

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
BOARD MEETING
October 25, 2018

This monthly meeting of the Public Employees Retirement Board was called to order by James Maxon, Chair, at approximately 9:45 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

Following the Pledge of Allegiance, roll call indicated a quorum with the following members present:

Members Present:

James Maxon - County, Chair
Jackie Kohlasch - State
Claudia Armijo - State
John Melia - Municipal
Dan Mayfield - Retiree
Loretta Naranjo Lopez - Retiree
Natalie Cordova - State
Maggie Toulouse Oliver - *Ex-officio* [arrives following executive session]

Member(s) Absent:

Tim Eichenberg - *Ex-officio*
Cathy Townes - State
Dan Esquibel - Municipal
Patricia French - Municipal

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Greg Trujillo, Deputy Executive Director
Dominic Garcia, Chief Investment Officer
Karen Risku, Deputy General Counsel
Dana David, Assistant General Counsel
Renada Peery-Galon, Administrator Services Director
Kristin Varela, Deputy CIO
Joaquin Lujan, Director, Rates and Credits
Mark Montoya, Financial Analyst
Trish Winter, Executive Assistant
Karyn Varela, Deferred Compensation Plan Manager
Anna Murphy, Portfolio Manager of Beta & Risk Allocation
Emily Lopez, Financial Specialist

Others Present:

Lenora Chavez, PERA Retiree
Tom Toth, Wilshire
Rose Dean, Wilshire
Carter Bundy, AFSCME
Brad Berls, Eide Bailly

Paul Lium Nationwide
John Garrett, Cavanaugh Macdonald
Micki Taylor, Cavanaugh Macdonald

2. Approval of Agenda

Ms. Armijo requested that item 4.D. “Adoption of Robert’s Rules of Order” be presented as an informational item rather than an item for action and delegate to the Rules & Administration Committee the assignment of reviewing the options within the report and return with a recommendation to the Board.

Ms. Armijo introduced the following motion:

“RESOLVED, that the PERA Board approve the agenda as amended referring 4.D. to the Rules & Administration Committee as noted above.”

Mr. Melia seconded.

Ms. Armijo thanked staff for the information and memorandum presented with Robert’s Rules.

The motion to approve the agenda as amended passed by unanimous [7-0] voice vote

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

Mr. Mayfield introduced and Dr. Kohlasch seconded the following motion:

“RESOLVED, that the PERA Board approve the consent agenda as presented.”

Ms. Naranjo Lopez said she would be voting against the minutes of September 27, 2018.

The motion passed by majority [6-1] voice vote with Ms. Naranjo Lopez voting against.

4. Current Business

A. Executive Session – Exit Conference for the 457b SmartSave Plan FY18

Mr. Mayfield moved to go into executive session pursuant to NMSA 1978, Section 10-15-1.(H). Ms. Naranjo Lopez seconded. The motion passed by unanimous roll call vote as follows:

James Maxon	Aye
Jackie Kohlasch	Aye
Maggie Toulouse Oliver	Absent [arrives following Executive Session]
Tim Eichenberg	Absent
Cathy Townes	Absent
Claudia Armijo	Aye
Natalie Cordova	Aye
Patty French	Absent

Dan Esquibel	Absent
John Melia	Ayes
Loretta Naranjo Lopez	Aye
Dan Mayfield	Aye

[The Board met in Executive Session from 9:55 a.m. – 10:15 a.m.]

Chair Maxon announced that the only item discussed during executive session was the exit conference for the 457b SmartSave Plan FY18 audit.

Mr. Mayfield moved to return to open session. Ms. Armijo seconded and the motion passed by unanimous [8-0] voice vote.

Chair Maxon noted that when PERA's audit is released by the State Auditor the audit will be placed on the PERA website.

B. Acceptance of FY18 Actuarial Valuations

John Garrett, Cavanaugh Macdonald, provided general observations on valuations of the plan noting that the experience study performed and accepted by the Board in July 2018 had a cost impact on the plan. The net effect was an increase to the unfunded liability and a decrease to the funded ratio. The actuarial experience through June 2018 was measured and disclosed that there was a 4.85 percent smooth return on assets. The market return for FY 18 was 6.92 percent. The returns for a four-year period are used for smoothing and this valuation contained three loss years, 2015, 2016, and 2018, which resulted in an actuarial return on the smoothed assets at 4.85 percent. The 4.85 percent return for the year resulted in a \$357 million addition to the UAAL (unfunded actuarial accrued liability). There were gains that decreased the UAAL by \$55.9 million, which are attributed to salary increases being less than assumed.

