STATE OF NEW MEXICO

EDUCATIONAL RETIREMENT BOARD

Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 2012

The Educational Retirement Board is a Pension Trust Fund of the State of New Mexico

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD

A Pension Trust Fund of the State of New Mexico

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2012

Prepared by Staff of the ERB Finance and Investments Divisions

Educational Retirement Board

701 Camino de los Marquez

Santa Fe, NM 87505

Phone (505) 827-8030

Fax (505) 827-1855

www.nmerb.org

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EDUCATIONAL RETIREMENT BOARD

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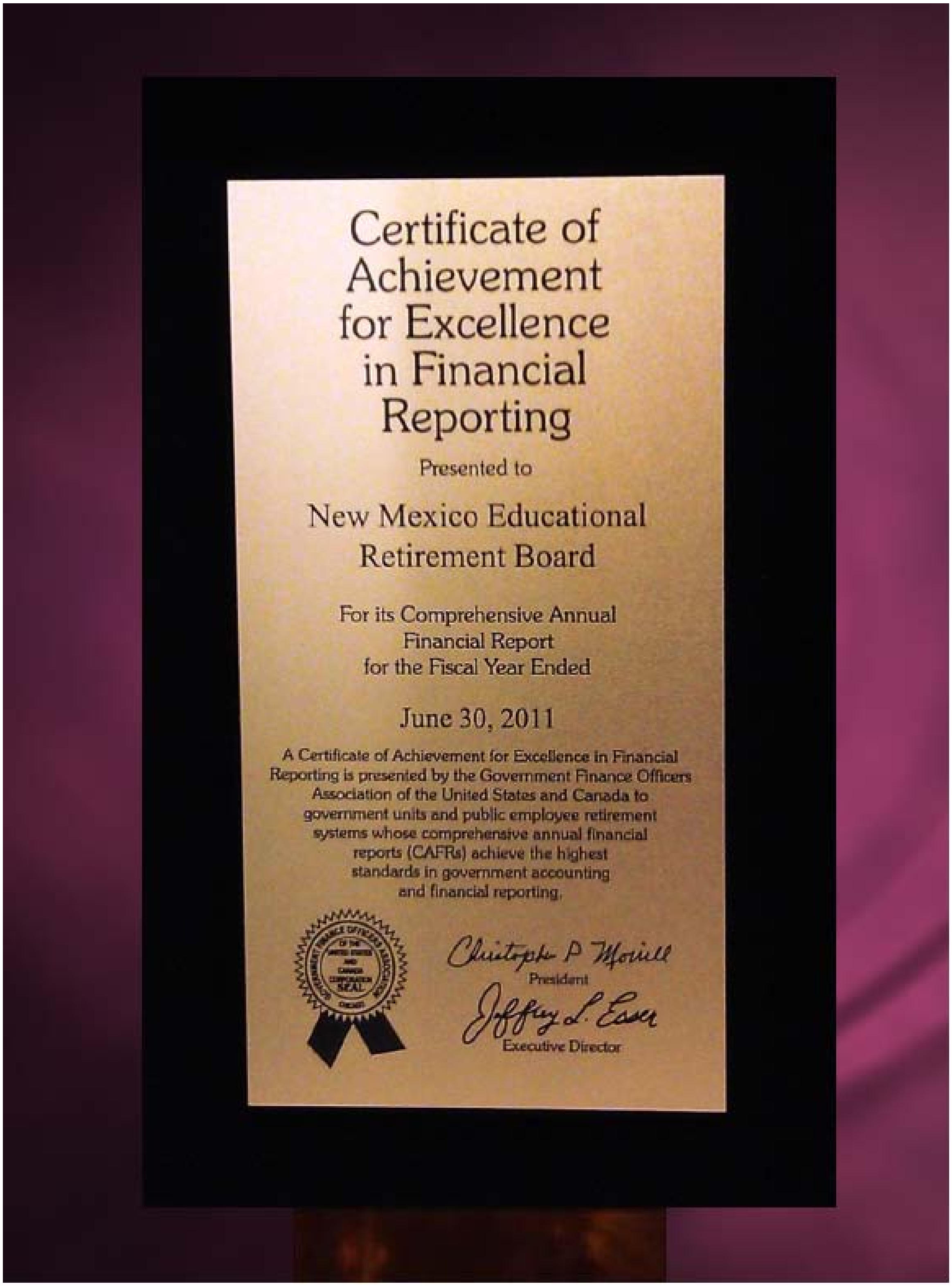

Certificate of Achievement for Excellence in Financial Reporting
Presented to
New Mexico Educational Retirement Board
For its Comprehensive Annual Financial Report for the Fiscal Year Ended
June 30, 2011
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.
President
Executive Director

PPC

Public Pension Coordinating Council

Recognition Award for Administration 2012

Presented to

New Mexico Educational Retirement Board

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

STATE OF NEW MEXICO
Educational Retirement Board
701 CAMINO DE LOS MARQUEZ
P.O. Box 26129
SANTA FE, NEW MEXICO 87502-0129
PHONE: (505) 827-8030
FAX: (505) 827-1855

Letter of Transmittal
December 15, 2012

TO THE BOARD OF TRUSTEES AND PLAN MEMBERS OF THE EDUCATIONAL RETIREMENT BOARD

We are pleased to present this Comprehensive Annual Financial Report of the New Mexico Educational Retirement Board for the fiscal year ended June 30, 2012. This report is a demonstration of the commitment of our Board and staff to timely, complete and accurate reporting of the activities and soundness of our membership's retirement plan.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The Educational Retirement Board for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the third consecutive year the Board has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The content, accuracy, and presentation of this report are the responsibility of agency management. To the best of our knowledge and judgment this report represents an accurate presentation in all material respects of the financial and actuarial position and the results of operations of the plan.

The State of New Mexico Educational Retirement Board ("Board") was created by the Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer and have the responsibility for operating the Educational Employees' Retirement Plan (the "Plan"). The Plan is a cost-sharing, multiple-employer plan established and administered by the Board to provide retirement and disability benefits for employees of the State of New Mexico public schools, institutions of higher learning and educational agencies. Please see Note 2 to the financial statements on page 41 for further discussion of the background, membership, and provisions of the plan.

SUMMARY OF FINANCIAL INFORMATION

The following table shows plan additions and deductions for the fiscal years ended June 30, 2012, 2011, and 2010.

	June 30, 2012	June 30, 2011	June 30, 2010
Total Additions <Decreases>	$ 707,519,696	$ 2,104,304,938	$ 1,815,371,982
Total Deductions	807,121,468	748,265,431	696,500,248
Net Change	$ (99,601,772)	$ 1,356,039,507	$ 1,118,871,734

Additions decreased by $1,396,785,242 from FY2011 to FY2012 and increased by $288,932,956 from FY2010 to FY2011. The increases and decreases for each fiscal year results from financial market activity. Deductions increased by $58,856,037 from FY2011 to FY2012 and by $51,765,183 from FY2010 to FY2011, due mostly to increased benefit payments to retirees caused by an increase in the number of retirees each year and higher benefit amounts caused by increasing salaries of retiring members.

Additional financial highlights can be found in the Management's Discussion and Analysis immediately preceding the Audited Financial Statements.

ACTUARIAL PLAN STATUS

The funding objective of the Educational Retirement Board is to meet long term benefit promises to current and future members through member and employer contributions and investment earnings. Information relating to progress in meeting this objective is presented on page 79. The unfunded actuarial accrued liability (UAAL) is a measure of the currently unfunded part of future benefit obligations. The UAAL increased from $5,650,842,751 in FY2011 to $6,230,668,513 in FY2012. This is caused, in part, by the significant investment losses incurred in fiscal year 2009. To smooth the effects of short term investment results they are figured into the UAAL calculation on a rolling five year basis, so the investment losses recorded during fiscal year 2009 continue to have a negative impact on the change from year to year. In addition, in FY2011 the Board voted to change its assumed rate of return on the Fund's investments from 8% to 7.75%. The Board also made these significant changes to the ERB's actuarial assumptions: changing the funding method to traditional individual entry age normal; revising post-retirement mortality to reflect slightly longer life expectancy; changing retirement rates at ages 65 and 69 and with 25 or more years of service; decrease to salary increases for members with 10 or more years of service; and, a decrease in membership growth assumptions. The combined effect of the changes in actuarial assumptions, including to the 7.75% assumed investment return rate, increased the UAAL by $579.8 million.

The funding period is an estimate of the time it will take to amortize the UAAL and achieve full funding, based on actuarial assumptions which are described in detail in the actuarial section of this report. The funding period has remained at Infinite at June 30, 2011 and for June 30, 2012. The Board has been working to address the funding status for several years. In 2005 the State Legislature passed Senate Bill 181, which gradually increased both employer and employee contribution rates over a period of time. Originally scheduled for full implementation in 2012, the scheduled FY 2011 increase in employer contributions was postponed by the legislature. When fully implemented the total combined contribution rate will be 21.8% of payroll. In the 2009 Legislative session, several changes to plan design were adopted that will reduce the

Normal Cost Percentage. These included changing retirement eligibility from: 25 years of service; age plus years of service equaling 75 (Rule of 75); or age 65 with 5 years of service;, to 30 years of service; age plus years of service equaling 80 (Rule of 80); or age 67 with 5 years of service. A lower Normal Cost Percentage means less of the contributions received will be needed to fund current Normal Costs and more will work toward reducing the UAAL. A change affecting funding was also implemented, requiring employers of ERB retirees working under the Return to Work program to contribute to the fund an amount equal to the employer share plus the employee share. In the 2011 Legislative session, the responsibility for paying the employee share of the contribution was transferred to the Return to Work retiree although no additional retirement benefits will accrue to that member for the additional contributions. Furthermore, those employee contributions are nonrefundable. In addition, the Board has approved and submitted to the Legislature's Investment and Pension Oversight Committee (IPOC) in November 2012 recommendations for consideration by the 2013 Legislature with the objective of achieving 80% (+-2%) funding by 2030 and 95% funding (+-5%) by 2040. On November 28, 2012 the IPOC endorsed the Board's recommendation.

INVESTMENT ACTIVITY

Recognizing the perpetual nature of the Fund and the fiduciary responsibilities of the Board, the primary goal in investing the assets is to provide significant real returns adjusted for inflation over long periods of time with acceptable risk. In light of these dual goals, the Investment Division seeks to diversify the Fund's assets for purposes of both controlling risk and enhancing return. Over the long term, the Fund's objective is to earn the actuarial rate of return. As of June 30, 2011, the board reduced the actuarial rate of return from 8% to 7.75% to better reflect actual and anticipated returns.

ERB's investment portfolio produced a total gross return of 2.0% for the year ended June 30, 2012. The policy benchmark return for the same period was 1.6%. The portfolio outperformed its benchmark by 0.3%. The investment staff believes that ERB's diversified portfolio in a robust range of assets is poised to continue to outperform its benchmark indices as the financial markets recover.

ERB investments are tracked daily by ERB Investments Division staff. The Board receives formal reports on an ongoing basis and the Board's Investment Committee meets monthly to review performance. External investment managers who are underperforming are expected to explain to the Board remedial actions they plan to take and are placed on a "watch list", with contract termination an option if performance does not improve.

Additional information regarding investment results for the year is included in the investments section of this report.

LEGISLATIVE ACTION IN FY2012

In September 2011, the ERB adopted goals of achieving an 80 percent funded ratio by 2030 and a 95 percent funded ratio by 2040. To achieve these goals, following a series of statewide outreach meetings and a poll of active and retired members, in December 2011 the ERB endorsed proposed legislation that was introduced in the 2012 legislative session to amend the Education Retirement Act to established a minimum age of 55 to receive retirement benefits, reduce the annual CPI-based adjustment described above for members age 65 and older by one-eighth overall with a maximum possible increase of 3.5 percent, and permanently increase all member contributions to 9.9 percent by July 1, 2017 and all employer contributions to 13.9 percent by July 1, 2018. The proposal passed the Senate and was favorably reported out of House committees. The session adjourned, however, before the full House could consider it. No other legislation was passed by the legislature during the 2012 session that affected the ERB or the defined benefit or the defined contribution (a/k/a the "alternative retirement plan" or "ARP") that the ERB administers.

The ERB will continue to support amendments to the Educational Retirement Act based on the following framework: shared responsibility among members, retirees and employers; intergenerational equity (i.e., the costs of achieving the goals must be borne by current members, retirees and employers, as well as future members); long term sustainability and preservation of the defined benefit plan; and, maintaining a similar benefit structure for all members, current and future, over time.

After the 2012 legislative session, various groups of active and retired members brought forward proposals to modify the defined benefit plan that the ERB administers. In response to these proposals, the ERB endorsed a proposal to be introduced in the 2013 legislative session to increase member contributions for all members to 10.1 percent in Fiscal Year 2014 and 10.7 percent in Fiscal Year 2015. Employer contribution rates, including planned increases in Fiscal Years 2014 and 2015, would remain as presently scheduled in statute. In addition, the proposal would create a new Tier 3 membership effective for all persons who became members of the Educational Retirement Fund on or after July 1, 2013. Under the proposed tier, members who retired with 30 years of service before Age 55 would have their benefits reduced to the actuarial equivalent of receiving the benefits at Age 55. Alternatively, members could retire under the Rule of 80 (age plus years of earned service credit = 80), with substantial and permanent reductions to benefits of those members who retired before Age 65 or at Age 67 with five years of earned service credit. Tier 3 members would not be eligible to receive a cost-of-living allowance ("COLA") until they were Age 67, an increase of two years from the current Age 65 required for Tier 1 and Tier 2 members. If the proposal is enacted, the ERB's actuaries estimate that the Fund will reach a funded ratio of 69.7 percent by 2030 and 90.5 percent by 2043.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND FRAUD PREVENTION

ERB management has established and maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded, and financial reports are materially accurate and timely. Internal control over financial reporting cannot provide absolute assurance of achieving these financial reporting objectives because of its inherent limitations in internal control. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Our Internal Audit staff provides an ongoing fraud risk assessment and review of internal controls and operating procedures and regularly reports to the Audit Committee of the Board of Trustees. The committee reviews audit findings and recommendations and management's actions to implement recommendations and reports to the full board any concerns they may have.

