MINUTES OF THE NEW MEXICO

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

AUDIT & BUDGET COMMITTEE MEETING

October 11, 2016

This meeting of the Public Employees Retirement Board Audit & Budget Committee was called to order by Chair Dan Mayfield at approximately 10:25 a.m. on the above-cited date in the PERA Building, Senator Fabian Chavez, Jr. Board Room, 33 Plaza la Prensa, Santa Fe, New Mexico.

Roll was called by Executive Director Wayne Propst and a quorum was established with the following members present:

Members Present:
Dan Mayfield, Chair
James Maxon
Jackie Kohlasch
Cathy Townes [appointed]

Member(s) Absent:
Tim Eichenberg
Brad Winter
John Reynolds, Vice Chair

Other Member(s) Present:
Patty French
Dan Esquibel
Paula Fisher
Loretta Naranjo Lopez
John Melia

Staff Present:
Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Jon Grabel, Chief Investment Officer
Greg Trujillo, Deputy Director
Renada Peery-Galon, ASD Director
Natalie Cordova, Chief Financial Officer
Dana David, Assistant General Counsel
Misty Braswell, Assistant General Counsel
Jude Perez, Deputy CIO

LeAnne Larrañaga-Ruffy, Portfolio Manager
Kristin Varela, Portfolio Manager
Emily Lopez, Financial Specialist
Karyn Lujan, Deferred Compensation Plan Manager
Trish Winter, Executive Assistant

Others Present:
Jonathan Craven, Cavanaugh McDonald
Ben Hoecherl, AVP Business Development Nationwide
Paul Lium, Nationwide
Lou Moreno, Nationwide

2. APPROVAL OF AGENDA

Ms. Townes moved to approve the agenda as presented. Her motion was seconded by Mr. Maxon and passed by unanimous voice vote.

3. APPROVAL OF CONSENT AGENDA

Ms. Townes moved to approve the consent agenda. Chair Mayfield seconded and the motion passed by unanimous voice vote.

4. CURRENT BUSINESS

A. Approval of JRA, MRA & VFF Experience Study Recommendations
[*Exhibits 1-3 Experience Studies*]

Appearing via Skype, Jonathan Craven discussed demographic assumptions for the judges', magistrates' and volunteer firefighters' plans. Demographic assumptions deal with exiting the plan. Once in a pension plan the only ways to leave are by termination, disability, death or retirement. Actuaries develop assumptions as to what will happen and how it will impact the cost of the plan. Experience studies check the assumptions against what actually happened. These smaller plans are reviewed intermittently.

Before the experience study, Cavanaugh reviewed the price inflation assumption at 3 percent, investment return assumption at 7.75 percent and the wage inflation at 3.5 percent of pay. During the study a select and approach was determined for the price inflation which has been very low. Inflation was determined at 2.25 percent for 10 years and 2.75 for all years after that. That, in conjunction with the real rate of return, gives an investment return assumption of 7.25 percent for the first 10 years and 7.75 percent thereafter. It also lowers the wage inflation to 2.75 percent for the first 10 years and to 3.25 percent for the following years. These are more conservative assumptions than in the past and they did increase cost.

In the judges' plan, Mr. Craven said retirement and withdrawal were reviewed for the study. The only rate that changed was withdrawal rates. Including the demographic changes and economic changes the funded ratio for the judges went from 62.5 percent to 61 percent. That change was attributed to the economic assumptions. The unfunded actuarial accrued liability (UAAL) increased by $3.3 million which was due to the economic changes. The total required contribution rate went up 3.1 percent of payroll and the total required annual contribution went up by $437,000 per year.

The deficit in the statutory rate increased from a little under $500,000 to $973,000 per year.

The reform to the plan in 2014 did help to lower costs, stated Mr. Craven. Still the statutory rate is not enough to amortize the unfunded liability over 30 years.

Mr. Craven said docket fees are static and not geared to increase in a payroll sense.

