



PERA

Legislative Finance Committee

Representative Patricia Lundstrom, Chair

Senator John Arthur Smith, Vice-Chair

October 26, 2018

James Maxon, MPA, Board Chair

Wayne Propst, Executive Director

Fiscal Year 2020 Budget Request

(Dollars in thousands)

Description	FY18 Actuals	FY19 OpBud	FY20 Base Request	Expansion	FY20 Total	% Increase/ Decrease over FY19
200 Personal Services & Employee Benefits	\$6,779.0	\$6,844.1	\$7,438.6	\$463.2	\$7,901.8	15.45%
300 Contractual Services	\$26,492.8	\$28,179.1	\$27,069.2	\$0.0	\$27,069.2	-3.94%
400 Other	\$1,274.7	\$1,365.8	\$1,373.7	\$15.0	\$1,388.7	1.68%
Total	\$34,546.5	\$36,389.0	\$35,881.5	\$478.2	\$36,359.7	-0.08%
FTE	84.0	84.0	84.0	3.0	87.0	

Category 200:

- 5% Vacancy Applied on Full-time Classified Permanent Positions
- \$463.2 Expansion Request for Salary and Benefits for 3 Exempt Investment Associate Positions

Category 300:

- Investment Contracts at \$23,867.6 Which Includes an Assumed Rate of Return of 7.25% on Investment Manager Fees
- \$1,635.3 in IT Services
- \$180.5 in Annual Financial Audit That Includes Schedule of Employer Allocations and Pension Amounts

Category 400:

- \$201.7 for DoIT and GSD Rates
- \$15.0 Expansion Request for Computers, HCM Fees, Telecommunication, Office Supplies and Out-of-State Travel for 3 Exempt Investment Associate Positions

Expansion Request – Investment Associates

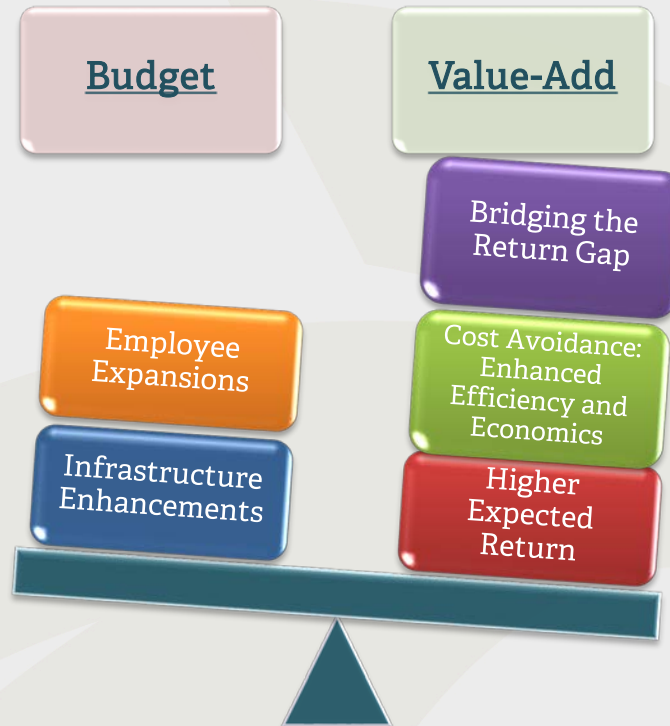
➤ Goals

- Improve overall investment performance and reduce costs to the plan
- Development of asset class expertise and strengthened knowledge base to allow for Portfolio Management role in the future

➤ Responsibilities

- Monitor, analyze and research complex multi-strategy portfolios, across Global Equity, Risk Reduction & Mitigation, Credit, Real Assets, and Multi-Risk Allocation
- Assist Portfolio Managers in sourcing new investments, including identifying new strategies and assisting in due diligence efforts
- Administrative assistance in the implementation and execution of portfolio, strategy and investment-specific recommendations
- Monitor and manage administrative aspects for current and prospective investment managers, including cash management, compilation of account statements, and tracking of manager communications

Balancing Act: Costs vs. Value-Add



Return Enhancement	Value-Add*	Cost Avoidance**	Cost of Expansions***	Net Value-Add
0.63%	\$996,000,000	\$41,626,000	\$4,779,000	<u>\$1,032,847,000</u>

*assuming annual 0.63% return enhancement compounded over 10-years, as of June 30, 2018. Value-add is estimated, and subject to change.