INDEPENDENT AUDIT

The annual audit of ERB's financial statements was performed by Moss Adams LLP. ERB received an unqualified audit opinion. The auditor's report is included in the financial section of this report.

ACKNOWLEDGEMENTS

We would like to acknowledge and thank the staff of ERB's accounting and investment divisions, our actuaries Gabriel, Roeder & Smith, our independent auditors Moss Adams LLP, and our Investments consultant NEPC for their contributions to and hard work on this report.

Sincerely,

Mary Lou Cameron

Mary Lou Cameron
ERB Board Chairman

Jan Goodwin
ERB Executive Director

Sara Brownstein

Sara M. Brownstein
ERB Chief Financial Officer

Mission of the Educational Retirement Board

The New Mexico Educational Retirement Board is a statutory entity that provides secure retirement benefits for our active and retired members from school districts, higher education, and educational agencies.

We strive to make our member's retirement experience optimal by:

- Prudently managing the financial assets of the fund
- Providing prompt, courteous, and accurate responses to members' inquiries
- Counseling members on an individual basis related to retirement issues
- Educating members about both the financial and personal aspects of retirement
- Soliciting member input for improving services.

We are constantly building the skills capacities and competencies of our employees in order to provide our members caring and quality service.

NM EDUCATIONAL RETIREMENT BOARD OF TRUSTEES
As of June 30, 2012

Mary Lou Cameron,
Chairwoman
NEA

Term Expires
June 30, 2013

Dr. J. Thomas
McGuckin
Member
AAUP

Term Expires
June 30, 2016

Russell Goff,
Vice Chairman
NMEAR

Term Expires
June 30, 2016

Bradley Day
Member
Governor
Appointment

Term Expires
June 30, 2015

Hanna Skandera
Member Designate

Secretary of Public
Education Designate
Ex-Officio

Delman Shirley
Member
Governor
Appointment

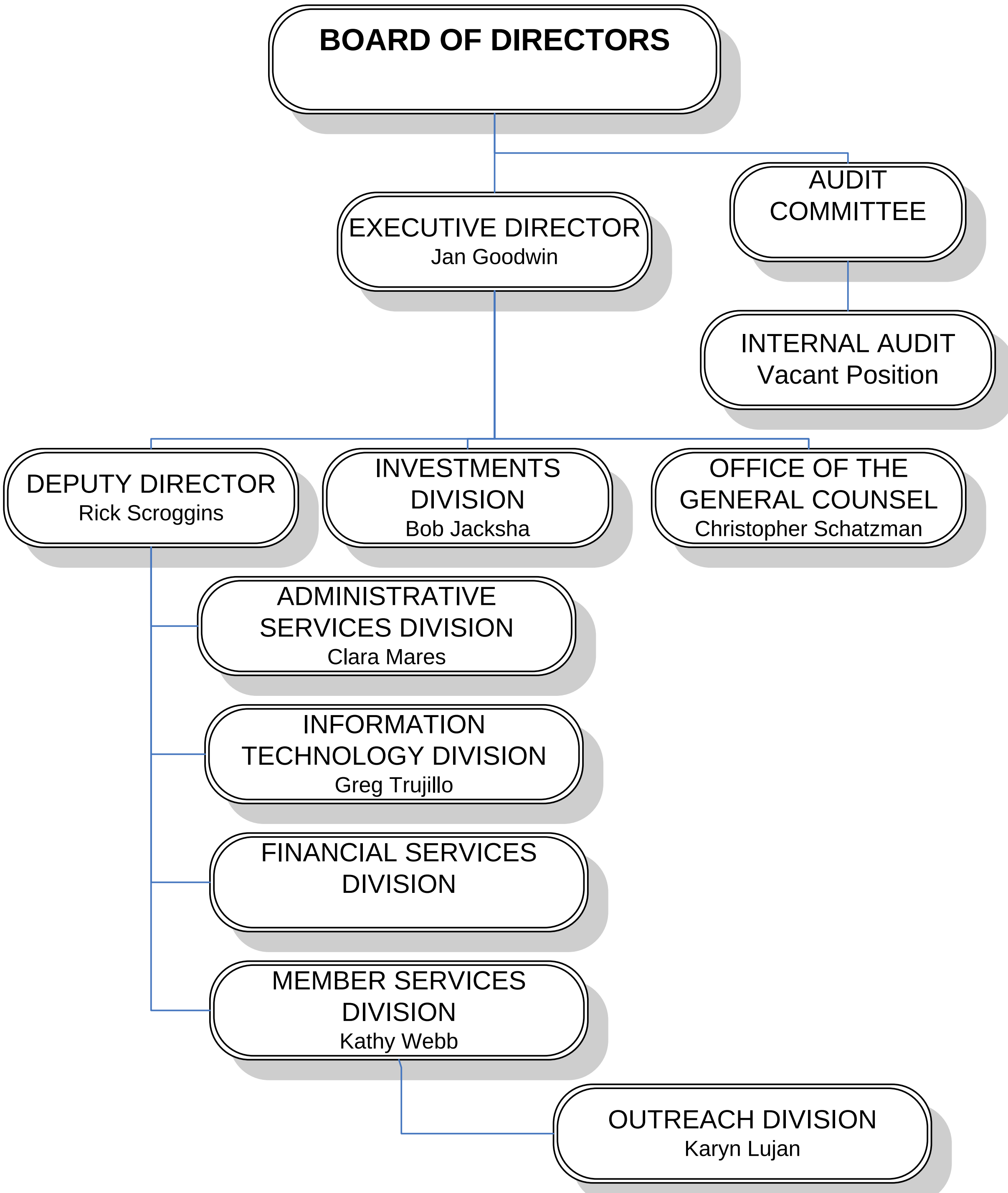
Term Expires
June 30, 2013

James B. Lewis,
Member

State Treasurer
Ex-Officio

NM EDUCATIONAL RETIREMENT BOARD ORGANIZATION CHART

As of June 30, 2012



ERB STAFF as of January 15, 2013

Administration
Jan Goodwin, Executive Director
Rick Scroggins Deputy Director
(Vacant), Internal Auditor
Linda Kissko, Executive Assistant

Program Support
Clara Mares, Administrative Services Manager
Marie Fitzpatrick, HR Payroll and Benefits
Frank Arellano, Records Clerk
Darlene Gibbs, Records Clerk
(Vacant), Records Clerk
Kevin Long, Plant/Systems Operator

Office of the General Counsel
Christopher Schatzman, General Counsel
Robert Shulman, Attorney
Anita Tellez, Attorney
Margo Salazar, Paralegal Assistant
Amanda Olsen, Paralegal Assistant

Information Technology
Gregory Trujillo, Information Systems Manager
Jonas Aylward, IT Business Analyst
David Peterson, IT Generalist
Robert Hampton, IT Generalist
Bea Pacheco, IT Business Analyst
Matthew Martinez, Network Administrator
Karyn Lujan, Public Relations Coordinator
(Vacant), Accountant & Auditor
(Vacant) Personal Financial Advisor

Investments
Bob Jacksha, Chief Investment Officer
Steve Neel, Deputy Chief Investment Officer
Mark Canavan, Investment Officer
Kelley Koehler, Financial Analyst
Jude Perez, Investment Officer
Christine Ortega, Financial Analyst
Kay Chippeaux, Investment Officer
Alan Myers, Financial Analyst

Financial Services
Sara Brownstein, Chief Financial Officer
Robert Cardon, Accountant and Auditor
Melinda Marquez, Financial Coordinator
Debbi Lucero, Purchasing, Budget, Fixed Assets
Angelina Romero, Accountant and Auditor
Elizabeth Fischer, Accountant and Auditor
Michelle Lopez, Accountant and Auditor
Michael Romero, Financial Analyst
Stephanie Ortiz, Accountant and Auditor
Sandy Vigil, Accountant and Auditor

Member Services
Kathy Webb, Member Services Manager
Karla Leyba, Financial Advisor
Jerome Lopez, Financial Advisor
Cordelia Anaya, Financial Advisor
Barbara Feeney, Financial Advisor
Laura Crawforth, Financial Advisor
Anders Engstrom, Financial Advisor
Raquel Varela, Financial Advisor

Pension/Refund Section
Raul Duran, Payroll Administrator
Rosa Weese, Payroll Specialist
(Vacant), Payroll Specialist
Nicole Jaramillo, Refund Administrator
Melissa Gurule, Refund Specialist
Amanda Padilla, Payroll Specialist

Customer Service Section
(Vacant), Bureau Chief, Customer Services
Cynthia Martinez, Customer Service Rep.
(Vacant), Customer Service Rep
Rosalie Garcia, Customer Service Rep.

CONSULTANTS AND PROFESSIONAL SERVICES

To assist the Board and administration in carrying out its fiduciary duty regarding the prudent investment of the fund's assets, the Board has hired an actuarial firm three investment consultants, and several legal consultants.

Gabriel, Roeder, Smith & Co. is the actuarial firm chosen by the Board and is responsible for:

- Certifying the adequacy of the contribution rate used by the System;
- Measuring and reporting the assets and liabilities of the System; and
- Reviewing and analyzing trends in the System's contributions.

NEPC provides general investment consulting services and advises on private equity and hedge funds.

Courtland Partners provides consulting services related to infrastructure investments.

ORG provides consulting services related to investments in real estate and natural resources.

To assist the Board in carrying out its duty regarding disability benefits, the Board has engaged the services of three physicians as the Medical Review Board.

The Medical Review Board is responsible for:

- Reviewing all disability examination reports and advising the ERB of the nature and extent of the disability.

Legal services are provided to the board by the following firms.

New Mexico Attorney General's Office – principally in the areas of administrative law and litigation.

Groom Law Group – principally in the areas of tax, pension and fiduciary law.

Foster Pepper PLLC – principally in the area of alternative investments

K&L Gates LLP – principally in the area of alternative investments

Freedman Boyd Hollander Goldberg & Ives PA – principally in the area of investment litigation

Pomerantz Haudek Grossman & Gross, LLP – principally in the area of investment litigation

Canepa & Vidal, P.A. – principally in the areas of litigation and administrative law

Cuddy McCarthy LLP – principally in the areas of employment, education, litigation and administrative law

Sutin Thayer & Browne - principally in the area of administrative law

Randall W. Childress, P.C. – administrative hearing officer

Actuary

Gabriel, Roeder, Smith & Co.
1000 Town Center, Suite 1000
Southfield, Michigan 58075

Auditor

Moss Adams LLP
6100 Uptown Blvd. NE, Suite 400
Albuquerque, New Mexico 87110

General Investment Consultant

NEPC
One Main Street
Cambridge, MA 02142

A schedule of fees paid to investment professionals who provide services to the Board is included on page 83 in the Investments section of this report. A schedule of fees paid for other professional services is located on page 73 in the Financial section of this report.

FINANCIAL SECTION

WWW.MOSSADAMS.COM

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Members of the State of New Mexico
Educational Retirement Board
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying Statements of Plan Net Position and Statements of Changes in Plan Net Position of the New Mexico Educational Retirement Board (the "ERB") as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. We have also audited the Schedule of Revenues, Appropriations and Expenses–Budget to Actual (Non-GAAP) for the New Mexico Educational Retirement Board shown as supplementary information as of and for the year ended June 30, 2012. These financial statements are the responsibility of the ERB's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ERB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of ERB are intended to present the plan net position and changes in the plan net position of only that portion of the State of New Mexico which are attributable to the transactions of the Funds administered by ERB. They do not purport to, and do not present fairly the financial position of the State of New Mexico as of June 30, 2012 and 2011, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Members of the State of New Mexico
Educational Retirement Board
and
Mr. Hector H. Balderas
New Mexico State Auditor

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the plan net assets of ERB as of June 30, 2012 and 2011, and the respective changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Schedule of Revenues and Expenses - Budget and Actual, (Non-GAAP Basis) presents fairly the revenues and expenses on the basis of accounting as described in Note 1, for the year ended June 30, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012 on our consideration of the ERB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress, and Schedule of Employer Contributions and Other Contributing Entities on pages 9 through 16 and 58 through 59, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Members of the State of New Mexico
Educational Retirement Board
and
Mr. Hector H. Balderas
New Mexico State Auditor

Our audits were conducted for the purpose of forming opinions on the financial statements that comprise the ERB's basic financial statements. The accompanying Schedule of Cash Accounts and Schedule of Accountability in Government Act – Performance Measures, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express on opinion or provide any assurance on it.

Moss Adams LLP

Albuquerque, New Mexico
December 7, 2012

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2012, 2011 and 2010

Agency management prepared this Management's Discussion and Analysis ("MD&A") of the financial position of the State of New Mexico Educational Retirement Board ("Board") for the fiscal years ended June 30, 2012 ("FY12"), 2011 ("FY11") and 2010 ("FY10"). For more detailed information of the Board's FY12 and FY11 financial activities, the reader should review the financial statements, including the notes and required supplementary information.

