

LaVoz

The Voice of the Public Employees Retirement Association of New Mexico

PERA 2019 Board

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Public Employees
Retirement Association
of New Mexico

Letter from the Board Chair



Dear PERA Members:

I am honored to be elected Board Chair for 2019 and I look forward to working with my fellow Board Members and PERA staff to continue our focus on providing excellent customer service to our members and ensuring the long term stability of the PERA Fund. I would like to thank former Board Chair, James Maxon for his tenure and achievements as Board Chair. I wish him a wonderful retirement from the Sandoval County Fire Department, where he served as Fire Chief.

The PERA Board and staff have a lot to be proud of. In the past year, we've made important changes to our governance structures, most notably delegating authority over how our investments are managed to our expert investment staff and consultants, while the Board maintains its oversight role. For the fourth consecutive year PERA completed its annual audit with no findings and we recently launched a transparency section on our website, www.nmpera.org, which places PERA as a leader in state government when it comes to transparency and accountability to our members.

In December, the Board adopted a comprehensive solvency plan that would put us on track to pay down our \$6 billion unfunded liability within 25 years. It would require that we all contribute to ensuring the long term solvency of our defined benefit plan. The plan, which was the culmination of two years of study and hard work by the Board, was incorporated into HB 338 and introduced in the 2019 Legislative Session.

While it appears HB 338 will not be considered during this Legislative Session, I am encouraged that Governor Lujan Grisham issued Executive Order 2019-005, creating a PERA Solvency Task Force. The Task Force will be made up of nineteen members representing employers, members and retirees. The Task Force will develop recommendations to preserve PERA's defined benefit plan, which will be reported to the Office of the Governor by August 30, 2019, and presented to the Legislature for the 2020 Session. You can find more information about the Executive Order on page 4. I commend Governor Lujan Grisham on her leadership and interest in PERA and promise all of the resources at PERA to make the work of the Task Force a success.

As Board Chair, I understand that not everyone will agree with all of the Board's decisions, especially difficult decisions like those we made in developing our solvency package. However, it is unfortunate that some have chosen not to engage in a constructive way with PERA but instead to spread misleading information about the Board and PERA staff in an effort to distract from the real challenges we face. While Board Chair, I intend to keep our focus on preserving the PERA benefit for all of our members and not just any one particular group.

The staff at PERA are some of the most professional and committed individuals I've ever been associated with. They are highly skilled in investments and pension administration, and serve the Board and the Association with integrity and dedication. We are fortunate to have them working to ensure the sustainability of our benefit for current and future generations of PERA members. Likewise, the majority of the Board is focused on what matters most, you, our members.

I joined the PERA Board so I could make a difference for all of our members. The leadership challenges associated with PERA are significant. I have always kept the big picture in mind when making decisions as a Board Member and will continue to do so as Board Chair. I strongly encourage anyone that is interested to run for the PERA Board of Trustees so you can make a difference.

Sincerely,

Dr. Jacquelin Kohlasch
Jacquelin Kohlasch, PhD
PERA Board Chair

Mission Statement

The mission of the Board of the Public Employees Retirement Association is to preserve, protect and administer the Trust to meet its current and future obligations and provide quality services to association members.



It's time for the 2019 annual elections for members of the PERA Board of Trustees. Three seats are up for election this year, which include a State, County and Retiree position. These positions will serve a four-year term to begin January 1, 2020. Candidates for these positions must be vested members employed by an applicable PERA-related (Municipality or State) entity or be retired from a PERA-affiliated entity.

Interested members are required to file original nominating petitions with a minimum of 150 original, valid signatures for state and county members. 50 original nominating signatures are required for the Retiree seat. If you are a retired member or a vested state or county member and

would like to request nominating petitions, please contact Automated Election Services (AES) at 1-800-833-5568 ext. 6534. All petitions are due to AES (7000 Zenith Ct., Rio Rancho, NM 87144-6467) by 5pm on Monday, April 8, 2019. The five candidates with the highest number of nominations will be included on the ballot in descending order according to the number of signatures received.

Ballots will be mailed to your address on record with PERA on Friday, August 9, 2019. If you have moved, please update your address with PERA. This election affects your retirement plan so please be an active member and vote.

1/09/2019	4/08/2019	4/25/2019	8/09/2019	9/13/2019
Nominating petitions available from AES	Original nominating petitions due back to AES by 5pm	PERA Board receives report on nominating petitions from AES and approves nominees	Ballots mailed out to members by AES	Ballots must be received at AES' designated post office locked box address by 12pm

Did you know you can attend the PERA Board Meetings or live stream them from your mobile device or computer?

Visit www.nmpera.org/board-of-trustees/meeting-information for PERA Board meeting information! Get to know who is representing you!

Farewell and Welcome

PERA would like to welcome Lawrence Davis and Stephen Neel to the PERA Board of Trustees. The two were sworn in at the January 2019 Special Board Meeting.

Mr. Davis (pictured to the right) was sworn in as a Municipal member and works for the City of Albuquerque as an Audit Manager. Mr. Davis brings over 14 years of auditing, accounting and financial management experience. Mr. Davis obtained an MBA with distinction in Finance and BBA-Accounting.