**assuming enhanced efficiency and economics through active management execution over 10-year period via fund-of-one, co-invest, separate accounts, jv, etc.

***10-year projection for three expansion positions

Investment Returns

- The PERA Fund balance was \$15.4 billion on June 30, 2018
- During FY 2018, the Fund returned 6.90% (net of fees)
- PERA Fund paid out benefits of \$1.15 billion during FY 2018

As of 6/30/2018	1 Year (FY18)	5 Year	10 Year	20 Year	30 Year	Since Inception 6/30/1985
PERA Total Fund Returns (Net of Fees)*	6.90%	7.31%	5.55%	6.39%	8.58%	9.00%
Policy Benchmark*	5.27%	7.33%	6.05	6.46%	8.54%	8.90%
Value Add**	1.63%	-0.03%	-0.51%	-0.07%	0.04%	0.10%

*Annualized returns **May not sum due to rounding

Special Appropriation Request

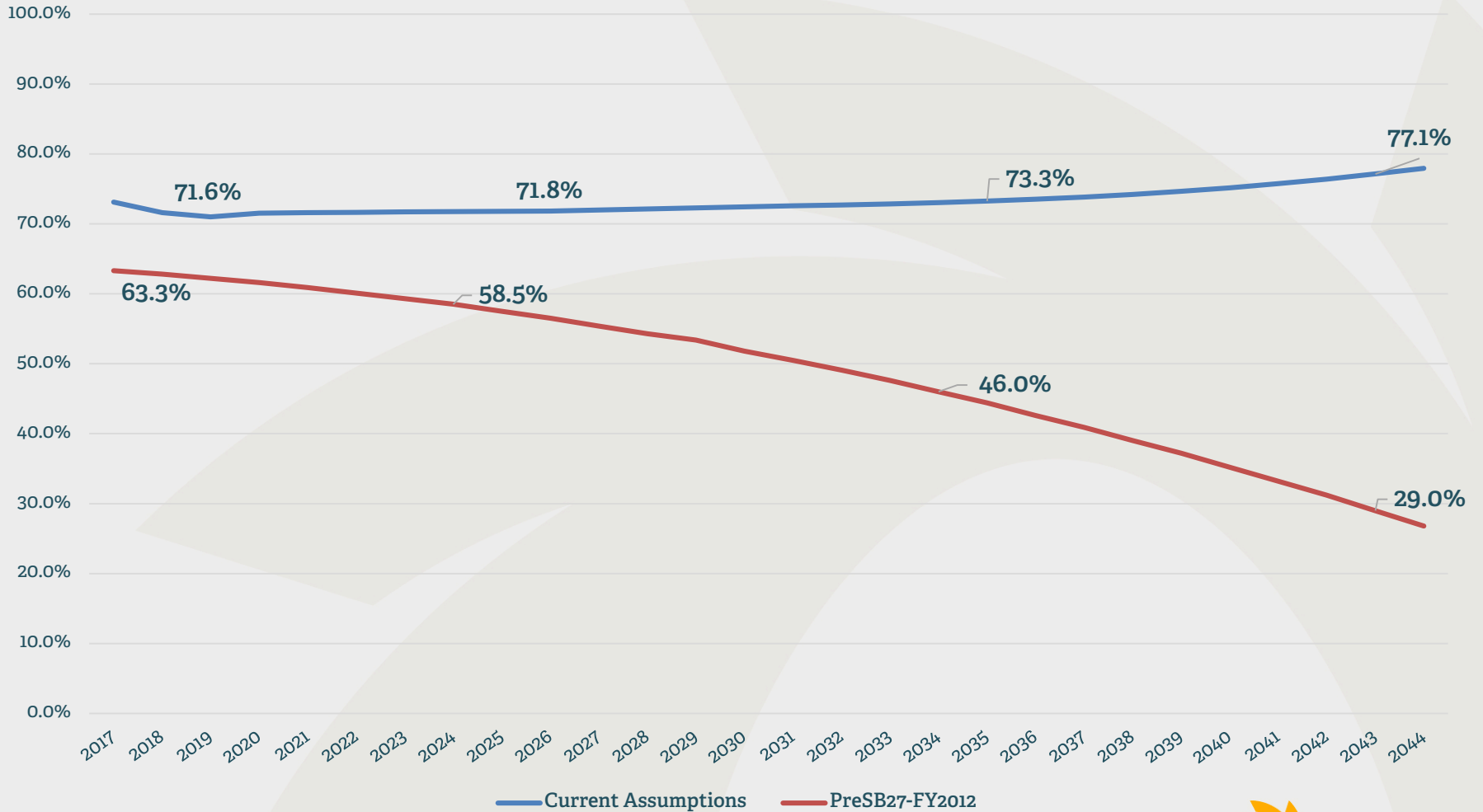
- PERA is requesting \$8,750,000 to address adverse actuarial impact resulting from the higher employee contribution rates and lower employer contribution rates mandated by the Laws of 2009, Chapter 127 and Laws of 2011, Chapter 178, Section 14, Item B.