The net effect of the total increase in UAAL was \$990.1 million; the funded ratio decreased due to the experience study changes, and the FY18 investment loss takes the ratio down to 71.6 percent. Last year the amortization period was 55 years and it is now infinite. The statutory money coming into the plan is not enough to pay the normal cost of benefits or the interest that is accumulated on the UAAL.

In response to a question raised by Ms. Naranjo Lopez, Mr. Garrett said the benefits provided in the valuation, and that liabilities are determined by, are post-SB 27. Adding an additional 1 percent COLA would increase the liability by \$1 billion+.

Ms. Naranjo Lopez requested information demonstrating what happened in 2012 that was recommended and did not happen.

Mr. Garrett said the post-experience study projections forecasted the 2018 funded ratio of 71.6 percent and a UAAL of \$6.04 billion and those projections appear quite accurate. Present value of benefits – everything that is going to be paid out of the plan – is \$24,089,221,601. If PERA had that amount in the bank there would be no need for future contributions because everything would be fully funded.

Referring to demographics of the plans, Mr. Garrett noted that the State General, State Police and Legislative were relatively flat. Municipal General, Municipal Police and Municipal Fire were fairly stable with a slight decline. The Judicial and Magistrate funds show more retirees than active workers. The Volunteer Firefighters fund is healthy. He spoke about the disadvantages of a pay-as-you-go plan like Social Security.

Regarding PERA's cash flow issue, Mr. Garrett said Tier 2 begins to fix the issue after 2030. The key for an ongoing plan to be forever sustainable is to limit its negative cash flow. Benefit payments are growing at approximately 3 percent per year. If the investments continue to earn 7.25 percent then the solvency issue can be curbed because the assets will be growing at the same rate as the value of benefits. Using a graph, Mr. Garrett indicated where the net external cash flow is being spent. He offered to include a line at 4.25 percent to better illustrate the cash flow.

Micki Taylor, Cavanaugh Macdonald senior actuary, highlighted the market and actuarial asset values and how the actuarial values are smoothed. With the experience study and the lowering of the discount rate the normal costs went up for the all of the plans.

Ms. Armijo asked why the Legislative plan was showing 30 years for the funding period while State police and corrections division showed zero. She understood Legislative was overfunded but statutorily it is to be 100 percent funded. Mr. Garrett agreed that for consistency both should be at zero.

Ms. Taylor stated that GASB disclosures are being developed for the plans and the employers' allocations will be completed later. Following GASB work, the actuaries will be working on baseline projections.

Ms. Naranjo Lopez said the expectation of a hurdle rate of 7.25 percent is really disturbing and unacceptable. She said PERA needs to consider its impact on the UAAL when the hurdle rate is set at 7.25 percent. According to what the membership has said at the recent town-hall meetings, five years have been wasted and a member proposed to reduce the annual multiplier for future service earned for active members to no greater than 2.5 percent.

Mr. Melia opined that it was wrong for future members to pay for the lack of payment of current active and inactive members.

Ms. Naranjo Lopez requested that the actuaries' documents be made available on the PERA website for the membership.

Mr. Garrett said the discount rate which defines cash flow going out of the plan is remarkably stable and accurate. The present value study determines how much of the stream of benefit payments the plan is expected to pay, how much is paid by investment income and how much by contributions. The discount rate defines how much is expected to be paid out of assets or contributions.

Ms. Naranjo Lopez said PERA's investments should be generating more income.

In response to a question regarding discount rates of other plans, Mr. Garrett said the trend continues to come down to 7.25 percent and below. PERA may be slightly ahead of the median of the large plans.

Ms. Naranjo Lopez said at the town-hall meeting PERA former chief administrative operations manager and acting director stated that the UAAL increased because the rate of return was lowered.

Mr. Garrett said the statutory rate has been mismatched since the 1990s for the State General and Municipal Fire. He stated that members and employers have been funding less than what is required for the benefits being provided. He recalled a valuation study that showed the shortfall over 40 percent for Municipal Fire in the 1990s.

Ms. Cordova observed the misalignment of the statutory rates and the difficulties in changing those rates. Mr. Garrett said most plans have rates that are determined based on valuations approved by a board of trustees. That allows for small adjustments along the way. In the past, gains offset the liabilities but gains are fleeting and liabilities, once established, are there for a lifetime.

Ms. Naranjo Lopez said she didn't want to dwell on the past and preferred to invest "our way out of it today but also make sure that it is equitable across the board."