FINANCIAL REPORTING REQUIREMENTS

The financial statements include the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets. The financial statements also include notes, which explain the history and purpose of the Board, significant accounting policies, investment details, statutory disclosures, and other required supplementary information. These financial statements have been prepared in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board ("GASB").

FINANCIAL HIGHLIGHTS

- Net assets held in trust for pension benefits decreased $.1 billion, or 1% in FY12 compared to an increase of $1.4 billion, or 16.5%, in FY11 and an increase of $1.1 billion, or 15.7%, in FY10. A significant downward trend in financial markets in FY08 and the early part of FY09 reversed toward the end of FY09 and the Board experienced strong returns on its investment portfolio in FY11 and continuing through FY12. There were lower investment portfolio returns for FY12 as compared to FY11.

  Investment advisor and custodial fees decreased $24.2 million, or 68.9% in FY12 as compared to an increase of $3.4 million, or 10.8 %, in FY11 as compared to FY 10. Additionally, there was an increase of $15.0 million, or 89.6% in FY10 as compared to FY09. These fees are based on investment returns and portfolio balance, so strong returns and an increasing portfolio balance lead to higher advisor and custody fees. The magnitude of the increase is less in FY12 for several reasons. One is a significant portion of the management fees are based on a manger's performance exceeding a benchmark. Thus while a manager may have a strong positive performance, it may not result in a performance fee if the benchmark also exhibits positive performance. The fee is based on performance relative to the benchmark. There were also more favorable fee schedules negotiated with several of the fund managers. Finally, during the year, assets were reallocated to bring the portfolio in line with the latest asset allocation plan adopted by the Board. These changes moved some assets from some managers who are paid fees in the traditional manner to new managers whose fees are deducted from assets under management instead of being paid directly by the Board, thus are not reflected in the expense categories in the financial statements. As an offset, this change results in a lower reported investment return for these investment

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2012, 2011 and 2010

categories. These arrangements are common industry practice for the investment categories where they were utilized.

- Total cash and cash equivalents decreased $236.0 million as of June 30, 2012, compared to an increase of $201.0 million in FY11 and a $49.5 million increase in FY10. It is normal for the cash balance as of a specific date to fluctuate somewhat as the Board adjusts holdings. At 3.5% of total investments, cash held at June 30, 2012 was within the Board's target allocation of 5% or less. On June 30, 2011 the Board held cash of approximately $559 million, or 5.65% of total investments. This was slightly in excess of the target allocation ranges established by the Board. The cash was raised in anticipation of funding newly approved managers. It was anticipated that these managers would draw down the cash prior to June 30, but various circumstances delayed the funding. The Board held $357 million, or 4.2% of investments, at the end of FY10. This was within the Board's investment policy that targets cash holdings of 5% or less.

- Investment holdings decreased $151 million, or 1.6% in FY12, compared to an increase of $1.2 billion, or 14.8%, in FY11 and an increase of $602 million, or 8.0%, in FY10. The increase in FY10 and FY11 were due to strong performance in most investment markets. For FY12, the net 2% investment increase was offset by the net pension benefit payments, resulting in an overall decrease in assets.

- Total receivables decreased by $38 million in FY12 compared to a decrease of $2 million in FY11 and a decrease of $30 million in FY10, with the majority of the changes showing in investment broker sales proceeds. A decrease indicates a smaller volume of investments were sold at or near fiscal year end, and remained outstanding on June 30. Securities sales and purchases are usually based on "trade date + 3 days," meaning that the transaction will settle three business days after it is initiated. There was a decrease of $890 thousand in "other receivables" in 2012, which is a 50% decrease over the prior year. This reflects the refunds receivable discussed in Note 3 to the financial statements. Other receivables in FY11 totaled $1.77 million and $475 thousand in FY10. Both amounts are considered immaterial to the financial statements taken as a whole.

- Capital assets decreased $1.3 million, or 31.9% in FY12, compared to a decrease of $2.0 million, or 32.4%, in FY11 and a decrease of $2.0 million, or 24.4%, in FY10. These decreases in net value reflect the large depreciation costs, mostly on the pension administration system capitalized in FY08 with a relatively short depreciation period, combined with minimal new asset additions during each of these years. See Notes 1 and 9 for additional information on depreciable life expectancies and capital asset activity. The Board does not have any debt activity related to capital assets or projects.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2012, 2011 and 2010

- Accounts payable increased $13.2 million, or 670% in FY12 compared to a decrease of $7.5 million, or 79.25%, in FY11 and an increase of $5.3 million, or 127%, in FY10, primarily due to changes in the amount of investment advisor fees due at each respective year-end.

- Investment purchases payable-brokers decreased by $126.7 million in FY12 compared to an increase of $41.4 million in FY11 and a decrease of $27.9 million in FY10. An increase indicates that a larger volume of investments were purchased at or near fiscal year end and remained outstanding on June 30. Securities sales and purchases are usually based on “trade date + 3 days,” meaning that the transaction will settle three business days after it is initiated.

- Employer and member contributions decreased $12.1 million, or 2.2% in FY12 compared to a decrease of $8.1 million, or 1.45%, in FY11 and an increase of $28.2 million, or 5.3%, in FY10. FY10 increases were attributed to an increase in active member contribution rates and salary increases. The current year decrease is statistically insignificant and may be attributable to limited hiring or limited salary increases by the employers. There was no change in total employer plus employee contribution rates in FY12. Benefit payments to retirees increased in FY12 by $52.3 million, or 7.5%; increased by $45.5 million, or 6.9%, in FY11, and increased by $38.5 million, or 6.2%, in FY10. These increases are due to the increase in the number of retirees each year, as well as the compounding cost of living adjustments paid to retirees. Refunds and interest to terminated members increased by $5.5 million, or 15.7% in FY12 compared to an increase of $6.3 million, or 21.9%, in FY11 and a decrease of $907 thousand or 3.1%, in FY10. The FY11 refund figures include the receivable for the overpayments discussed in Note 5 to the financial statements.

- The Plan’s total membership increased by 2,084, or 1.6% to 132,225 members as of June 30, 2012 compared to an increase in FY 11 of 1,263, or 0.9%, to 130,141 members, and an increase of 1,988, or 1.6%, to 128,883 members in FY10.

- Management is aware and planning for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, in which the net pension liability will be reported on the Statement of Plan Net Assets instead of the current disclosure in the footnote section. GASB 68 is effective for fiscal years beginning after June 15, 2014 and will be instituted by the New Mexico Educational Retirement Board for fiscal year 2015.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2012, 2011 and 2010

CONDENSED FINANCIAL INFORMATION

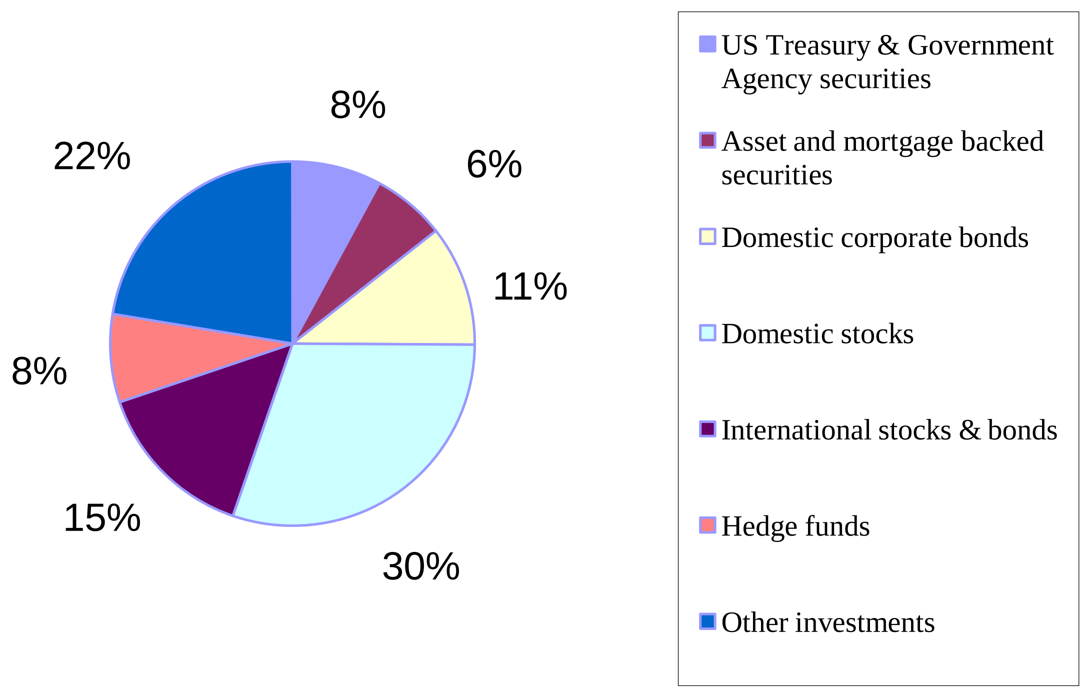
Statements of Plan Net Assets

	FY12	FY11	FY10
Cash and short-term investments	$ 317,056,896	$ 552,278,318	$ 344,561,297
Receivables	153,420,332	191,498,873	193,577,375
Investment in State General Fund Investment Pool	5,521,436	6,346,596	12,081,842
Investments—at fair value	9,177,972,688	9,328,773,209	8,125,244,790
Capital assets (net of accumulated depreciation)	2,862,746	4,201,681	6,217,017
Total assets	9,656,834,098	10,083,098,677	8,681,682,321
Current liabilities	167,669,129	494,307,120	448,957,805
Long-term liabilities (compensated absences)	203,800	228,616	201,082
Total liabilities	167,872,929	494,535,736	449,158,887
Net assets held in trust for pension benefits	$9,488,961,169	$9,588,562,941	$8,232,523,434

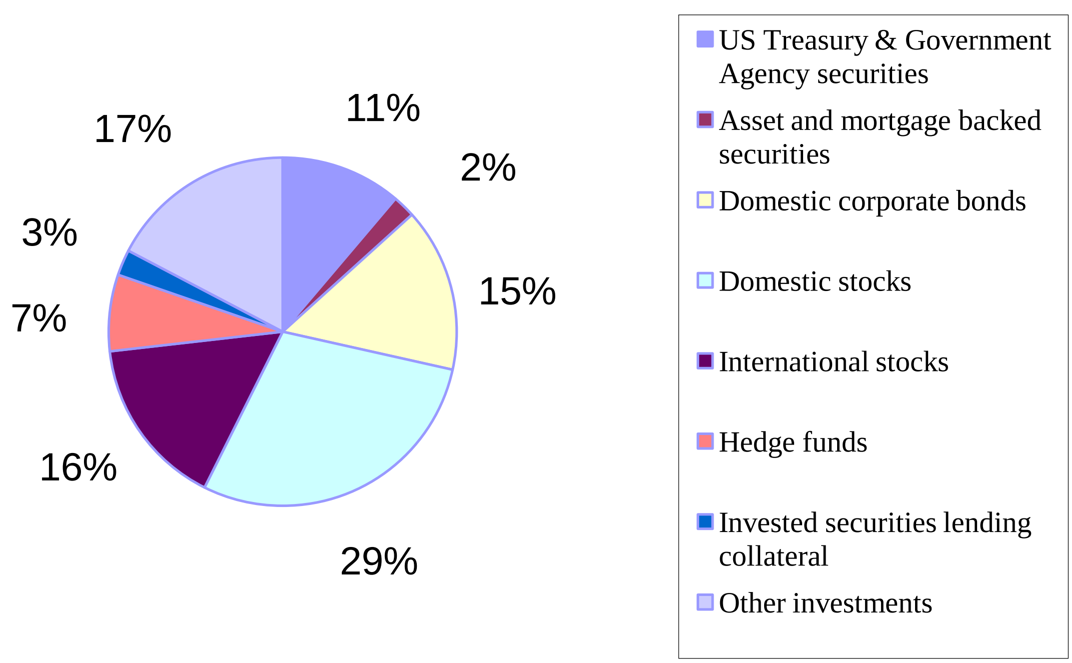
	FY12	FY11	FY10
Contributions	$ 543,697,371	$ 555,775,940	$ 563,942,946
Investment income less investment expenses	161,326,103	148,016,532	153,062,596
Net appreciation (depreciation) in the fair value of investments	(565,488)	1,396,479,035	1,095,257,890
Other income	3,061,710	4,033,431	3,108,550
Total additions (deductions)	707,519,696	2,104,304,938	1,815,371,982
Benefit payments	754,554,951	701,771,592	656,232,670
Refunds	40,580,979	35,086,806	28,779,655
Administrative expenses	11,985,538	11,407,033	11,487,923
Total deductions	807,121,468	748,265,431	696,500,248
Increase (Decrease) in net assets	(99,601,772)	1,356,039,507	1,118,871,734
Net assets held in trust for pension benefits:			
Beginning of year	9,588,562,941	8,232,523,434	7,113,651,700
End of year	$ 9,488,961,169	$ 9,588,562,941	$ 8,232,523,434

