

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
BOARD MEETING
August 29, 2019

This monthly meeting of the Public Employees Retirement Board was called to order by Jackie Kohlasch, Chair, at approximately 11:20 a.m. on the above-cited date at the PERA Building, 33 Plaza la Prensa, Senator Fabian Chavez, Jr. Board Room, Santa Fe, New Mexico.

1. Roll Call

Roll call followed the Pledge of Allegiance which indicated a quorum with the following members present:

Members Present:

Jackie Kohlasch - State, Chair
John Melia - Municipal, Vice Chair
Lawrence Davis - Municipal
Tim Eichenberg - *Ex-officio*
Patricia French - Municipal
Dan Mayfield - Retiree
Steve Neel - State
Maggie Toulouse Oliver - *Ex-officio*
Loretta Naranjo Lopez - Retiree
Shirley Ragin - County
David Roybal - State

Member(s) Absent:

Claudia Armijo – State

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Dominic Garcia, Chief Investment Officer
Greg Trujillo, Deputy Executive Director
Renada Peery-Galon, ASD Director
Misty Schoeppner, Deputy General Counsel
Geraldine Garduno, Assistant General Counsel
Kristin Varela, Deputy CIO
LeAnne Larrañaga-Ruffy, Director of Equity
Anna Williams, Chief Financial Officer
Joaquin Lujan, Co-Head Alpha & Director of Rates & Credit
Karyn Lujan, Deferred Compensation Plan Manager
Trish Winter, Executive Assistant
Marah deMeule, OAG
Tania Maestas, OAG

Others Present:

Adam Hathaway, Parliamentarian
Ernie Marquez, AES
Tim Sanchez, AES

Lenora Chavez
Joseph E. Montoya, Retiree
Victor Baca, Retiree
Jake Salazar, Retiree
Robert Ochoa, Retiree
JoAnn Jackson, Retiree
Mark R. Pacheco, Retiree
Jeff Riggs, Board candidate
John Garrett, Actuary [Telephonically]

2. **Approval of Agenda**

Ms. Naranjo Lopez introduced a motion to approve the agenda and Mr. Davis seconded. The motion passed without opposition.

3. **Approval of Consent Agenda**
[Exhibit 1: Consent Agenda]

Ms. Toulouse Oliver moved approval and Mr. Mayfield seconded. The motion passed unanimously.

4. **Current Business**
Board will recess to Executive Session, NMSA 1978 Section 10-15-1(H)(7) and (3)
Update from the NM Office of the Attorney General Regarding Attorney-Client Privilege Information

Administrative Appeals – Final Review

1. **Anthony Sedillo**
2. **Steve Duarte**

Chair Kohlasch read the above information regarding executive session. Ms. Toulouse Oliver moved to meet in executive session and Mr. Melia seconded. The motion passed by unanimous voice vote.

[The Board met in executive session from 11:25 to 12:25]

A motion to return to open session was made by Mr. Davis and seconded by Ms. Toulouse Oliver. Roll call vote indicated the presence of the following members:

Jackie Kohlasch	Present
Claudia Armijo	Absent
John Melia	Present
Lawrence Davis	Present
Tim Eichenberg	Present
Patricia French	Present
Dan Mayfield	Present
Steve Neel	Present
Maggie Toulouse Oliver	Present
Loretta Naranjo Lopez	Present
Shirley Ragin	Present
David Roybal	Absent

A. Final Decision on Administrative Appeal
1. Anthony Sedillo (PERA #132446)

Mr. Neel introduced a motion that, in the matter of the appeal of Anthony S. Sedillo, PERA ID #132446, the Board adopt the Hearing Officer's Recommended Findings of Fact and Conclusions of Law, approve the Hearing Officer's Recommended Decision and deny the Claimant's request to begin his disability pension benefits prior to September 1, 2018. Ms. Toulouse Oliver seconded and the motion passed by unanimous voice vote.

2. Steve Duarte (PERA #113061)

Mr. Neel introduced a motion that, in the matter of the appeal of Steve Duarte, PERA ID #113061, the Board remand the Hearing Officer's recommended decision to the Hearing Officer for the taking of further evidence and for further findings and conclusions as to Claimant's leg pain and his opportunity to provide information to the Disability Review Committee quantifying his back and leg pain as requested by Dr. Romig. Ms. Toulouse Oliver seconded and the motion passed by unanimous voice vote.

B. FY21 Appropriation Request

Renada Peery-Galon, ASD Director, reminded the Board that they FY20 operating budget was relatively flat and the FY21 request is 1.3 percent less. She highlighted that there was a .24 percent increase in personal services and employee benefits; 2.82 percent decrease in contractual services due to realignment within the strategic asset allocation and other category; and; an increase of 27.8 percent within the other category. She explained that the increase in the "other" category reflects a line item change to where the Agency is required to budget information technology ("IT") software and maintenance. She noted a 3 percent increase in insurance for employees. There are no expansion requests or any IT appropriations for special initiatives. Only the actual expenditures for the operation of the agency are used.

