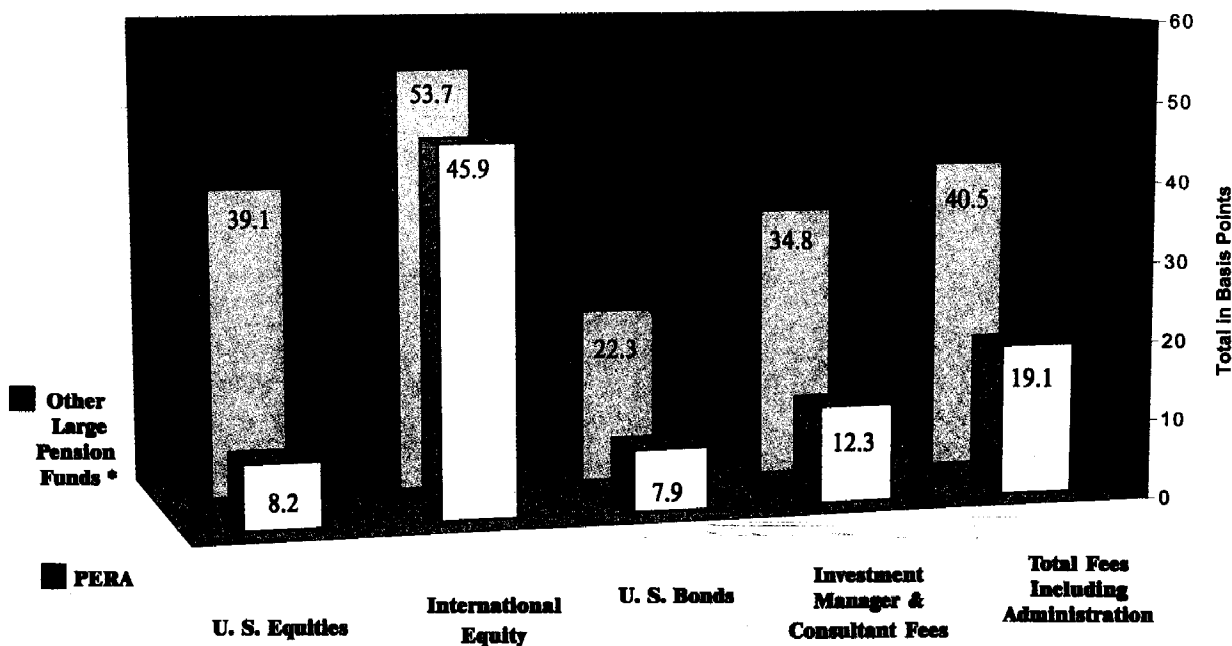
Consistent long-term performance is the goal of PERA's investment program. In addition to achieving this goal during the fiscal year ended June 30, 1999, PERA's annualized return on the total fund for the last three fiscal years was 17.71% compared to 15.31% for the median public fund. For the last five years, PERA's total annualized return was 17.68% compared to 15.56% for the mean public fund.

PERA's domestic equity returns of 23.62% were 0.86% (86 basis points) over the S&P 500, at 22.76%, for the year. This was due to 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 Return On Investments As of June 30, 1999



Fees Paid to Investment Managers PERA vs. Large Pension Funds



* Cost Effective Measurement, Inc.

Actuarial

Actuarial Letter of Transmittal

Summary of Actuarial Assumptions

Summary of Actuarial Valuation Conclusions

Financing Periods and Funding Policy

Fiscal Estimates



GABRIEL, ROEDER, SMITH & COMPANY

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December 6, 1999

The Retirement Board
Public Employees Retirement Association
1120 Paseo de Peralta
Santa Fe, New Mexico 87504-2123

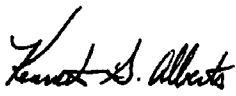
Attention: Alice E. Herter, Executive Director

We certify that the annual actuarial valuation as of June 30, 1999 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

Summary of Actuarial Assumptions and Valuation Conclusions

Purpose of Actuarial Valuation

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.

Summary of Actuarial Valuation Conclusions

- PERA experienced significant funding progress during the year ended June 30, 1999, with the aggregate funding ratio of accrued valuation assets to accrued obligations increasing to 99% from 91%. This is the measure used by the Governmental Accounting Standards Board Statement No. 25 for financial reporting.
- The funding progress was primarily the result of favorable fiscal experience (investment return and salary increases).
- 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.

PERA Financing Periods

FY98 vs. FY99

Division	Funding Period *		Additional Funding for 30 Years **	
	FY98	FY99	FY98	FY99
State General	24 Years	14 Years	00.00%	00.00%
State Police/Haz. Duty	0 Years	0 Years	00.00%	00.00%
Municipal General	7 Years	0 Years	00.00%	00.00%
Municipal Police	0 Years	0 Years	00.00%	00.00%
Municipal Fire	24 Years	12 Years	00.00%	00.00%
<p>* The number of years needed to finance the unfunded actuarial accrued liability with current statutory contribution rates.</p> <p>** The additional contributions (percent of payroll) needed to immediately reduce the funding period to thirty years, to meet Board policy.</p>				

Financing Periods

In October 1996 the Board adopted a 30-year amortization period as its funding policy for the amortization of unfunded actuarial accrued liabilities. The 30-year period is consistent with the amortization period ultimately established for reporting purposes by the Governmental Accounting Standards Board.

The Retirement Board had previously established a 40-year amortization period as its funding policy for unfunded actuarial accrued liability. As of June 30, 1999, the amortization period for each Division was within the 30-year funding objective. The financing periods for each Division are outlined in the chart above.

Fiscal Estimates

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. The following describe the assumption variables used in the calculations:

- **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.