

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
BOARD STUDY SESSION

June 28, 2018

This monthly meeting of the Public Employees Retirement Board was called to order by James Maxon, Chair, at approximately 9:00 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 indicated the lack of a quorum. The following members were present:

Members Present:

James Maxon, County, Chair
Claudia Armijo – State
Natalie Cordova – State
John Melia - Municipal
Dan Mayfield – Retiree

Member(s) Absent:

Maggie Toulouse Oliver - *Ex-officio*
Dan Esquibel – Municipal
Jackie Kohlasch – State [excused]
Cathy Townes - State [excused]
Patricia French - Municipal
Loretta Naranjo Lopez - Retiree
Tim Eichenberg - *Ex-officio*

Staff Members Present:

Wayne Propst, Executive Director
Greg Trujillo, Deputy Director
Karen Risku, Deputy General Counsel
Dominic Garcia, Chief Investments Officer
Renada Peery-Galon, ASD Director
Kristin Varela, Deputy CIO
Joaquin Lujan, Portfolio Manager
Trish Winter, Executive Assistant
Grant Wright, Outreach Bureau Chief.
LeAnne Larrañaga-Ruffy, Director of Equity
Karyn Lujan, Deferred Compensation Plan Manager
Christine Ortega, Portfolio Manager
Anna Williams, Chief Financial Officer
Emily Lopez, Financial Specialist
Mark Montoya, Investments Department

Others Present:

Tom Toth, Wilshire Associates
John Garrett, Consulting Actuary [telephonically]

Lacking a quorum, the attending Board members held an informational session regarding the draft experience study results.

2. **Approval of Agenda** – No action.
3. **Approval of Consent Agenda** – No action
4. **Current Business**
 - A. **Executive Director’s Report**

Executive Director Wayne Propst recognized the retirement of Grant Wright. He provided a narrative of Mr. Wright’s employment history, education, and his affiliation with the Boy Scouts and church choir. He characterized Mr. Wright as ethical, professional and a valued PERA employee.

Mr. Grant received a round of applause. He said he enjoyed his job at PERA and that he was confident of the Outreach Bureau’s success.

B. Announcements

Chair Maxon recognized and congratulated PERA staff for receiving the Certificate of Achievement of Excellence in Financial Reporting for FY17 Comprehensive Annual Financial Report.

C. Draft Experience Study Results

John Garrett, Cavanaugh Macdonald, thanked the Board for their flexibility in hearing this presentation via telephone. The presentation demonstrates the demographic assumptions for the economic components and the impacts to PERA. The assumptions are to better assess emerging trends in the data and set assumptions expected in the mid-point of what will actually occur in the future. As many data points as possible are used to build credible assumptions. He reviewed the prior experience study discussion noting that the median public plan investment return has dropped below 7.5 percent; the average rate is 7.32 percent. The expectation is that shorter-term returns will be below 7 percent. He reminded the Board that they were recommending rate of inflations at 2.5 percent which is prevalent around the country, as well as a real rate of return at 4.75 percent, real rate of wage inflation 0.75 percent, investment rate of return at 7.25 percent, rate of wage inflation at 3.25 percent, and rate of payroll growth at 3 percent. The payroll growth assumption is used for amortization purposes. He noted that even though there was a salary increase experience loss, it was modest and considered part of the plan’s liabilities. The total of all demographic experience for three years, 2014-2017, depicts a \$6 million gain.

Mr. Garrett provided the following recommendations regarding demographics:

- Withdrawal: Reflect minor changes to Corrections, Muni Police and Fire to reduce assumed rates of withdrawal after seven years of service
- Disability: Minor adjustment to generally decrease rates for public safety
- Retirement: Generally reduce rate of retirements for all divisions based on experience since SB27
- Mortality: Update to the RPH-2014 table with generational improvement based on the

MP-2017 study

- Salary Scale Merit/Promotional Component: Adjust to reflect change to assumed wage inflation and slight changes due to experience
- Actuarial Cost Method: No change to entry age normal cost method
- Administrative Expenses: Increase the load on each division/plan normal cost rate from .45 percent to .50 percent of covered payroll
- Asset Smoothing: Alternative to be presented at July Board retreat

In total, PERA is seeing a 1.8 percent decline in the funding ratio from the current measurement. There is a \$486 million increase to the UAL which is driven by the assumption that the investment returns will be reduced in the future. Mr. Garrett discussed the definition of “infinite” in regard to amortization periods and said the amount of statutory contributions currently coming into the plan for the total PERA will not pay the interest accumulating on the UAL. The UAL is expected to increase forever because the contributions are not paying for the principal portions. He emphasized that it was clear from statistics that investment returns are declining and expectations of those returns must be reduced.

Mr. Garrett concluded his review with the following points:

- Changes to economic assumptions reflect the current expectation of PERA’s investment staff and consultants and the continuing national trend in lower assumed investment rates of return
- Minor gains and losses due to demographic assumptions over prior study period relates to limited need for adjustments
- Generationally projected improvement to mortality rates will lessen need for significant changes to future mortality assumptions
- New assumptions reflect recent trends and are expected to better estimate future actuarial condition of PERA
- Actuarial impact of new assumptions increases the contribution shortfalls and highlights the need to improve the alignment of statutory rates with necessary actuarial funding of plans

Mr. Garrett said a liability measure is the present value of future cash flow that has been earned by the members based on the service to date and what is being paid to retirees. Every increase in liability flows into the UAL which makes the impact of change seem large. PERA has a higher present value of liability and more need for funding because of the declining expectation of investment returns.

Mr. Garrett reminded the Board that all mature pension plans face the same issues; they all have negative cash flow. The negative cash flow will draw down assets. In these volatile times, he cautioned about looking back on short-term experience.

5. Other Business

Chair Maxon sent best wishes for a healthy recovery to Vice Chair Kohlasch and Member Townes.

6. Adjournment

Chair Maxon declared this meeting adjourned at 9:50 a.m.