Mr. Mayfield moved to approve the FY21 PERA appropriation request. Ms. Toulouse Oliver seconded.

Ms. Naranjo Lopez made the following comment: "There are material weaknesses in the internal audit environment and the Board cannot trust the budget numbers until the material weaknesses are addressed. There is no accountability for PERA executive officers. The Board and PERA cannot trust staff proposed budget numbers until there is transparency and accountability into how the budget was prepared..."

Mr. Davis requested a breakdown/flow chart of the contractual services regarding investments. Deputy CIO Varela said she would provide that.

The motion to approve the FY21 PERA Appropriations request passed by majority [8-2] voice vote with Ms. Naranjo Lopez and Ms. French voting against.

C. Recommendation to Amend the PERA SmartSave Plan Document to include the Roth Feature to the Plan

Karyn Lujan, SmartSave Plan Manager, said the SmartSave Committee and the Board adopted a Roth features within the SmartSave Plan. She said staff is now recommending a draft amendment to the 457b PERA SmartSave Plan document to include the Roth feature into the plan, as well as make minor formatting and capitalization revisions. Ms. Lujan reviewed the different tax characteristics of the Roth and noted that the Roth assets must be segregated from the regular 457b assets because of the additional requirements.

Ms. Lujan reviewed the changes within the Plan document.

Ms. Toulouse Oliver moved to approve the request. Her motion was seconded by Mr. Mayfield and passed by unanimous voice vote.

Regarding Voya transitioning as the new third-party administrator, Ms. Lujan said the go-live date is scheduled for the week of October 7th and could occur sooner. Communications to participants have been ongoing since July with emails and post. The blackout period when no transactions can be conducted starts on September 23rd although investments are active. Employers are receiving information about new processes which include a portal to communicate with Voya. She outlined the scheduled training periods with employers.

[Ms. French excused herself from the remainder of the meeting.]

Ms. Lujan said Voya will have a local office at the PERA building making the building a “one-stop shop” for the membership. All of Nationwide’s New Mexico employees in New Mexico will be transferring to Voya. CIO Garcia said housing Voya in this building will result in a reduction to the third-party fees.

The motion passed [9-0] without opposition.

D. PERA Board Election Overview

Ernie Marquez, AES, said 80,643 ballots were mailed out; 13,500 ballots have been returned: 1,167 for the County, 2,339 for the State and 9,994 for the retirees. Out of those, approximately 60 ballots have been reissued for return addresses or undeliverable with a forwarding address. There are 1,972 undeliverable ballots, where the forwarding address has expired and no additional forwarding address provided. There are still 65,123 ballots that have not been returned. The ballots were mailed out on August 9th.

Mr. Marquez said the ballots are picked up on a daily basis at the Rio Rancho Post Office. AES staff conducts a hard count, then a scan count and finally a tabulator is used to ensure the numbers match.

Mr. Eichenberg said he received a ballot at his Albuquerque address for someone who lives in Las Cruces. He asked how information was merged that may have caused this error. Mr. Marquez said the information comes from PERA and AES runs that information through NCOA (National Change of Address). Any records that come through the post office that have a change are made. He offered to review the issue Mr. Eichenberg brought up.

[Mr. Davis excused himself from the remainder of the meeting.]

Ms. Naranjo Lopez said there was disparate treatment of incomplete nominating forms, confusion with where to call either AES or PERA staff, a questionnaire was completed without her

consent/authorization, and AES's accountability in this process. She said she wanted to look at appropriate discipline, place a formal notice to AES to preserve the public trust and a deep dive review on the election policies and procedures.

Ms. Naranjo Lopez said she wanted a clear understanding of how the process is being done. She said it disturbed her that AES was getting the ballots and there were no witnesses to watch the opening of the ballot boxes.

Clarifying the issue of discussing issues with AES or PERA, General Counsel Pittard said Ms. Naranjo Lopez filed a public records request with PERA and that's why she was directed to speak to PERA and that is why PERA produced the nominating petitions for her review.

With regard to the validation of a nomination, the PERA regulations establish a nomination signature requires one of four identities – the last four digits of the social security number, the date of birth, a PERA ID number and, in the case of retirees, the last agency employed by. The rules states that a nomination petition that does not include each of the elements may not be counted. AES has been instructed to do everything possible is done to count each ballot. It may not be possible to verify a nomination when the name is John Smith.

Ms. Toulouse Oliver agreed that the standards must be clear and applied the same in every case.

Ms. Naranjo Lopez said it was important that each candidate feels secure that their ballots were returned and counted right and that there is no distrust of the process.

Ms. Toulouse Oliver asked Mr. Marquez if there was a process in which candidates or witnesses could watch the opening of ballots and/or tabulations. Mr. Marquez said there are no provisions for witnesses. He said he picks up the ballots, gets a daily receipt from the post office, conducts a hand count and a scan count. He said certified mail may be useful for the candidates to review the bios.

Deputy Director Trujillo said this was PERA's third election with AES and following each election AES has come to the Board with recommended changes. Unfortunately, the Board has not adopted any of those recommendations. Staff was certainly open to making changes.