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2012, 2011 and 2010

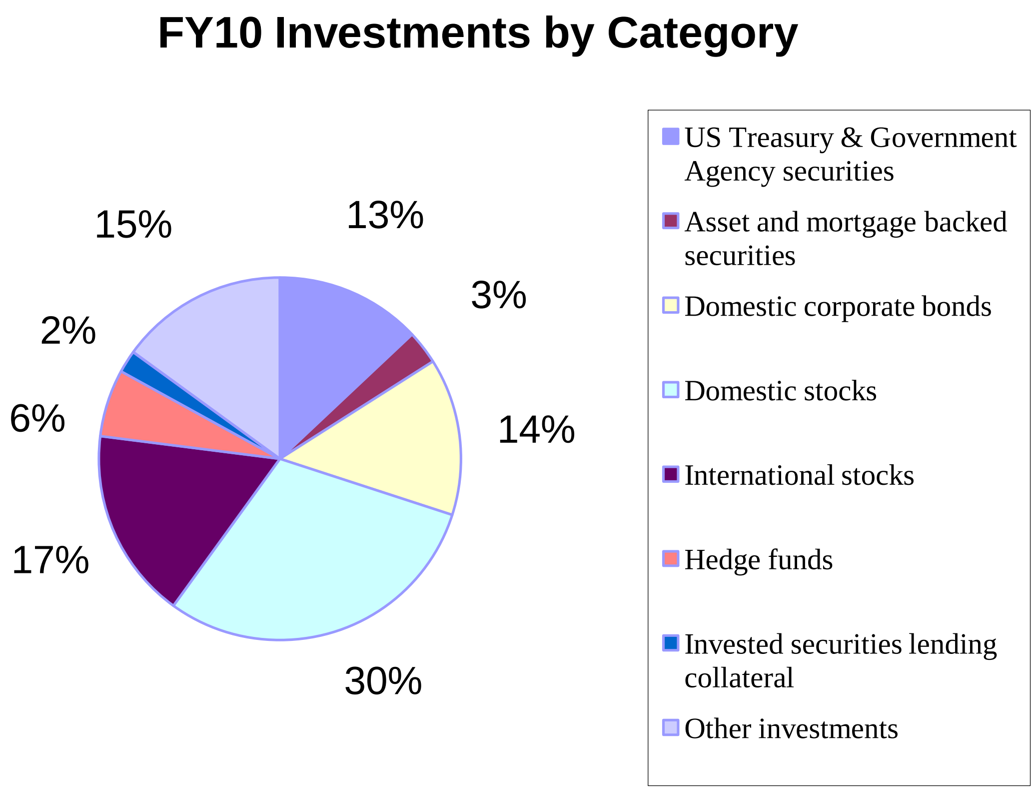
FY12 Investments by Category



FY11 Investments by Category



STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2012, 2011 and 2010



BUDGETARY HIGHLIGHTS

A major portion of the Board's contractual services fees are based on market performance and the budget is established to absorb all expenses that may be incurred during the period. These initial budget estimates may be adjusted throughout the year, based on market performance, to arrive at a final budget. In FY12, the Board's initial budget was increased by $327 thousand from $40.2 million to $40.6 million. In FY11, the budget was increased by $10.3 million from $26.9 million to $37.2 million. In FY10, the Board's budget was increased by $20.5 million from $28.6 million to $49.1 million. Changes in the corpus of the fund generally drive changes in income and expenses. The Board had savings over budgeted amounts in the three expense categories totaling $18.9 million during the 2012 fiscal year compared with savings of $7.4 million in fiscal year 2011 and savings of $7.9 million in fiscal year 2010.

LONG-TERM DEBT

The only long-term liability activity relates to compensated absences reported in Note 11.

INFRASTRUCTURE

ERB has no infrastructure assets to report.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2012, 2011 and 2010

CAPITAL ASSETS

The net investment in Capital Assets at June 30, 2012, 2011 and 2010, is as follows:

Description	Cost	Accumulated Depreciation	Book Value
2012			
Land	$ 248,172	$ -	248,172
Depreciable land improvements	19,361	(5,022)	14,339
Integrated Retirement Information System	9,156,963	(8,650,910)	506,053
Building and building improvements	3,365,714	(1,514,134)	1,851,580
Furniture and equipment	1,155,417	(912,815)	242,602
Total	$ 13,945,627	$ (11,082,881)	$ 2,862,746
2011			
Land	$ 248,172	$ -	248,172
Depreciable land improvements	19,361	(4,323)	15,038
Integrated Retirement Information System	9,156,963	(7,448,867)	1,708,096
Building and building improvements	3,365,714	(1,401,769)	1,963,945
Furniture and equipment	1,122,921	(856,491)	266,430
Total	$ 13,913,131	$ (9,711,450)	$ 4,201,681
2010			
Land	$ 248,172	$ -	248,172
Depreciable land improvements	19,361	(3,623)	15,738
Integrated Retirement Information System	9,156,963	(5,617,473)	3,539,490
Building and building improvements	3,365,714	(1,264,065)	2,101,649
Furniture and equipment	1,134,761	(822,793)	311,968
Total	$ 13,924,971	$ (7,707,954)	$ 6,217,017

FINANCIAL CONTACT

Any questions regarding the financial statements of ERB should be directed to the ERB Chief Financial Officer at (505) 476-6132 or by mail at 701 Camino de los Marquez, Santa Fe, New Mexico 87505.

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BASIC FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
STATEMENTS OF PLAN NET ASSETS
June 30, 2012 and 2011

	2012	2011
Assets		
Cash	**$ 21,301**	$ 11,915
Short term Investments	**317,035,595**	552,266,403
Receivables		
Contributions	**70,941,621**	71,938,279
Investment sales proceeds-brokers	**55,468,316**	86,433,723
Interest and dividends	**26,127,712**	31,350,765
Other	**882,683**	1,776,106
Total receivables	**153,420,332**	191,498,873
Interest in State General Fund Investment Pool	**5,521,436**	6,346,596
Investments, at fair value		
U. S. Treasury securities	**345,637,771**	597,060,723
Government agency securities	**376,212,714**	451,764,467
Asset and mortgage backed securities	**593,136,863**	200,365,752
Domestic corporate bonds	**986,267,569**	1,419,705,812
Domestic stocks	**2,774,109,793**	2,698,482,870
International stocks	**1,303,988,823**	1,473,098,558
Non-U.S. government bonds	**30,378,318**	-
Private equity	**577,114,685**	398,411,954
Hedge Funds	**715,935,010**	663,541,830
Private real estate	**160,562,922**	119,497,509
Other investments	**1,314,628,220**	1,093,388,583
Invested securities lending collateral	**-**	213,455,151
Total investments	**9,177,972,688**	9,328,773,209
Capital assets, at cost, net of accumulated depreciation	**2,862,746**	4,201,681
Total assets	**$ 9,656,834,098**	$ 10,083,098,677
Liabilities		
Accounts payable	**$ 15,122,201**	$ 1,964,740
Accounts payable school contributions	**681,409**	327,151
Accrued payroll and employee benefits	**154,904**	123,474
Accrued compensated absences	**203,800**	228,616
Refunds payable	**851,892**	672,751
Investment purchases payable	**150,839,658**	277,566,065
Funds held for others	**19,065**	190,801
Securities lending collateral	**-**	213,462,138
Total liabilities	**167,872,929**	494,535,736
Net assets held in trust for pension benefits	**$ 9,488,961,169**	$ 9,588,562,941

See Accompanying Notes to Financial Statements.

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
STATEMENTS OF CHANGES IN PLAN NET ASSETS
Years Ended June 30, 2012 and 2011

	2012	2011
Additions		
Contributions		
Employer	**$ 253,845,277**	$ 308,367,952
Member	**289,852,094**	247,407,988
Total contributions	**543,697,371**	555,775,940
Investment income from investing activities		
Net change in fair value of investments	**(565,488)**	1,396,479,035
Interest income	**57,717,052**	84,798,251
Dividend income	**114,419,138**	97,206,639
Total investing activity gain	**171,570,702**	1,578,483,925
Investing activity expenses:		
Investment advisor fees	**(10,300,540)**	(34,192,522)
Custody fees	**(664,384)**	(1,055,194)
Total investing activity expenses	**(10,964,924)**	(35,247,716)
Net gain from investing activities	**160,605,778**	1,543,236,209
From securities lending activities		
Securities lending income	**85,111**	1,071,109
Securities lending expenses:		
Borrower rebates	**(91,845)**	(377,434)
Agent fees	**22,119**	189,185
Total securities lending expenses	**(69,726)**	(188,249)
Net income from securities lending activities	**154,837**	1,259,358
Total net investment gain	**160,760,615**	1,544,495,567
Miscellaneous income		
Penalties	**6,049**	3,093
Interest on restoration of service	**1,914,431**	3,273,298
Other	**1,141,230**	757,040
Total miscellaneous income	**3,061,710**	4,033,431
Total additions	**707,519,696**	2,104,304,938
Deductions		
Age and service benefit payments	**746,493,523**	694,153,334
Refunds to terminated members	**34,520,423**	29,286,820
Interest on refunds	**6,060,556**	5,799,986
Administrative expenses	**11,985,538**	11,407,033
Disability benefit payments	**8,061,428**	7,618,258
Total deductions	**807,121,468**	748,265,431
Net (decrease) increase	**(99,601,772)**	1,356,039,507
Net assets held in trust for pension benefits		
Beginning of the year	**9,588,562,941**	8,232,523,434
End of the year	**$ 9,488,961,169**	$ 9,588,562,941

See Accompanying Notes to Financial Statements.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The Board's financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. The New Mexico General Fund Appropriation Act establishes the modified accrual basis of accounting for governmental funds as the budgetary basis for the State. Prior-year encumbrances are not carried forward for single-year appropriations. Employer and member contributions are recognized as revenue in the period in which the member's services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Budgets and Budgetary Accounting—Formal budgetary integration is used as a management control device by the Board in administering the Plan. The budget for this State Agency is adopted on the modified accrual basis of accounting, except for accounts payable accrued at the end of the fiscal year that do not get accrued by the statutory deadline per Section 10-6-4 NMSA 1978, that must be paid out of the next year's budget.

Each year the Legislature approves multiple year appropriations, which the State considers as continuing appropriations. The Legislature authorizes these appropriations for two to five years; however, it does not identify the authorized amount by fiscal year. Consequently, the appropriation is budgeted in its entirety the first year the Legislature authorizes it. The unexpended portion of the budget is carried forward as the next year's beginning budget balance until either the project period has expired or the appropriation has been fully expended. The budget presentations in these financial statements are consistent with this budgeting methodology.

Only administrative expenses and a small portion of interest income are budgeted, while significant revenues and non-administrative expenses are not. The budget is prepared on a non-GAAP basis, as it recognizes encumbrances and capital expenses as current expenses, excludes depreciation expense, and recognizes revenue when cash is received. Budgetary comparisons for the Plan are presented in the schedule of revenues and expenses—budget and actual (non-GAAP basis).

The Accountability in Government Act, Chapter 15, Laws of 1999, provides a general process for implementation of performance-based budgeting over a four-year period. The Board was included in performance-based budgeting for the first time in FY 2002. The Board developed performance measures which were approved by the State Budget Division ("SBD"), a division of the Department of Finance and Administration ("DFA"), and the Legislative Finance Committee ("LFC"), an interim committee of the New Mexico Legislature, and included in the General Appropriations Act. The Board is required to periodically report to the SBD and the LFC on these performance measures.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The original budget was amended during the fiscal year. One Budget Adjustment Request (BAR) was approved for the addition of $200 thousand in personal services and employee benefits. A second BAR was approved for an additional $127 thousand in contractual services. The additional expenses were approved to be funded from earnings on invested fund balance, as are all of the fund's expenses.

The Board follows these procedures in establishing the annual budget:

(1) By August 31, the Board's staff prepares a Budget Appropriation Request for the Board's approval to be presented to the next legislature. The Request includes proposed expenses and the means of financing them.

(2) On September 1, the Budget Appropriation Request is submitted to the DFA and the LFC.

(3) The DFA makes recommendations and adjustments to the Board's Budget Appropriation Request, which becomes the Governor's proposal to the Legislature.

(4) The LFC holds hearings on the Budget Appropriation Request during the Legislature's interim period. Recommendations and adjustments are made prior to presenting the Budget Appropriation Request to the Legislature.

(5) Both the DFA's and the LFC's recommended appropriation proposals are presented to the Legislature for approval of the final budget. The final budget approved by the Legislature is then sent to the Governor's office for final approval.

(6) On May 1, the Board submits its Annual Operating Budget to the DFA and the LFC based on the final appropriation from the Legislature and approval by the Governor.

(7) Per Section 9 of the General Appropriation Act of 2010, all agencies, including legislative agencies, may request category transfers among personal services and employee benefits, contractual services and other. Therefore, the legal level of budgetary control would be the appropriation program level (A-Code, P-Code, R-Code, and Z-Code). The A-Code pertains to capital outlay appropriations (general obligation/severance tax or state general fund). The P-Code pertains to operating funds. The R-Code pertains to American Recovery & Reinvestment Act (ARRA) funds. The Z-Code pertains to special appropriations.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments— Investments are recorded at fair value. The estimated fair value of investments is based on quoted market prices, except for certain alternative investments for which quoted market prices are not available. The estimated fair value of these alternative investments is based on the most recent valuations provided by the external investment managers, adjusted for cash receipts, cash disbursements, and securities distributions through June 30, 2012.