“If a study concludes that a retirement system has had or will have an adverse effect as a result of the higher employee contribution rates and the lower employer contribution rates required by this act and Laws 2009, Chapter 127, the board that administers that retirement system shall submit a request for a supplemental appropriation to the second session of the fifty-first legislature in the amount that will rectify the adverse actuarial effect.”

- The special appropriation request complies with the settlement agreement between American Federation of State, County and Municipal Employees, Council 18, AFL-CIO et al. v. State of New Mexico et al., Case No. D-202-CV-2009-07148, which states that "ERB and PERA agree to submit to the New Mexico Legislature during the 2019 legislative session a request for a special (in the case of PERA) or supplemental (in the case of ERB) appropriation under the terms set forth herein“.
- An analysis by PERA's actuary Cavanaugh MacDonald indicates that the contribution swaps resulted in increased employee contributions that therefore became subject to refund if the member terminates. This negatively impacted the Fund both as a result of the payout of larger refund amounts provided to terminated members and as an increase to the plan's future liabilities as of June 30, 2018 due to the increased value of future expected refunds.

Funded Ratio

Current Assumption vs: PreSB27 Assumption



Plan Overview

Division	30 Yr. UAAL Contribution Rate	Statutory Rate	Contribution Deficiency	Amortization Period	Funded Ratio
State General	26.98%	16.99%	11.71%	Infinite	63.1%
State Police/Corrections	(2.43%)	25.58%	(28.01%)	0	130.2%
Municipal General	10.55%	9.73%	1.56%	43	76.3%
Municipal Police	23.95%	18.66%	6.41%	Infinite	74.8%
Municipal Fire	36.92%	21.57%	15.73%	Infinite	60.2%
PERA Total	19.57%	14.86%	5.73%	Infinite	71.6%

Based on draft FY18 Actuarial Valuation the Unfunded Actuarial Accrued Liability (UAAL) has increased to \$6,060,590,511

Stakeholder Engagement



SOLVENCY INFORMATION

Important information about the
PERA Board's effort to ensure
solvency.

The PERA Board is holding a series of meetings throughout the state to discuss our solvency challenges prior making to recommendations for possible benefit changes or contribution increases to the Legislature for the 2019 session. More information can be found at:
<http://www.nmpera.org/solvency-information>