Speaking as a first time candidate, Ms. Ragin said all of her communications with AES were very clear and precise.

Ms. Naranjo Lopez requested that the formation of a committee to work on the election rules and procedures be placed on the next Board agenda. Chair Kohlasch offered to place it on the October agenda.

E. July 29, 2019 presentations to IPOC

Mr. Garcia said this presentation was given at the IPOC meeting and the committee asked that PERA provide an actuarial 101 course followed by a current state of PERA's valuation, unfunded liability, and different economic return stress tests. He said he and Executive Director Propst made the presentation to IPOC.

[Ms. Toulouse Oliver and Mr. Eichenberg left the meeting.]

Present telephonically, John Garrett, actuary, said the presentation contains a lot of projections. The deterministic project takes in an open group population and reevaluates the plan with an assumed 7.25 percent rate of return. Another projection is without SB27 and the assets and liabilities as of 2018 which carried a path towards insolvency. The data indicates that SB27 greatly benefitted the fund. He noted that a lot of the volatility is driven by annual market rates of return. He reviewed the components of the accrued liability of the retirees versus the active members with the vast liability (70 percent) allocated to the current inactive members – which is about \$15 billion. That division is not unusual in a plan. A pie chart showing the attribution of the UAAL by division was reviewed. Projections of annual benefit payments, net external cash flow, and long-term trends in actuarial valuation results were reviewed. He highlighted that the challenge is the growth in the benefit payments between now and the 2035 to 2040 time range. He discussed the negative cash flow and how the assets of the plan will erode. With the ever widening gap in the liabilities and the assets, the UAL will continue for quite some time.

Mr. Garrett reviewed the necessary increase in contributions by each division to achieve a 100 percent funded by 2043. He added that a downturn in the market would change these projections. He reviewed normal cost rates and noted that the median of 48 state-wide system have employees contributing 6.38 percent and the employer 4.29 percent. He reminded the Board that PERA has among the highest accruing benefits in the country.

COLAs are a common feature in public retirement systems meant to reduce the impact of inflation on benefits. PERA's post-SB27 COLA provisions are mid-range and coupled with the highest benefit accrual rate, COLA has a significant impact to cash flow and financial conditions. PERA's benefit package is among the best in the country, "if not the best in the country," stated Mr. Garrett. He said that in some cases the COLA outpaced the growth in the active salaries of those accruing benefits to retirement.

Prefacing his comment that this is not a recommendation, Mr. Garrett said the cash flow improves by removing the COLA.

Mr. Garcia said IPOC requested a presentation on PERA's investment strategy, results and outlooks which is provided within the Board's packet. Staff developed a series of investment strategies as different stress tests with an assumed rate of return at 7.25 percent.

Ms. Naranjo Lopez said she attended the IPOC task force meeting and stated at that meeting that, "we're not bailing you out. The retirees have spoken...we're not going to give up our COLA." She said a request was made for a cumulative variance report for each plan. The multiplier needs to be lowered straight across the board. She suggested discontinuing reports on the COLA and instead identify why each plan is underfunded.

Mr. Melia said the stress testing was really interesting. He corrected Ms. Naranjo Lopez stating that it was the active members who are bailing out the retirees. Even a mild recession will be detrimental for the fund. He urged the Board to develop a plan to reduce the unfunded liability on a long-term basis.

F. Overview of Brookings Institute Study

Mr. Garcia said this study was conducted by the Brookings Institute and the Bank of England. He said he has spoken to all the authors of the study/report to better understand the findings and also

expanded his conversation to experts in Canada. The study entitled “How bad is the state and local pension crisis really?” was reviewed.

Brookings found that PERA is in the bottom quartile of least stable pension plans in the country. Brookings finds PERA’s returns too optimistic with their median return at 5.9 percent and PERA at 7.25 percent.

The goal should be stabilizing the pension and eliminate the risk of asset exhaustion within 30 years. Brookings suggests eliminating the COLA and increasing contributions by 7 percent to 9 percent. Brookings’ assumption were applied to PERA’s data/models and indicated that asset depletion could be avoided with no COLA and/or with the NM profit share plan.

Mr. Garcia said the big takeaway is that Brookings finds PERA’s assumption to be too high. They focus on stabilizing the debt with the same solutions the Governor’s Task Force has reviewed.

Ms. Naranjo Lopez said, “our COLA is not at the table.” She suggested the legislators look at Judicial and Magistrate plans and the benefits that were given to certain groups.


Mr. Melia recommended the Board not pit active and retiree members against each other.

Mr. Trujillo reminded the Board that part of SB27 included an increase in contributions with the active employees contributing an extra 1.5 percent and the employers .4 percent.

5. Adjournment

Having completed the agenda, Chair Kohlasch declared this meeting adjourned at 2:20 p.m.

Approved by:


Jackie Kohlasch, PhD
Chair, PERA Board

ATTEST:


Wayne Propst, Executive Director

Attached Exhibit:

Exhibit 1: Consent Agenda