The Board believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

There are certain market risks, credit risks, foreign exchange currency risks, or events that may subject the Plan's investment portfolio to economic changes occurring in certain industries, sectors, or geographic markets.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The Board's investments in limited partnerships are valued at estimated fair value based on their proportionate share of the partnership's fair value as recorded in the partnership's financial statements. The limited partnerships allocate gains, losses and expenses to the partners based on the ownership percentage as described in the partnership agreements. At June 30, 2012, the Board had commitments for additional future contributions to the limited partnerships totaling $1.306 billion.

Net investment income includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, securities lending income, and investment expense, which includes management and custodial fees, securities lending expense, and all other significant investment-related costs.

Other investments, as presented in the Statements of Plan Net Assets, include investments in swap agreements, distressed debt, option agreements, real estate investment trusts, and timber partnerships.

Capital Assets—Capital assets represent the cost of assets, net of accumulated depreciation, used for the administration of the Plan. Capital assets include the Board's administration building located in Santa Fe, New Mexico. The Board's capitalization policy, based on the requirements from Section 12-6-10 NMSA 1978, is to include all assets with a useful life of more than one year and costing $5,000 and greater. Assets with original cost less than $5,000 but categorized as sensitive, primarily IT equipment, are also capitalized for tracking and control purposes. All additions are capitalized at historical cost as of the date of acquisition, and depreciation is calculated on a straight-line basis over the asset's estimated useful life with no salvage value.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimated useful lives are as follows:

Building and building improvements	25 years
Depreciable land improvements	10 years
Furniture and equipment	10 years
Data processing equipment (including software)	5 years

***Funds Held for Others*—**Payments from members pursuant to agreements to purchase service credits are recorded as funds held for others until the purchase agreements have been completed. Upon receipt of all payments necessary to complete the purchase agreement, service credit is recorded in the member's individual account and revenue is recognized in the appropriate revenue accounts for contributions, return of interest previously withdrawn, or interest charged on restoration of service.

***Refunds Payable*—**Refunds payable represents amounts due to terminated members who have submitted a valid claim for refund, but who have not been paid on or before the end of the fiscal year.

***Funding Policy*—**Funding of the retirement plan is accomplished through member and employer contributions and the investment earnings on these contributions. The contribution rate is set by statute for both members and for the employers. The funding period is determined, as described below, using the Entry Age Normal actuarial cost method.

The Entry Age Normal actuarial cost method assigns the plan's total unfunded liabilities (the actuarial present value of future benefits less the actuarial value of assets) to various periods. The unfunded actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are the normal costs for future years. Each year's contribution is composed of (i) that year's normal cost, plus (ii) a payment used to reduce the unfunded actuarial accrued liability.

The normal cost is the level (as a percentage of pay) contribution required to fund the benefits for a new member. Under the entry age method, a calculation is made to determine the average uniform and constant percentage rate of employer contribution which, if applied to the compensation of each new participant during the entire period of his or her anticipated covered service, would be required in addition to the contributions of the participant to meet the cost of all benefits payable on their behalf. Part of the normal cost is paid from the employees' own contributions. The local employers pay the balance from their contributions. In the calculation of the normal cost, the benefit provisions applicable to future new members were used.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of the assets.

The balance of the employers' contribution - the remainder after paying their share of the normal cost - is used to reduce the unfunded actuarial accrued liability. The funding period is the length of time required for the unfunded actuarial accrued liability to be completely amortized, assuming that the portion used to reduce the unfunded remains level as a percentage of total payroll, which is assumed to grow 3.75% per year. The 3.00% contribution made by employers to ERB on behalf of employees who elected to participate in the Alternative Retirement Plan is also used to amortize the unfunded actuarial accrued liability.

It is assumed that all contributions are made monthly at the end of the month.

Active member payroll was projected to increase 3.75% a year for the purpose of determining the funding period. This estimate is consistent with the base rate of increase in salaries used to calculate actuarial present values.

The actuarial valuation of assets used for funding purposes is derived as follows: The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of or (less than) expected investment income. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). Returns are measured net of all investment and administrative expenses.

As required under GASB Statement Number 50, *Pension Disclosures (an amendment of GASB 25 and 27),* the following is a Schedule of Funding Progress using the entry age normal funding method to illustrate the funding status of the retirement plan.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funded status of the ERB plan at June 30, 2012 is as follows (dollar amounts in millions):

Actuarial Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
(a)	(b)	(b) - (a)	(a)/(b)	(c)	((b-a)/c)
$9,606.3	$15,837.0	$6,230.7	60.7%	$2,495.3	249.7 %

The required Schedule of Funding Progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 2. EDUCATIONAL RETIREMENT BOARD

Plan Description—The State of New Mexico Educational Retirement Board (“Board”) (“ERB”) was created by the Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer and have the responsibility for operating the Educational Employees’ Retirement Plan (the “Plan”). The Plan is a cost-sharing, multiple-employer plan established and administered by the Board to provide retirement, disability, and death benefits for all certified teachers and other employees of the State of New Mexico (the “State”) educational institutions, junior colleges, and technical-vocational institutions.

Contributing employers to the Plan include the following:

Public schools	89
Universities and colleges	15
Charter schools	92
Special schools	4
State agencies	11
	211

Reporting Entity—The Board is an agency of the State. The Plan administered by the Board is considered part of the State financial reporting entity and is a pension trust fund of the State.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

The Board has developed criteria to determine whether other state agencies, boards, or commissions that benefit the members of the Board should be included within its financial reporting entity as component units. The criteria include, but are not limited to, whether the Board exercises oversight responsibility; financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters, scope of public service, and special financing relationships. Based on these criteria, management of the Board has determined that there are no component units that should be included in its financial reporting entity.

Participation**—**Membership in the Plan is a condition of employment. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan.

The Board serves 211 employers in the State and has an active and inactive membership of 132,225 and 130,141 at June 30, 2012 and 2011, respectively. The status and number of all participants at June 30, 2012 and 2011 consisted of the following:

		2012	2011
(1)	Retirees and beneficiaries of deceased retirees currently receiving benefits	37,337	35,457
(2)	Inactive members	34,033	33,011
(3)	Current active members	60,855	61,673
		132,225	130,141

Benefit Provisions - A member's retirement benefit is determined by a formula which includes three component parts: the member's final average salary ("FAS"), the number of years of service credit, and a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

A brief summary of Plan coverage provisions follows:

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member's age and earned service credit add up to the sum of 75 or more.
- The member is at least sixty-five years of age and has five or more years of earned service credit.
- The member has service credit totaling 25 years or more.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then becomes reemployed after that date is as follows:

- The member's age and earned service credit add up to the sum of 80 or more.
- The member is at least sixty-seven years of age and has five or more years of earned service credit.
- The member has service credit totaling 30 years or more.

(1) A further requirement to be eligible to retire is that a member must have at least one year of employment after July 1, 1957, and at least five years of contributory employment. Eligible members who have one year of employment after July 1, 1957, but less than the required five years of contributory employment, may contribute to the fund for each year needed. The cost of such contributions is a sum equal to the prevailing combined contributions of the member and the local administrative unit in effect at the time the contributory employment is acquired, which was 20.3% as of June 30, 2012, times the average annual salary of the last five years, for each year of contributory employment needed, plus 3% compounded interest from July 1, 1957, to the date of payment.

(2) *Forms of Payment* - The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

(3) *Benefit Options* - There are three benefit options available.

Option A – Single Life annuity - There are no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of contributions plus interest less benefits paid.

Option B - The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. The named beneficiary may not be changed after the effective date of retirement. If the beneficiary predeceases the member, the member's benefit is adjusted by adding back the amount by which the benefit was reduced at retirement due to the election of Option B retroactively to the time of retirement.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Option C - The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. The named beneficiary may not be changed after the effective date of retirement. If the beneficiary predeceases the member, the member's benefit is adjusted by adding the amount by which the benefit was reduced at retirement due to the election of Option C retroactively to the time of retirement.

(4) *Cost of Living Adjustment* - Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment ("COLA") to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. The adjustment is equal to one-half the change in the Consumer Price Index ("CPI"), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the COLA would equal the change in CPI, but never less than zero. Members retired prior to July 1, 1984, are also entitled to an increase of the lesser of 3% or the increase in CPI for years prior to the attainment of age 65.

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

(5) *Disability Benefit*:

Eligibility - A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by the Board.

Monthly Benefit - The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times years of service projected to age 60.

Form of Payment - The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

(6) *Disability Retirement* - A member with five or more years of earned service credit on deferred status may retire when eligible under the Rule of 75 or when the member attains age 65.

(7) The Educational Retirement Act, Section 22-11-1 to 22-11-53, NMSA 1978, assigns the authority to establish and amend benefit provisions to the Board.

Refund of Contributions - Members may withdraw their contributions only when they terminate covered employment in the State and certification of termination has been provided by their former employers. Interest paid to members when they withdraw their contributions following termination of employment is at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or those on deposit for less than one year.

Alternative Retirement Plan - The New Mexico legislature established the Alternative Retirement Plan ("ARP") through the enactment of NMSA 1978, Sections 22-11- 47 through 52. In contrast to the regular defined benefit plan administered by the Educational Retirement Board ("ERB"), the ARP is a defined contribution plan. Beginning on July 1, 1991 at the State's six institutions of higher education, and July 1, 1999 at the State's eight community colleges (the colleges and universities are referred to as the "qualifying state educational institutions"), certain faculty and professional employees in eligible positions have the option of electing to participate in the ARP in lieu of participating in the regular defined benefit plan. Information about the ARP is provided to eligible employees by their employers. Eligible employees must make the election to participate in the ARP within 90 days of employment; those who do not elect to participate in the plan become members of the regular defined benefit plan. Except as described in Section 22-11-47(D), which allows an employee participating in the ARP the option of switching to the defined benefit retirement plan after 7 years of ARP participation, the decision to elect to participate in the ARP is irrevocable. ARP benefits are payable in accordance with the terms of the applicable contracts with vendors; provided, however, that retirement benefits shall, at the option of the employee, be paid in the form of a lifetime income, if held in an annuity contract; payments for a term of years; or a single-sum cash payment. Benefits are based upon contributions made and earnings on those contributions. Retirement, death, and other benefits, including disability benefits, cannot be paid from the Educational Retirement Fund and the ERB does not calculate or determine what benefits can be paid from an ARP account.

For the year ended June 30, 2012, employees participating in the ARP contributed 9.4% of their gross annual salaries. The colleges and universities are required to contribute 7.9% of participating employees' gross annual salary to the ARP vendor on behalf of the participant and 3% of gross annual salary to the Educational Retirement Fund to help offset the impact of the ARP on the defined benefit plan. Employees participating in the ARP do not accrue

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

any right to benefits in the defined benefit plan as a result of that contribution being made to the Fund. The 3% fee remitted to ERB for the years ended June 30, 2012 and 2011 were $4,280,780 and $4,057,476, respectively. The colleges and universities are responsible for submitting the employers' and the employees' contributions directly to the ARP vendors annuity carriers. ARP participants are completely vested in all contributions made to their accounts.

Prior to August 31, 2011, the two vendors approved to offer ARP plans to the participants were Teachers Insurance and Annuity Association/College Retirement Equities Fund ("TIAA-CREF"), and Variable Annuity Life Insurance Company ("VALIC" or "AIG VALIC," now known as "AIG Retirement"). The ERB began a process to select new ARP vendors in the fall of 2010 and on April 29, 2011 selected TIAA-CREF and Fidelity Investments as the ARP vendors. New contracts with those vendors became effective September 1, 2011. Employees are normally allowed to transfer between vendors once each year; however, after the award of new APR contracts, employees were allowed an additional period in the fall of 2011 to transfer vendors.

In 2009, the New Mexico legislature created the Retirement Systems Solvency Task Force to study New Mexico public retirement plans and prepare solvency plans and recommendations. The Task Force asked the ERB to develop recommendations for changes to the defined benefit retirement plan to achieve an eighty percent (80%) funding level within thirty (30) years as recommended by the Governmental Accounting Standards Board. The ERB submitted recommendation changes to that plan to the New Mexico Legislature for consideration during its regular 2011 session. Because the changes might have had a material effect on the decisions of those ARP participants who elected to switch to the defined benefit plan pursuant to Section 22-11-47 (D), on December 12, 2010, the ERB adopted a resolution allowing those ARP participants that had elected to switch to the defined benefit plan pursuant to Section 22-11-47 (D) the option of electing to either return to the ARP during a 120 day period from May 1, 2011 to August 29, 2011 or to remain in the defined benefit plan. The 120 day period began on the first day of the month following the last day in April on which the Governor could take action on any legislation passed in the 2011 regular legislative session. In that same resolution the ERB also extended the 120 period that ARP participants who were then or would become eligible to elect to become members of the defined benefit plan under Section 22-11-47 (D) on or before April 30, 2010 to run from May 1, 2011 to August 29, 2011 so that those ARP participants would be informed as to any changes to the defined benefit plan that might become law when there were considering whether to switch to the defined benefit plan.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 3. GENERAL FUND INVESTMENT POOL NOT RECONCILED

In June 2012, an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human resources, Accounting, and management Reporting system (SHARE) system in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at http://www.nmdfa.state.nm.us/Cash_Control.aspx. The document title is Current State Diagnostic of Cash Control. The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury. As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent, third-party verification/confirmation of the ERB's balances at the business unit/fund level is not possible.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. Management believes that these changes will allow for the completion of a timely and accurate reconciliation on a *point-forward basis only*. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: http://www.nmdfa.state.nm.us/Cash_Control.aspx.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 3. GENERAL FUND INVESTMENT POOL NOT RECONCILED (CONTINUED)

ERB believes the cash invested in the State Treasurer Overnight Pool is represented fairly and with no material misstatements due to the reconciliation done by ERB. ERB has established internal control procedures applying the State of New Mexico Manual of Model Accounting Practices (MAP). These procedures are designed to implement necessary and mandatory controls to avert accounting errors and violations of state and federal law and rules related to financial matters. In addition, ERB ensures that any disbursement of funds does not exceed the unencumbered funds at its disposal.