Mr. Neel (pictured to the left) was sworn in as a State member and works for the Educational Retirement Board as a Deputy Chief Investment Officer. Mr. Neel has been employed with 2 PERA agencies, which include the Legislative Education Study Committee and the Legislative Finance Committee. Mr. Neel obtained a bachelor's degree in Economics and is currently an MBA Candidate at the University of New Mexico.

Both members bring a great amount of experience serving on other boards and committees. They also bring a lot of knowledge about pension systems because of their employment with our sister retirement plan, the Education Retirement Board. PERA looks forward to working with them!



**PERA would like to thank Cathy Townes and Daniel Esquibel
for their service to the PERA Board of Trustees.
We wish you the best and will miss working with you!**

House Bill 338

On December 11, 2018 the PERA Board voted on a legislative proposal regarding solvency recommendations pertaining to both active members and retirees. On January 24, 2019 the proposal was formally introduced during the 2019 Legislative Session as "House Bill 338 (HB338) Public Employee Retirement Changes".

Below are some HB 338 highlights:

Employer/Employee contribution increases based on funded status by Division

- Automatic increases (decreases) based on funded status and by Division
- State Police and Adult Correctional Officer Division members excluded from increases unless Division falls below 100%
- Members with annual salaries of \$20,000 or less are excluded from increases

Future Cost-of-Living Adjustments (COLA)

- COLA suspended for 3 years (2019, 2020 and 2021)
- Effective July 1, 2022, provides for a COLA based on funded ratio of the Total Fund and CPI as follows:
 - **If Funded Ratio is less than 80%:**
 - If CPI is equal to or less than 2%, COLA = 50% of CPI, and
 - If CPI is greater than 2%, COLA = 75% of CPI, but not to exceed 1.5
 - **If Funded Ratio is 80% or greater, but less than 90%:**
 - If CPI is equal to or less than 2%, COLA = 75% of CPI, and
 - If CPI is greater than 2%, COLA = 80% of CPI, but not to exceed 1.8%
 - **If Funded Ratio is 90% or greater, but less than 95%:**
 - If CPI is equal to or less than 2%, COLA = same as CPI, and
 - If CPI is greater than 2%, COLA = 95% of CPI, but no more than 2.50%
 - **If Funded Ratio is 95% or greater, but less than 100%:**
 - If CPI is equal to or less than 2%, COLA = 2%, and
 - If CPI is greater than 2%, COLA = 95% of CPI, but not to exceed 2.5%
 - **If Funded Ratio is 100% or greater:**
 - If CPI is equal to or less than 2%, COLA = 2% and
 - If CPI is greater than 2%, COLA = 95% of CPI, but not to exceed 3.0%
 - Effective July 1, 2019, COLA deferred to age 65 for general members, age 60 for public safety members
 - COLA payable is 0% to 3%, not to exceed CPI in any given year
- Eliminates current 7-year COLA eligibility period for new retirees
- Retirees with annual pension benefit of \$20,000 or less and disability retirees are excluded and retain current 2.5% COLA

To view the full legislative proposal please visit www.nmpera.org/solvency-information/board-solvency-proposal

PERA Solvency Task Force

On February 19, 2019, Governor Lujan Grisham signed an Executive Order calling for a nineteen member Solvency Task Force to provide recommendations to address PERA's \$6.0 billion unfunded liability. These recommendations will be expected to be presented to the Office of the Governor during the 2020 Legislative Session. The recommendations for the Solvency Task Force must meet the following requirements:

- They must result in an actuarially certified projection that, as of July 1, 2019, PERA's Unfunded Actuarial Accrued Liability will be amortized over no longer than a twenty-five year period using an assumed investment rate of 7.25%.
- They must include recommended employer and employee contribution levels and benefit modifications that are actuarially sound, preserve the defined benefit retirement offered by PERA and ensure intergenerational equity for current and future PERA retirees and other members.
- They must consider the funded levels of the Divisions within PERA.
- They must consider and make recommendations on the governance structure of PERA, including but not limited to, the composition of the PERA Board of Trustees and other recommendations related to the administration of PERA.

To view the full Executive Order please visit <https://www.governor.state.nm.us/about-the-governor/executive-orders/>

PERA Adds Value

2018 was the first calendar year serving as your Chief Investment Officer. The year was filled with many accomplishments both in the portfolio and in building a better PERA. Over the course of my career, I've had the benefit to observe and be a part of highly successful public pension funds. Throughout this experience, I have witnessed key tenets or best practices that are universal and common among well-funded and top tier public pensions globally. These best practices are the cornerstones to managing sustainable defined benefit pensions systems and are the key tenets that guide our management at PERA. They include the following:

- #1 Good governance, ensuring the appropriate roles and responsibilities flow from plan sponsor to the Board and then to Staff.
- #2 Solid pension design, ensuring the benefit structure is sustainable and well-funded.
- #3 Attracting and retaining talent, ensuring there are mechanisms to recruit, keep, and motivate highly professionalized and expert staff.
- #4 Implementing portfolio management best practices, which include setting structures and strategies to produce value add over benchmarks.

