NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
BOARD MEETING
May 25, 2017

This meeting of the Public Employees Retirement Board was called to order by Dan Mayfield, Chair, at approximately 1:10 p.m. on the above-cited date at the PERA Building, 33 Plaza la Prensa, Senator Fabian Chavez, Jr. Board Room, Santa Fe, New Mexico.

2. Roll Call

Roll call established a quorum with the following members present:

Members Present:
Dan Mayfield, Chair – Retiree
Claudia Armijo - State
Dan Esquibel - Municipal
Jackie Kohlasch - State
John Melia – Municipal
James Maxon – County
Loretta Naranjo Lopez – Retiree
John Reynolds – State [2:45 departure]
Maggie Toulouse Oliver - *Ex-officio*
Cathy Townes - State

Member(s) Absent:
Tim Eichenberg - *Ex-officio*
Patricia French – Municipal [excused]

Staff Members Present:
Susan Pittard, Chief of Staff/General Counsel
Greg Trujillo, Deputy Director
Jude Pérez, Interim CIO
Karen Risku, Deputy General Counsel
Renada Peery-Galon, ASD Director
Dana David, Assistant General Counsel
Joaquin Lujan, Director of Rates and Credit
Trish Winter, Executive Assistant
LeAnne Larrañaga-Ruffy, Director of Equity
Karyn Lujan, Deferred Compensation Plan Manager
Kristin Varela, Portfolio Manager of Real Returns
Christine Ortega, Portfolio Manager
Mark Montoya, Investments Division
Anna Murphy, Compliance Officer
Isaac Olaoye, Financial Analyst
Emily Lopez, Financial Specialist

Others Present:
John Garrett, Cavanaugh Macdonald Consulting
Jonathan Craven, Cavanaugh Macdonald Consulting

3. **Approval of Agenda**

Mr. Reynolds introduced the following motion:

"RESOLVED, that the PERA Board approve the agenda."

Ms. Toulouse-Oliver seconded and the motion passed by unanimous voice vote.

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

Chair Mayfield said he reviewed the consent agenda.

Mr. Reynolds introduced the following motion:

"RESOLVED, that the PERA Board approve the consent agenda."

Ms. Toulouse-Oliver seconded and the motion passed without opposition.

4. **Current Business**

A. Liabilities and Long-Term Solvency Education Session: Part II

Chair Mayfield said he recently learned of other public pension funds where members pay variable rates. John Garrett, Cavanaugh Macdonald, said it is not common; however, they recently worked on collective bargaining in Connecticut where a variable rate was established for employees hired after 2017. He estimated that over time the member would contribute an additional 60 to 65 basis points. Hybrid plans include varied member contributions into a DC account.

Jonathan Craven, Cavanaugh Macdonald, reviewed the projections for the Judges and Magistrate plans. Judges are currently 61.6 percent funded and expected to be 28.3 percent funded in 2043, which was the 100 percent funding target year in SB 27. The projections are heavily leveraged to what happens to the assets. The Magistrates are in a steeper decline with 9.5 percent funded projected in 2043. If this trajectory does not change, the Magistrate and Judicial plans will run out of money in the late 2040s.

The actuaries offered the following points during this education session:

- Projections are the best tool to determine the plan's direction; the limitation is that they are based on an assumed discount rate
- The basic actuarial principles follow the funding equation: C (contributions) + I (investment income) = B (benefit payments) +E (expenses), to wit, inflow of employee contributions, employer contributions and investment income equals outflow, which is benefit payments and expenses
- In 2007, based on a market value basis, the fund was 101 percent funded
- By 2009, the fund was 59 percent funded; illustrating what an extremely bad market can do to a plan's funding situation.
- UAAL is not debt; a bond would be debt. UAAL defines how short the fund is from the

target of needed assets

- As of the 2016 valuation, to reach 100 percent funding in 30 years, State General would need an additional 7.99 percent of pay and Municipal Fire would need 13.87 percent of pay in contributions
- Contributions are not sufficient to sustain State General and Municipal Fire at a stable funding ratio into the future
- A test Tier 3 was created to model how a multiplier at 3 percent, which is still above social security at 1.8 and the rates of the rest of the country, could help the fund
- Municipal fire required more than the change in the multiplier and required a higher employer contribution rate
- Of the total PERA Fund will improve with State General and Municipal Fire corrected
- The volatility of market returns since the passage of SB 27 has changed the path of the Fund

The actuaries reviewed a series of proposals with the caveat that the path to reach full funding is based on an assumed annual rate of return. It was noted that:

- Picking models at the median there is equal likelihood to be above or below the line
- There are opportunities to run additional models
- Many states changed their contributions to address the 2008 market loss/crisis: New Mexico did not thus making it harder to reach full funding
- New Mexico accrues benefits very quickly and has very nice retirement benefits
- Without an adjustment to the contribution rate the unfunded amount compounds

Ms. Naranjo Lopez said she understood these issues were all addressed with SB 27. She recommended against touching the COLA and supported an adjustment to the Judicial, Magistrate, State and Municipal Fire.