Incorporating the State's financial software system (SHARE) and monthly internal reporting and reconciliation throughout the fiscal year, ERB maintains optimum fiscal safeguards. This ensures that the cash balances in SHARE are correct to the extent that ERB has control (i.e., collection, depositing, reconciling, and documentation of outstanding items) of the cash, its receipts and transfers to the state general fund and other state agencies pursuant to state statute. Each deposit, payment voucher, investment, and any other item that affects cash is verified monthly against SHARE to ensure the amount was posted correctly into the State's general ledger system. Any discrepancies are noted immediately to the Department of Finance and Administration and State Treasurer's Office. Pursuant to Section 6-5-2.1(J) NMSA 1978, the Department of Finance and Administration is responsible for the reconciliation of the General Fund Investment Pool on a monthly basis, and thus is not the responsibility of the Educational Retirement Board.

NOTE 4. INTEREST IN THE GENERAL FUND INVESTMENT POOL

State law (Section 8-6-3 NMSA 1978) requires the Board's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Board consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

At June 30, 2012 and 2011, the Board had $5,521,436 and $6,346,596, respectively, invested in the General Fund Investment Pool.

Interest Rate Risk - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit risk - The New Mexico State Treasurer pools are not rated.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 4. INTEREST IN THE GENERAL FUND INVESTMENT POOL (CONTINUED)

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

ERB believes the cash invested in the State Treasurer Overnight Pool is represented fairly and with no material misstatements due to the reconciliation done by ERB. Each deposit, payment voucher, investment, and any other item that affects cash is verified monthly against SHARE to ensure the amount was posted correctly into the State's general ledger system. Any discrepancies are noted immediately to the Department of Finance and Administration and State Treasurer Office.

Cash Deposits **-** In addition to the overnight investment at the New Mexico State Treasury, the Board invests in the Short-Term Investment Fund ("STIF"), held by J.P. Morgan. The STIF is used to facilitate more efficient trade procedures with the Board's external money managers. Net cash balances in each internal and external investment manager's portfolio are swept into the STIF at the end of each day. STIF investments and cash of $314,803,888 and $552,278,318 as of June 30, 2012 and 2011, respectively, are considered cash equivalents and are reported as cash and short term investments balances in the statements of plan net assets.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Board will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Board does not have a deposit policy for custodial credit risk. As of June 30, 2012 and 2011, there were no cash balances exposed to custodial credit risk. All cash is invested in a mutual fund consisting of 100% U.S. Treasury securities.

NOTE 5. REFUND OVERPAYMENTS

In June 2010 the Board adopted a revised method for computing interest due on refunds of contributions to members that have terminated employment and elected to withdraw their contributions and on refunds paid to a beneficiary of a deceased member, with an effective date of July 1, 2010. During implementation, a programming error resulted in 834 individuals receiving overpayments ranging from less than one dollar to $306,264. The total amount over paid was $1,691,929. IRS regulations require that every reasonable effort be made to recover these funds and that interest be assessed on the overpayments. The agency has sent materials to all members overpaid by five dollars or more informing them of the overpayment, the interest due, and a summary of the tax consequences of the overpayment and subsequent repayment. The tax information was general in nature and individuals were advised in the letters sent by the agency to seek the advice of their own tax advisor about their particular tax situation. The Board accrued as of June 30, 2011 a

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

receivable for the total amount overpaid. Since it is impossible at this time to estimate the timing or success of recovery efforts, no allowance for uncollectable amounts for these overpayments has been established. Also due to the uncertainty of the timing of collections and the total amount of interest that will finally be assessed, no receivable for interest due has been established. The board will recognize interest in current year revenue when realized, and will charge any write-offs directly to expense in the year they occur. At June 30, 2012, the uncollected balance, including interest assessed, was $818,290.

NOTE 6. INVESTMENTS

The Board is authorized to invest or reinvest the fund in accordance with the Uniform Prudent Investor Act (45-7-601 NMSA 1978).

The Uniform Prudent Investor Act does the following:

A. Sets a higher standard of care and prudence for investments, above and beyond the previous standard and guiding principles of law

B. Applies to the trust as a whole, rather than individual investments

C. Requires investment strategy to be based on suitable risk and reward strategies

D. Requires diversification unless the trustees reasonably determine it is not in the best interest of the fund.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 6. INVESTMENTS (CONTINUED)

Investments of the Board are as follow as of June 30:

Investment Description	2012	2011
Investments:		
(held by the Board's agent in the Board's name)		
U.S. government and agency securities	$ 721,850,485	$ 909,257,503
Asset- and mortgage-backed securities	593,136,863	200,365,752
Non-U.S. government bonds	30,378,318	-
Domestic corporate bonds	986,267,569	1,417,079,705
Domestic stocks	2,774,109,793	2,634,642,147
International stocks	1,303,988,823	1,470,790,233
Hedge fund of funds	715,935,010	663,541,830
Private equity	577,114,685	398,411,954
Private real estate	160,562,922	119,497,509
Infrastructure	99,554,625	89,490,761
Natural Resources	27,440,752	22,146,962
Distressed senior credit	-	454,829,219
Other investments	1,187,632,843	526,921,641
Total	9,177,972,688	8,906,975,216
Investments held by broker/dealers under securities loans with cash collateral:		
U.S. government and agencies securities	-	139,567,687
Domestic corporate bonds	-	2,626,107
Domestic stocks	-	63,840,723
International equities	-	2,308,325
Securities lending collateral investments	-	213,455,151
Total	-	421,797,993
Total Investments	$ 9,177,972,688	$ 9,328,773,209

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 6. INVESTMENTS (CONTINUED)

Foreign Currency Risk—Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. Foreign currency risk is present in the Board’s investment in foreign equity securities. Managers of these assets are given discretion to hedge this risk. The Board’s exposure to foreign currency risk as of June 30, 2012 was $1,265,825,419. The Board’s exposure to foreign currency risk as June 30, 2011 was $1,347,083,133.

Exposure to foreign currency risk as of June 30, 2012 is as follows:

Currency	Equity Securities	Cash (overdraft)
Australian Dollar	$ 27,312,319	$ 98,077
Brazilian Real	79,836,366	345,689
British Pound Sterling	107,244,423	(8,305)
Canadian Dollar	5,582,611	167,339
Chilean Peso	243,508	-
Chinese Yuan Renminbi	8,970	-
Columbian Peso	3,399,833	-
Czech Koruna	2,794,517	122,162
Danish Krone	4,297,022	-
Euro	196,857,544	1,621,470
Hong Kong Dollar	163,002,497	299,793
Hungarian Forint	6,025,532	125,459
Indian Rupee	46,309,429	731,519
Indonesian Rupiah	34,881,226	57
Israeli Shekel	2,838,227	11,542
Japanese Yen	91,771,697	54,247
Malaysian Ringgit	15,556,369	-
Mexican Peso	10,816,986	35,757
New Taiwan Dollar	62,781,683	1,968,587
NewTurkish Lira	52,534,234	81,784
New Zealand Dollar	409,240	-
Norwegian Krone	4,635,102	48,688
Peruvian Nuevo Sol	2,563,612	-
Philippine Peso	670,941	-
Polish Zloty	24,114,797	316,633
Russian Ruble	8,616,880	-
Singapore Dollar	9,146,762	39,388
South African Rand	68,513,450	1,094,142
South Korean Won	163,400,160	43,186
Swedish Krona	3,683,162	-
Swiss Franc	29,359,514	51,786
Thai Baht	29,368,961	(1,155)
Total foreign exposure	1,258,577,574	7,247,845
Investments not subject to foreign currency risk	7,919,395,114	309,787,750
Total Investments	$ 9,177,972,688	317,035,595

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 6. INVESTMENTS (CONTINUED)

Exposure to foreign currency risk as of June 30, 2011 is as follows:

Currency	Equity Securities	Cash (overdraft)
Australian Dollar	$ 28,437,326	$ 25,365
Brazilian Real	80,675,847	2,312,715
British Pound Sterling	135,287,105	708,947
Canadian Dollar	7,896,804	99,410
Czech Koruna	3,874,872	178,326
Denmark Krone	5,838,569	12,288
Egyptian Pound	1,700,681	27,649
Euro	240,973,759	7,344,875
Hong Kong Dollar	167,794,244	355,526
Indian Rupee	69,036,169	851,255
Indonesian Rupiah	23,000,058	(26,096)
Israeli Shekel	3,347,138	14,209
Japanese Yen	99,529,425	263,605
Malaysian Ringgit	9,634,878	-
Mexican Peso	9,501,106	41,425
New Taiwan Dollar	98,308,214	2,141,187
New Turkish Lira	33,665,458	31,901
Norwegian Krone	5,946,471	250,246
Philippine Peso	30,938	-
Polish Zloty	13,836,958	68,111
Singapore Dollar	13,357,750	74,282
South African Rand	52,150,809	189,359
South Korean Won	184,212,855	45,982
Swedish Krona	5,023,172	85,903
Swiss Franc	31,414,578	39,448
Thai Baht	7,472,217	(186)
Total foreign exposure	1,331,947,401	15,135,732
Investments not subject to foreign currency risk	7,996,825,808	537,130,671
Total Investments	$ 9,328,773,209	$ 552,266,403

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 6. INVESTMENTS (CONTINUED)

Custodial Credit Risk**—**Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Board's investment policy limits holding of securities by counterparties to those involved with securities lending, which was discontinued in 2012.

All investments except securities lending collateral are held by J.P. Morgan (Dallas, Texas). Investments in securities lending collateral were held by ClearLend Securities, a division of Wells Fargo Bank (Los Angeles, California).

Interest Rate Risk**—**Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board does not have a policy for interest rate risk management. However, interest rate risk is managed through duration, by operating within defined risk parameters versus a benchmark index.

As of June 30, the Board's exposure to interest rate risk is summarized as:

Investment Type	Amount 2012	Amount 2011	Duration (In Years) 2012	2011
U.S. Treasury Securities	$ 261,391,999	$ 394,315,801	10.13	6.08
U.S. Government & Agency Obligations	154,045,358	65,124,227	5.22	5.07
Corporate Obligations	994,115,882	1,082,050,140	3.99	4.68
Asset & Mortgage-Backed Securities	508,611,020	640,922,004	1.41	3.05
Guaranteed Fixed Income	-	-	N/A	N/A
Short-Term Investments	149,851,923	185,380,241	0.00	0.00
Overall	$ 2,068,016,182	$ 2,367,792,413	4.13	5.06

The Board uses the weighted average method to determine the duration of its investments.

Credit Risk**—**Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general investment policies of the Board require that noncash, interest-paying securities in the high-yield bond portfolios may not exceed 5% of the market value of the portfolio and that investments in cash may represent no more than 5% of each individual fund. Credit risk is managed through diversification and by operating within defined parameters versus a benchmark index. Excluding those investments issued by or explicitly guaranteed by the U.S. government, which are not considered to have credit risk, the Board's credit quality distribution for investments with credit risk exposure as of June 30, 2012 and 2011, is summarized below. The investments were rated and categorized according to Standard & Poor's rating standards.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 6. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/12

Investment Type	Rating	Fair Market Value
Asset Backed Securities	A	$ 6,481,154
	A-	3,486,107
	A+	7,586,633
	AA+	1,335,370
	AAA	5,250,990
	B	799,582
	B-	816,659
	B+	1,786,186
	BB	761,276
	BB-	2,243,570
	BB+	2,855,789
	BBB	917,905
	BBB-	4,223,663
	BBB+	13,485,639
	CC	357,574
	CCC	3,926,372
	CCC-	1,195,641
	D	700
	N/R	5,579,412
Commercial Mortgage-Backed	A	5,010,072
	A-	1,820,684
	A+	13,258,324
	AA	1,050,010
	AA-	725,516
	AA+	175,192
	AAA	31,354,048
	B-	143,836
	BB-	454,214
	BB+	167,130
	BBB	2,158,214
	BBB-	1,915,987
	BBB+	5,767,079
	D	2,053,844
	N/R	13,844,257
Mortgage-Backed Securities	AA+	315,772,461
Total Asset & Mortgage Backed Securities		458,761,090

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 6. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/12 (continued)

Investment Type	Rating	Fair Market Value
Collateralized Debt/Loan Obligations	A	60,101
	A-	92,480
	A+	1,665,380
	AA+	4,631,465
	AAA	442,036
	B	744,931
	B-	1,229,816
	BB	1,242,814
	BBB	1,072,871
	BBB-	386,843
	BBB+	1,674,463
	CC	2,080,667
	CCC	2,100,374
	CCC+	401,696
	D	3,166,414
	N/R	7,364,618
Total Collateralized Debt Obligations		28,356,969
Corporate Bonds	A	29,888,576
	A-	83,359,970
	A+	21,324,728
	AA	3,893,387
	AA-	10,929,638
	AA+	8,575,238
	AAA	231,027
	B	93,485,187
	B-	91,377,063
	B+	36,374,060
	BB	8,559,250
	BB-	7,338,815
	BB+	12,990,973
	BBB	90,640,573
	BBB-	53,440,692
	BBB+	35,400,565
	CCC	32,305,253
	CCC-	4,337,475
	CCC+	30,853,231
	N/R	82,222,217
Corporate Convertible Bonds	BB-	1,439,569
	N/R	12,341
Common Stock	N/R	16,353,889
Preferred Stock	N/R	14,584
Total Domestic Corporate Securities		755,348,301