Mr. Propst said both the MRA and JRA are plans that the Board will want to keep on their screen. He mentioned that the changes made to these plans in 2014 were substantial. These plans are very small and with just a few people moving outside of the assumptions it could have a large impact on the funded ratios. Absent additional changes, Mr. Propst said there is concern for these small plans. Additional changes take political will and that may not be present in the near future.

Referring to the magistrate plan, Mr. Craven said there is an expectation that 6 percent of all magistrates will terminate or get voted out of office annually. Termination rates increase with age. He noted that the number of members in the fund is not large enough to provide statistically significant experience for the mortality assumption. Assumptions were adjusted to better fit the actual patterns of termination. As with the judges, most of the changes came from the economic assumption changes.

The magistrates' funded ratio dropped from 62.4 percent to 60.7 percent. The UAAL increased by $1.4 billion and the contribution rate increased from 38.4 percent to 42.4 percent. The required contribution increased by $191,000.

The volunteer firefighters said the actual experience was less than the current termination assumptions. Mr. Craven said the data for this plan is not always solid and assumptions were not drastically changed based on the recent experience. The retirement was set at 65 but there are a lot of older firefighters and the age was set at 70 to better capture the actuals.

This plan is currently overfunded, stated Mr. Craven. With the new assumptions, the funded ratio went from 140 percent to 139 percent. The required contribution went from $60,000 to $840,000 per year – up $780,000. That was attributed to fewer people quitting; when people quit the plan saves money because they don't get a benefit.

Mr. Maxon said the volunteer firefighter receives either $250 after 25 years of service and $125 after 10 years at a minimum age of 55.

Ms. French recommended that the Board review the VFF plan because in small rural communities the VFF are instrumental to the community's safety and that diminutive pension is not good incentive.

Mr. Maxon moved to approve the experience study. Ms. Kohlasch seconded and the motion passed by unanimous voice vote.

B. Fiscal Year 2017 1st Quarter Budget Projection

Renada Peery-Galon, ASD Director, noted that PERA received a special appropriation for administration of Social Security in the amount of $77,300 and that may be reduced by 3 percent. Those cuts would need to absorbed in the 400 "other" category. Mainly what has been expended is personal service employee benefits/salary and wages. She reviewed what has been encumbered and will be expended throughout the year.

PERA currently has 11 vacant positions creating a vacancy rate of 13.4 percent. Staff is working diligently to post positions, conduct interviews and fill positions. PERA tends to have higher vacancy rates in the fall. There is a savings in FY 17 in contracts which she attributed to the performance-based manager fees, anticipated to be lower due to lower market returns.

There is a projection shortfall in the 400 category of $91,000. The budget shortfall in this area is what was discussed last year in regards to printing, photo and postage charges. There will be a need for a category transfer for the postage, mail, printing and photo services. The 400 category exceeded budget last year which was attributed to the Albuquerque office renovation and furniture.

Ms. Peery-Galon confirmed that the 3 percent cut only applies to the $77,300 special appropriation for Social Security administration.

The contracts in the 300 category include investment, legal, operational, and IT contracts.

Mr. Esquibel asked whether contracting with a Board attorney would affect the reduction to the 300 category and Ms. Peery-Galon said it would not.

In response to a discussion regarding staff reduction, Ms. Peery-Galon said there is a vacancy rate of approximately 5 percent built into the budget.

Mr. Propst said PERA is fortunate to be a self-funded agency. However, PERA should be careful and prudent in its expenditures. The administration has made it clear that they will be looking closely at PERA's expenditures.

5. <u>OTHER BUSINESS</u>

None was presented.

6. ADJOURNMENT

Having completed the agenda, and upon motion by Ms. Townes and second by Mr. Maxon, Chair Mayfield adjourned this meeting at approximately 11:15 a.m.

Approved by:

Dan Mayfield, Chair
Audit & Budget Committee

ATTEST:

Wayne Propst, Executive Director