The actuaries continues their presentation, noting the following:

- The fund is currently 75.3 percent funded and expected to be 76.8 percent in 2043.
- Adult corrections officers has the highest turnover rate of any public safety group
- Nationally, the median plans' funded ratio is 74 percent so PERA is above that
- Most plans have a set funding period and the contribution rate varies to pay everything off in that time. Those plans are presumably better funded than a statutory rate plan. Notwithstanding, Illinois issued pension obligation bonds to pay the one-year contribution – 30 years of debt to pay one year's contribution.
- The actuaries said North Carolina is 98 percent funded – the key is stability, funding policy and investment policy and not changing the benefits.
- This has been a very slow recovery from 2008.
- The reason pension rates rarely go down is because the rates are set to be effective for 20 to 30 years
- It is key to never let the contribution rate fall lower than the cost of benefits accruing to the active members

- The statutory rates and the experience since establishing the contribution rates has caused the difference in the outcomes of individual plans

- PERA is a cost sharing plan but does not equally share in the plan's unfunded liability. It may be helpful for each division and each coverage plan within that division to have a normal cost rate established based on the current assumption/current experience but pool the cost of the unfunded liability. That would reduce the mismatch with how much less state general has to fund for unfunded liability.
- There are only four variables in the pension equation: C+I = B+C

Ms. Toulouse Oliver requested additional information at the retreat regarding where PERA is relative to other state funds in terms of the projected funding ratios and examples of what not to do to correct the funding issue.

Mr. Reynolds said sustainability of the fund is the Board's number one priority. He requested models on what can reduce the near-term liability.

Staff offered to have the information regarding the pickups available at the retreat.

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

B. Fiduciary Counsel Finalist Interviews via Skype and Selection of Board Fiduciary Counsel

K & L Gates LLP
Jackson Walker LLP
Reed Smith LLP
Steptoe & Jackson LLP

Mr. Maxon outlined the procedures for the interviews: the candidates will be appearing via Skype, invited to provide a five-minute overview of their firm and its experience, to be followed with Board questions.

Steptoe & Jackson was presented by partner Ben Cooper from the firm's Phoenix office. He provided background about the firm's experience noting that public pensions are a priority practice. He noted that they have a close tie with New Mexico, a large diverse team, and litigating expertise.

The Board asked a few questions regarding availability and liability coverage.

K & L Gates was represented by Peter Mixon and Karrie Diaz from the firm's Seattle office. They outlined their experience in fiduciary issues, employee benefit experience and the unique opportunity of working in the fiduciary and administration components.

In response to a Board question, Mr. Mixon said the firm has approximately 2,000 lawyers. Questions arose regarding availability and whether there could be a conflict of interest with the investment-related legal services contract K & L Gates already has with PERA.

Harvey Leiderman, representing Reed Smith, provided information regarding the firm's work with Orange County, California when they filed bankruptcy and the impact on the pension. They have a very strong reputation representing state and municipal pensions across the country. He mentioned that there is a unique opportunity for the Board to exercise fiduciary capabilities through the guidance and expertise the firm offers. The firm has a 150-year history starting with Heinz and Carnegie Mellon, who they still represent today.

The Board asked about the firm's insurance liability limits which the representative offered to supply. The firm's availability was mentioned as 24/7/365. Mr. Leiderman discussed the importance of nimbleness and integration with legal, actuarial and investment skills to address the plan's issues.

Chuck Campbell represented Jackson Walker, a Texas-based firm. He identified his specialties as pensions, employee benefits, and executive compensation. Public pension plans are his passion. The firm brings dedication, experience and trust/integrity to their work.

There were questions regarding availability and training. Mr. Campbell discussed travel rates.

This concluded the fiduciary counsel finalist interviews.

Mr. Maxon introduced the following motion:

"RESOLVED, that the PERA Board select Reed Smith, LLP as fiduciary counsel."

Ms. Armijo seconded and the motion passed by unanimous voice vote.

C. Executive Director's Report

Mr. Propst said he would be emailing the Board about the recent legislative session.

5. <u>Other Business</u>

None was presented.

6. <u>Adjournment</u>

Having completed the agenda, Vice Chair Maxon declared this meeting adjourned at 3:45 p.m.

Approved by:

Dan Mayfield
Chair, PERA Board

ATTEST:

Wayne Propst, Executive Director

Attached Exhibits:
Exhibit 1: Consent Agenda