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 6. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/12 (continued)

Investment Type	Rating	Fair Market Value
Bank Loans	B	22,246,350
	B-	12,255,452
	B+	9,347,219
	BB-	5,517,485
	CCC	9,515,113
	CCC+	3,430,992
	N/R	65,668,603
Total Bank Loans		127,981,214
Municipal/Provincial Bonds	A	69,037
	A-	3,074,588
	A+	2,285,936
	AA	410,300
	AA-	388,935
	AA+	466,765
	N/R	482,172
Total Government Agencies		7,177,733
Government Bonds	A	20,910,486
	A-	17,537,090
	A+	243,508
	AA-	3,832,216
	AA+	32,040,946
	AAA	2,211,682
	B+	44,168
	BB	702,771
	BB+	6,079,534
	BBB-	19,758,925
	BBB+	6,405,865
	N/R	32,103,561
Total Government Bonds		141,870,752
Other Investments Not Rated	N/R	2,751,511
Other Investments Not Subject To Credit Risk		7,655,725,118
TOTAL		$ 9,177,972,688

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 6. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/11

Investment Type	Rating	Fair Market Value
Asset Backed Securities	A	1,263,637
	A-	3,362,571
	A+	662,156
	AA	367,925
	AA+	975,635
	AAA	10,015,854
	B	667,338
	B-	1,762,797
	B+	707,674
	BB	1,160,703
	BB-	1,065,699
	BB+	4,200,423
	BBB	1,477,731
	BBB-	2,603,956
	BBB+	10,578,881
	CCC	4,129,686
	CCC-	109,628
	D	6,181
	N/R	251,281
Commercial Mortgage-Backed	A	6,729,812
	A-	2,614,333
	A+	15,544,392
	AA	2,214,857
	AA-	2,679,999
	AA+	258,113
	AAA	76,599,015
	B+	332,201
	BB-	734,891
	BBB	2,105,803
	BBB-	751,520
	BBB+	9,140,942
	CCC+	624,290
	D	1,817,406
Mortgage-Backed Securities	A	372,924,234
Total Asset & Mortgage Backed Securities		540,441,564

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 6. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/11 (continued)

Investment Type	Rating	Fair Market Value
Collateralized Debt/Loan Obligations	A	2,647,168
	A+	453,160
	AA	299,530
	AA	714,401
	AA+	83,579
	AAA	4,473,439
	B	1,676,197
	B-	1,425,929
	BB	723,482
	BBB-	2,333,384
	BBB+	2,617,381
	C	134,162
	CC	625,238
	CC	700,941
	CCC	7,090,766
	CCC+	416,774
	D	1,035,204
	N/R	8,991,152
Collateralized Bonds	AAA	7,030,338
Total Collateralized Debt Obligations		43,472,225
Corporate Bonds	A	77,888,713
	A-	74,439,159
	A+	22,627,472
	AA	12,333,850
	AA-	23,866,005
	AA+	18,763,646
	AAA	224,547
	B	68,048,963
	B-	82,557,719
	B+	60,696,486
	BB	14,857,058
	BB_	18,375,020
	BB+	18,605,874
	BBB	99,380,248
	BBB-	62,610,875
	BBB+	58,205,888
	C	6,365,532
	CC	1,693,481
	CCC	14,313,990
	CCC-	4,007,579
	CCC+	16,911,595
	N/R	74,094,140
Corporate Convertible Bonds	BB-	2,424,889
	CC	4,851,484
	CCC+	1,154,991
Common Stock	N/R	36,571,152
Preferred Stock	N/R	228,446
Total Domestic Corporate Securities		876,098,802

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 6. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/11 (continued)

Investment Type	Rating	Fair Market Value
Bank Loans	B	32,086,816
	B-	6,092,637
	B+	31,465,800
	BB	6,373,861
	BB-	10,641,131
	CCC	28,926,584
	CCC+	3,353,260
	N/R	23,807,545
Total Bank Loans		142,747,634
Agency Bonds	AA-	1,114,190
	AAA	38,023,942
Municipal/Provincial	A	247,610
	A-	2,588,977
	A+	3,168,198
	AA	251,723
	AA-	392,343
	AA+	128,553
	AAA	505,782
	N/R	4,061,784
Total Government Agencies		50,483,102
Government Bonds	AAA	797,815
Government Bonds S	BBB	4,366,065
International Author	AAA	4,955,548
Total US Governmental Securities		10,119,428
Other Investments Not Rated		1,261,544
Other Investments Not Subject to Credit I		7,664,148,910
TOTAL		$ 9,328,773,209

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 6. INVESTMENTS (CONTINUED)

Cash Balances **—**The Board earns interest on all monies held at the custodial agent bank. When a security purchase transaction fails to be completed due to the broker not delivering the purchased security on settlement date the cash remains with custodial agent bank. When this occurs, the Board's money is invested overnight in a Short-Term Investment Fund (STIF).

Concentration Risk**—**Concentration risk is identified by the amount of investment in any one issuer that represents 2% or more of plan net assets. As of June 30 2012 and 2011, with the exception of U.S. Government and Agency securities, the Board was not exposed to any concentration risk greater than 2%.

NOTE 7. DERIVATIVE INSTRUMENTS

Derivatives are generally defined as contracts or securities whose value depend on, or derive from, the value of an underlying asset, reference rate, or index.

The Board has adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement, and disclosure of derivative instruments. This note describes the Board's investment derivative instruments measured at fair value in the Statements of Net Assets and Statements of Changes in Net Assets.

The Board's investment policies do allow for certain portfolio managers to trade in certain derivatives for hedging purposes. Golden Tree Asset Management did so in fiscal year 2012. The amounts held in hedging derivatives were not material during the year and at June 30, 2012.

The notional or contractual amounts of derivatives indicate the extent of the Board's involvement in the various types and uses of derivative financial instruments and do not measure the Board's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and other terms of the derivatives.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

The following table summarizes the aggregate notional or contractual amounts for the Board's derivative financial instruments as of June 30, 2012 and 2011.

	(Dollar Amounts in Thousands) 2012	2011
Futures contracts – long	$ 6,335	$ 13,200
Futures contracts – short	(55,735)	(56,900)
Foreign exchange forward contracts, net	24,678,546	4,920
Options – puts purchased	6,408	-
Options – puts sold	(6,408)	-
Swaps – credit default swap	1,060	16,927
Swaps – index sweep	4,341	-
Swaps – interest rate swap	139	13,415
Swaps – zero coupon	-	5,870

The fair values of derivative instruments outstanding as of June 30, 2012 and 2011 are classified by type and by the changes in fair value of the derivative instrument in the following table.

Dollar Amounts in Thousands

	Unrealized Gain/(Loss) as of June 30, 2012		Fair Value at June 30, 2012	
Derivative Type	Classification	Gain/(Loss)	Classification	Amount
Futures	Investment Income	$ (101)	Investment	$ (61,082)
Options - purchased	Investment Income	(350)	Investment	42
Options - sold	Investment Income	203	Investment	(13)
Swaps - Credit Default Swap Index	Investment Income	(108)	Investment	(108)
Swaps - Interest Rate Swaps	Investment Income	(21)	Investment	(21)
Swaps - Index	Investment Income	17	Investment	17

	Unrealized Gain/(Loss) as of June 30, 2011		Fair Value at June 30, 2011	
Derivative Type	Classification	Gain/(Loss)	Classification	Amount
Futures	Investment Income	$ (106)	Investment	$ (106)
Total return type swaps	Investment Income	51	Investment	(120)
Swaps - Credit Default Swap Index	Investment Income	6	Investment	16
Swaps - Interest Rate Swaps	Investment Income	(1,541)	Investment	(1,541)
Swaps - Zero Coupon	Investment Income	379	Investment	379
Swaps - Index	Investment Income	(18)	Investment	162
Foreign exchange contracts	Investment Income	(363)	Investment	(355)

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

***Risks* —** There are certain risks inherent in investments in derivatives. The Board is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The fund managers that are authorized to invest in derivatives are given specific parameters as to the types of derivatives invested in and ratings of the counterparties they are allowed to enter into contracts with to ensure transactions are entered into with only high quality institutions. The board is exposed to market risk; the risk that changes in market conditions may make an investment less valuable. Exposure to market risk is managed within risk limits set by management through buying and selling of specific instruments or by entering into offsetting positions. As discussed in note 5, foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. Managers of these assets are given discretion to hedge this risk.

The Plan invests in the following types of Derivative Instruments:

***Foreign Currency Exchange Contracts*—**The Board may enter into forward contracts to purchase and sell foreign currencies in the normal course of its investing activities to manage the currency exposure associated with the Board's foreign equity and fixed income investments. The terms of these contracts generally do not exceed one year. The credit risk associated with these contracts is minimal as they are entered into with a limited number of highly rated counterparties. The following tables summarize the Board's foreign exchange contracts by currency as of June 30, 2012 and 2011, currency amounts in thousands.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

Fiscal Year Ending 6/30/2012

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Australian dollar	310	8	(9,827)	(291)
Brazilian real	10,290	50	(11,549)	(105)
British pound	935	-	(1,330)	(14)
Canadian dollar	-	(5)	(2,858)	45
Chinese renminbi (yuan)	12,100	-	(25,854)	9
Columbian peso	8,826,016	62	(8,283,008)	(46)
Euro	5,335	36	(38,125)	164
Hungarian forint	-	-	(525,687)	(54)
Indian rupee	9,800	1	(29,695)	(1)
Indonesian rupiah	3,740,560	5	-	-
Japanese yen	-	-	(52,006)	3
Malaysian ringgit	7,258	11	-	-
Mexican new peso	51,030	145	(5,800)	(14)
New Taiwan dollar	21,300	-	(21,300)	(1)
New Turkish Lira	1,290	5	(16,657)	(72)
Peruvian new sol	703	-	-	-
Philippines peso	-	-	(95,373)	(32)
Polish new zloty	9,880	(13)	(15,147)	(46)
Russian roubles	45,189	29	-	-
Singapore dollar	3,178	20	(2,524)	(23)
South African rand	13,400	53	(4,341)	(12)
South Korean won	-	-	(2,587,549)	(51)
Thailand baht	54,600	(7)	(10,186)	-
US dollar	95,213	-	(31,343)	-
Total	12,908,387	400	(11,770,159)	(541)

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

Fiscal Year Ending 6/30/2011

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Brazilian real	382	2	-	-
British pound sterling	96	-	(1,328)	15
Canadian dollar	369	5	(6,624)	(67)
Egyptian pound	-	-	(79)	-
Euro	-	-	(9,605)	(311)
US dollar	22,483	-	(773)	-
Total	23,330	7	(18,409)	(363)

Futures Contracts**—**The Board enters into futures contracts in the normal course of its investing activities to manage market risk associated with the Plan's equity and fixed income investments and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the Statements of Plan Net Assets. The credit risk associated with these contracts is minimal as they are traded on organized exchanges and settled daily.

During 2012, the Board was a party to futures contracts held for trading purposes for U.S. Treasury bonds and 90 day Euro dollar fixed income futures. Upon entering into a futures contract, the Board is required to deposit either in cash or securities an amount ("initial margin") equal to a certain percentage of the nominal value of the contract. Subsequent payments are then made or received by the Board, depending on the daily fluctuation in the value of the underlying contracts. Cash Collateral in the amount of $712,002 as of June 30, 2012 was held in a Money Market fund by the custodial bank. U.S. Treasury Securities owned and included in the investments of the Board, with a value of approximately $1,800,00 as of June 30, 2011 were held by the Plan's broker as performance security on futures contracts.

FY 12
Summary of Outstanding Futures Contracts

	No. of Contracts	Notional Amount
Futures Contracts - Long	132	$ 6,335,000
Futures Contracts - Short	541	$ 55,735,000

	Fair Value
Margin Deposit	$ 712,002

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

FY 11
Summary of Outstanding Futures Contracts

	No. of Contracts	Notional Amount
Futures Contracts - Long	132	$ 13,200,000
Futures Contracts - Short	541	$ 56,900,000

	Fair Value
Margin Deposit	$ 1,800,000

Options – An option contract is a contract in which the writer of the option grants the buyer of the option the right to purchase from ("call option"), or sell to ("put option"), the writer of a designated instrument at a specified price within a specified period of time. Both written and purchased options were used by the Board during 2011. When the Board purchases or writes an option, an amount equal to the premium paid or received by the plan is recorded as an asset or liability and is subsequently adjusted to the current market value of the option purchased or written. Gain or loss is recognized when the option contract expires or is closed. As of June 30, 2011, no written or purchased options remained open. On June 30, 2012, the value of open written and purchased options was approximately $13,284.36 and $42,174.37, respectively.