Ms. Cordova introduced and Ms. Armijo seconded the following motion:

"RESOLVED, that the PERA Board accept the FY18 Actuarial Valuation report with the amendment showing State Police and Legislative Divisions at a funding period of zero on Summary of Results."

Ms. Naranjo Lopez said she would be voting against the actuarial valuation based on the fact staff that staff is not addressing the hurdle rate of 7.25 percent and continues to allow the UAAL to continue.

The motion passed by majority [7-1] voice vote with Ms. Naranjo Lopez voting against.

C. Approval of New Board Member Orientation Agenda
[Exhibit 2: Proposed New Board Member Orientation]

Chair Maxon reminded the Board that at the August 29th Board meeting in Albuquerque, there was consensus to improve the orientation process for new board members. A proposed list of items were developed for review.

Ms. Armijo recommended that during Session 1, "Overview of Board Expectations" a copy of the statutes and annotations/PERA Act, and rules be provided. The Act is the basis of all powers and responsibilities the Board has. She asked when the sessions were scheduled and who would be providing the orientations.

Executive Director Propst said staff anticipated noticing the meetings thus a quorum will not be an issue. He appreciated Ms. Armijo's suggestion and said that it will be added to the session.

The orientation is scheduled for Friday, November 16th from 10-3 at the Albuquerque office. He suggested a current and former Board member could assist in Session 1. Staff will be available to assist in sessions that correspond to their duties. Harvey Leiderman has been asked to assist with the overview of fiduciary responsibilities session. Once the orientation topics are approved by the Board, presenters will be identified.

Ms. Toulouse Oliver noted that the AGO regularly conducts Open Meetings Act trainings and she recommended the entire Board participate in that activity.

Ms. Naranjo Lopez said there should be a detailed description of the Board's role regarding the budget and audits. Mr. Propst offered to add that under Session 3.

Mr. Mayfield introduced and Mr. Melia seconded the following motion:

“RESOLVED, that the PERA Board approve the Orientation Agenda with the suggestions that were offered to include the PERA Act and rules, training by the AGO regarding the OMA and the Board's role regarding the budget and audits.”

The motion passed by unanimous voice vote.

D. Adoption of Robert's Rules of Order: This item was delegated to the Rules & Administration Committee at the approval of the agenda

E. Executive Director Report

Mr. Propst thanked the Board members that have been able to participate in the outreach sessions. The first meeting in Santa Fe had over 300 members. The meeting on Sunday night in Las Vegas had three attendees one of which was the IPOC chair Representative Tomas Salazar. An additional meeting in Las Vegas had over 30 attendees. The following meeting was in Albuquerque and he estimated there were 400 to 500 attendees. The next meeting will be Gallup.

PERA's budget hearing is October 26th at 10:15 in room 309. Mr. Propst said the presentation is on the Board portal.

Chair Maxon extended his appreciation to the Board members who have attended and are planning on attending the outreach meetings.

5. Other Business

Dr. Kohlasch advised the Board that DFA required information regarding Board travel and either the Board chair or vice chair's approval is necessary. Trish Winter should also be contacted for accommodations, reimbursements, etc.

Ms. Naranjo Lopez said she understood that if a Board member was not sure overnight accommodations are necessary they should not be requested. Deputy Director Trujillo said that was correct. Most hotels have a 24-hour cancellation policy and it is best for the agency if the Board member books the hotel when they are confident they will be using it. PERA will reimburse for expenditures.

Ms. Naranjo Lopez announced that she would be attending all of the outreach meetings and requested approval.

Ms. Cordova thanked staff for coordinating the outreach sessions. She appreciated hearing from the membership. As a matter of process, she proposed that the Board implement procedures that include respect to the audience/membership and that the meeting not be used as a forum for the Board. Further, it was important that knowledgeable staff answer membership questions.

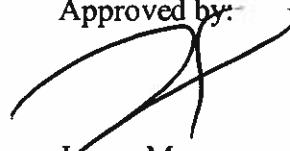
Chair Maxon said he would consider establishing a time limit for the Board comments.

Ms. Naranjo Lopez said that the Board composition does not represent the membership. Retirees lack representation. She said she preferred introducing herself and added that the outreach attendees have encouraged her to continue to speak out.

6. Adjournment

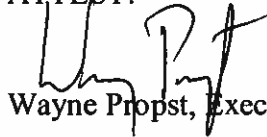
Chair Maxon declared this meeting adjourned at 11:25 a.m.

Approved by:



James Maxon
Chair, PERA Board

ATTEST:



Wayne Propst, Executive Director

Exhibits attached

Exhibit 1: Consent Agenda

Exhibit 2: Outline of New Board Member(s) Orientation