I am happy to report that 2018 was filled with numerous accomplishments to advance all these tenets. Specifically, I want to discuss the fourth tenet, the ability to produce value add in the portfolio.

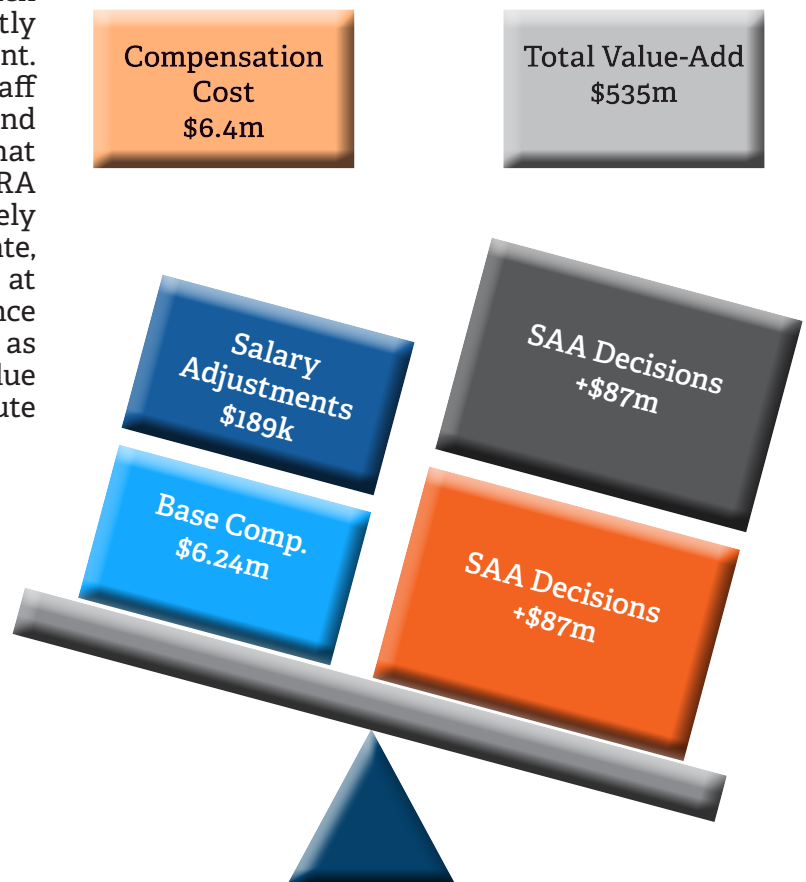
PERA currently employs a sophisticated, complex portfolio that is diversified, invests in more costly strategies such as private assets and active management. PERA also employs professionalized and expert Staff and counsel to manage all this sophistication and complexity. You, as the member, should know what the value of this complexity is. For instance, PERA can choose an easier path, which focuses on entirely passive, low cost implementation. In honor of the late, great John Bogle, who pioneered passive investing at Vanguard, we call this path the "Bogle" or Reference portfolio. The Reference or "Bogle" Portfolio is used as a benchmark to answer the question: What is the value of complexity and additional cost employed to execute the PERA portfolio?

**PERA members
keep 99% of value
add**

Let's apply this benchmark to our 2018 results. In the face of difficult market headwinds, PERA produced a -2.50% return and the Reference Portfolio produced a -5.73%. Thus, PERA out-performed this less complex portfolio by 3.25%, net of costs. In dollar terms for 2018, the value to you, the member, of PERA holding a complex portfolio and employing professionalized Staff was \$536 million, net of all costs. One year is a short period to evaluate investment results. So, let's look at the last 7 years and 10 years. When we make the same comparison, PERA has generated over \$1 billion in value add over 7 and 10 years via a more complex portfolio and employing professionalized Staff to execute it.

Let's examine this one more time through a business cost-benefit lens. In FY2018, the cost to members to employ all PERA staff across Investment Management, Member Services, Administration, Accounting, etc. was \$6.4 million including salary and benefits. In calendar year 2018, PERA generated \$542 million in value add, net of management fees. Thus, net of Staff compensation costs, members, kept 99% of the value add or \$536 million.

As we move forward, it is business metrics like these that are important and help evaluate tough questions. Questions like: what's the value of having complexity? What's the value of active management? What's the value of having professionalized staff? Over time, we expect these costs to pay-off for our members.



Transparency

PERA is committed to being a leader in New Mexico in transparency and open governance. PERA understands that open communication both internally and externally is a cornerstone of the foundation upon which we serve our members. Therefore, PERA developed a Transparency web-page to provide access to key budget and financial documents, investment related materials, Board and Committee documents, travel and other information about the operation and administration of PERA. We hope this Transparency page will continue to grow and improve, and we welcome input on how we can make it better.

Please utilize the “Transparency” web-page to view the following Information:

- PERA Staff & Board Travel/per-diem
- PERA Staff salaries by position
- PERA annual budget and quarterly budget reports
- PERA contracts
- Board and Committee Agendas and Materials
- PERA presentations to Legislative committees
- IPRA requests and PERA responses

www.nmpera.org/transparency



INVESTED IN TOMORROW.

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