Swap Contracts **—** Swap contracts are executed on a number of different bases. The two types employed by the Board on June 30, 2012 and June 30 2011, were interest rate swap contracts and credit default swap contracts. An interest rate swap contract is an agreement between two parties to exchange periodic interest payments. One party agrees to make payments to the other based on a fixed rate of interest in exchange for payments based on a variable rate. The Board employs interest rate swap contracts to adjust fixed income portfolio durations. A credit default swap contract is similar to an insurance policy, with the credit risk of an individual issuer or a basket of issuers (the "reference asset") the insured factor. Under such a contract, two parties enter into an agreement whereby the first party pays the second party a fixed periodic payment for the specified life of the contract (analogous to an insurance premium). The other party makes no payment unless a credit event related to the reference asset occurs. If such an event takes place, the second party is obligated to make a payment to the first party. The size of the payment is linked to the decline in the reference asset's market value following determination of the occurrence of a credit event.

Hedge Funds **—** The use of other derivatives is allowed under the Hedge Fund Investment Policy. These investments are under the management of the Hedge Fund managers who are employed in the "Hedge Fun" and "Emerging Market Debt" classifications.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

Asset Backed Securities**—**In accordance with investment policy and fiduciary principles, the Plan invests in various forms of asset backed securities that fit the previous definition of derivative securities. The securities are held for investment purposes. The assets are as follows:

	2012	2011
Asset backed securities	$ 29,665,212	$ 33,221,315
Collateralized mortgage obligations	21,048,837	32,848,421
Commercial mortgage backed securities	79,898,408	122,147,575
Collateralized debt/loan obligations	40,803,326	13,990,725

NOTE 8. SECURITIES LENDING

The Board or its designated agent may enter into contracts for the temporary exchange of securities for the use by brokers/dealers, banks, and other recognized institutional investors for periods not to exceed one year, for a specified fee or consideration. Securities lent include fixed income securities and domestic equities. No such contract shall be entered into unless the contract is fully secured by a collateralized, irrevocable letter of credit running to the Board; cash; or equivalent collateral of at least 102% of the market value of the securities plus accrued interest temporarily exchanged. This collateral shall be delivered to the State fiscal agent or its designee contemporaneously with the transfer of funds or delivery of the securities. Such contract may authorize the Board to invest cash collateral in instruments or securities that are authorized fund investments and may authorize payment of a fee from the Plan or from income generated by the investment of cash collateral to the borrower of securities providing cash as collateral. The Board may apportion income derived from the investment of cash collateral to pay its agent in securities lending transactions.

At June 30, 2011, the Board had no net credit risk exposure to borrowers because the amounts the Board owes the borrowers exceed the amount the borrowers owe the Board. The contract with the Board's agent requires it to indemnify the Board fully if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Board for income distributions by the securities' issuers while the securities are on loan. The Board has not experienced any losses due to credit or market risk on securities lending activities since the implementation of this program. The Board received net securities lending income totaling $154,837 and $1,259,358 for the fiscal years ended June 30, 2012 and 2011, respectively. The collateral information as of June 30, 2011 is summarized as follows:

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 8. SECURITIES LENDING (CONTINUED)

Securities On Loan	Underlying Securities	Collateral Received	Collateral Investment Value
2011:			
Lent for cash collateral:			
U.S. Government & Agency Sec.	$ 139,567,687	$ 143,441,906	$ -
U.S. Equities	63,840,723	65,182,221	-
Int'l Equities	2,308,325	2,466,000	-
U.S. Corporate Obligations with Variable Rates	2,626,107	2,700,000	213,455,151
	$ 208,342,842	$ 213,790,127	$ 213,455,151

There were no significant violations of legal or contractual provisions nor any borrower or lending agent default losses.

At its June 10, 2011 meeting, the Board voted to discontinue the securities lending program upon the expiration of the existing contract with the securities lending agent, ClearLend. The contract expired September 30, 2011. All securities lending transactions were unwound prior to the expiration date.

NOTE 9. CAPITAL ASSETS

Capital assets relate to all assets of the Board that are used in operations and have useful lives extending beyond a single reporting period. Depreciation expense was $1,407,977 and $2,068,829 for the years ended 2012 and 2011, respectively. Capital asset activity for the years ended June 30, 2012 and 2011 is as follows:

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 9. CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Deletions	Ending Balance
2012:				
Land	$ 248,172	$ -	$ -	$ 248,172
Depreciable land improvements	19,361	-	-	19,361
Building and building improvements	3,365,714	-	-	3,365,714
Furniture and equipment	1,092,420	71,298	38,289	1,125,429
Other assets (Art in Public Places)	30,500	-	-	30,500
Integrated Retirement Information System (IRIS)	9,156,963	-	-	9,156,963
Total	13,913,130	71,298	38,289	13,946,139
Accumulated depreciation:				
Depreciable land improvements	4,322	700	-	5,022
Building and building improvements	1,401,117	113,017	-	1,514,134
Furniture and equipment	857,145	92,215	36,545	912,815
Integrated Retirement Information System (IRIS)	7,448,865	1,202,045	-	8,650,910
Total	9,711,449	1,407,977	36,545	11,082,881
Capital assets—net	$ 4,201,681	$ (1,336,679)	$ 1,744	$ 2,863,258

	Beginning Balance	Additions	Deletions	Ending Balance
2011:				
Land	$ 248,172	$ -	$ -	$ 248,172
Depreciable land improvements	19,361	-	-	19,361
Building and building improvements	3,365,714	-	-	3,365,714
Furniture and equipment	1,104,261	57,000	68,841	1,092,420
Other assets (Art in Public Places)	30,500	-	-	30,500
Integrated Retirement Information System (IRIS)	9,156,963	-	-	9,156,963
Total	13,924,971	57,000	68,841	13,913,130
Accumulated depreciation:				
Depreciable land improvements	3,623	699	-	4,322
Building and building improvements	1,264,065	137,052	-	1,401,117
Furniture and equipment	822,793	99,686	65,334	857,145
Integrated Retirement Information System (IRIS)	5,617,473	1,831,392	-	7,448,865
Total	7,707,954	2,068,829	65,334	9,711,449
Capital assets—net	$ 6,217,017	$ (2,011,829)	$ 3,507	$ 4,201,681

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 10. DUE TO EMPLOYERS AND OTHER STATE AGENCIES

This account represents the amount due to various participating public employers for over remittances of employer contributions during the fiscal years ended June 30, 2012 and 2011. Over remittances can be applied to future reporting periods or refunded, at the option of the administrative unit, in the next fiscal year. There were no amounts due to other state agencies as of June 30, 2012 or 2011.

NOTE 11. ACCRUED COMPENSATED ABSENCES

Qualified employees are entitled to accumulate vacation leave according to a graduated leave schedule of 80 to 160 hours per year, depending upon the length of service and the employee's hire date. A maximum of 30 working days (equivalent to 240 hours) of such accumulated vacation leave can be carried forward into the beginning of the next calendar year. Any excess accumulated vacation leave is forfeited.

When employees terminate employment with the State, they are compensated for accumulated vacation leave as of the termination date, up to a maximum of 240 hours. All balances up to 240 hours for each employee have been recorded at their current pay rate as of June 30, 2012 and 2011.

Qualified employees are entitled to accumulate sick leave at the rate of one day for each calendar month of service. There is no limit to the amount of sick leave an employee can accumulate. Once per fiscal year, in either January or July, employees may elect to be paid for accrued sick leave in excess of 600 hours but less than 720 hours at 50% of their current hourly rate.

In the case of retiring employees, they may be paid for accrued sick leave in excess of 600 hours but less than 1,000 hours at 50% of their current hourly rate. All sick leave balances in excess of 600 hours but less than 720 hours for each employee have been recorded as a liability at 50% of their current hourly rate.

The following table provides a summary for the fiscal years ended June 30, of the change in accrued compensated absences:

	2012	**2011**
Balance payable—beginning of fiscal year	$ 228,616	$ 201,082
Additions	177,855	347,422
Deletions	(202,671)	(319,888)
Balance payable—end of fiscal year	$ 203,800	$ 228,616
Amount due within one year, estimated at 97%	$ 197,686	$ 221,758

Funds used to liquidate this liability will come from the ERB Retirement Plan based on the appropriated budget.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 12. LEASES

The Board leases mailing and copier equipment, office space, and storage space under operating leases. Operating leases do not give rise to property rights or lease obligations; therefore, the amounts of the Board's lease agreements are not reflected on the Statements of Plan Net Assets. Leases are subject to future appropriations and are cancelable by the Board at the end of each fiscal year with 30 days' written notice to the lessor. The following table summarizes the Board's future minimum lease payments:

Years Ending June 30,	
2013	$ 75,876
2014	74,109
2015	72,177
2016	74,048
2017	62,220
Total	$ 358,430

Lease expense was $80,618 and $81,899 for the fiscal years ended June 30, 2012 and 2011, respectively.

NOTE 13. RETIREMENT PLANS

Employees of the Board who do not possess a teaching or administrative certificate have the option of participating in the Educational Employees Retirement Plan or the Public Employees Retirement Plan. Some employees of the Board have elected to participate in the Educational Employees' Retirement Plan ("the ERB plan") through the Educational Retirement Act , while others have elected to participate in the Public Employees Retirement Plan ("the PERA Plan") through the Public Employees Retirement Act ("PERA") of the State.

Public Employees Retirement Association (PERA). Certain full-time employees elect to participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 13. RETIREMENT PLANS (CONTINUED)

Funding Policy. Effective of July 1, 2011, plan members are required to contribute 10.67% of their gross salary. The Board is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Board are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The plan members and Board's contributions to PERA for the fiscal years ending June 30, 2012, 2011, and 2010 were $656,229, $648,196, and $568,722, respectively, which equal the amount of the required contributions for each fiscal year.

Educational Retirement Board. Certain full-time employees elect to participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members (certified teachers, and other employees of State public school districts, colleges and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's website at www.nmerb.org.

Funding Policy. Effective July 1, 2011, plan members were required by statute to contribute 7.9% of their gross salary if they earned $20,000 or less annually on a full time equivalent basis, and plan members earning more than $20,000 annually on a full time equivalent basis were required to contribute 11.15% of their gross salary. The Board was required to contribute 12.4% of the gross covered salary for employees earning $20,000 or less on a full time equivalent basis, and 9.15% of the gross covered salary of employees earning more than $20,000 annually on a full time equivalent basis. In fiscal year 2013, The Board will contribute 10.9% of the gross covered salary of employees earning more than $20,000 annually. The contribution requirements of plan members and the Board are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Board's contributions to ERB for the fiscal years ending June 30, 2012, 2011, and 2010 were $4,380, $11,792, and $23,741, respectively, which equal the amount of the required contributions for each fiscal year.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 14. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

***Plan Description*:** The Board contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit post employment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person’s behalf, unless that person retires before the employer’s RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employee's effective date, and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post employment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107 or viewed on their website at www.nmrhca.state.nm.us.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13, NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer’s RHCA effective date or is a former legislator or a former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 14. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

The Retiree Health Care Act (Section 10-7C-15, NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal years ending June 30, 2013 through June 30, 2014 the contribution rates for employees and employers will rise as follows:

Fiscal Year	Employer Contribution Rate	Employee Contribution Rate
FY13	2.000%	1.000%
FY14	2.000%	1.000%

Employers joining the program after January 1, 1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Board's contributions to the RHCA for the years ending June 30, 2012, 2011 and 2010 were $50,399, $46,063, and $32,476 for employer contributions and $24,541, $23,031, and $16,238 in employee contributions, respectively, which equal the required contributions for each year.

NOTE 15. RISK MANAGEMENT

With the exception of investment losses, the Board is exposed to various business risks of loss for which it carries insurance through the Risk Management Division of the New Mexico General Services Department. In the event of a claim being filed, the Board is responsible for only a small deductible payment in amounts that vary according to the type of claim.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 16. STATUTORY DISCLOSURES

Section 2.2.2.10P(2) of the Audit Rule 2011, 2.2.2 NMAC entitled, "Requirements for Contracting and Conducting Audits of Agencies" requires that state agencies disclose all special, deficiency, and specific appropriations. The Board received the following specific appropriations:

ERB LAND & BUILDING PROJECT

Laws of 2009, Chapter 125, Section 41		
Appropriation	$	2,500,000
Expended in FY 2011 and 2010		(44,697)
Outstanding Encumbrance at end of FY2011		(103,305)
Un-encumbered balance rebudgeted in FY2012	$	2,351,998
Un-encumbered balance carried forward	$	2,351,998
Outstanding encumbrance from FY2011 added back in		103,305
Expended in FY2012		-
Outstanding Encumbrance at end of FY2012		(49,211)
Un-encumbered balance rebudgeted in FY2013	$	2,406,092

IRIS ENHANCEMENT PROJECT

Laws of 2011, Chapter 179, Section 7, Item 3		
Appropriation	$	3,500,000
Expended in FY2012		(1,109,917)
Outstanding Encumbrance at end of FY2012		(1,890,083)
Un-encumbered balance rebudgeted in FY2013	$	500,000

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011 (CONTINUED)

NOTE 17. INVESTMENT PLACEMENT AGENTS

Placement agents act as intermediaries on behalf of investment managers to solicit investments in a fund. Other terms used to describe the function performed by placement agents include finder, solicitor, marketer, consultant, and broker. Large investment managers may have in-house marketing or placement agent groups, while smaller investment managers may forgo the overhead associated with maintaining such operations and retain independent firms or individuals as placement agents as needed. Some placement agents are part of a large corporation and represent that corporation's investment managers, as well as independent managers. Other placement agents are independent firms or individuals.

NMSA 1978, Section 22-11-54 requires recipients of investments by the ERB to disclose the identity of, and the fee, commission, or retainer paid to, any third-party marketer or placement agent who rendered services on behalf of the recipient in obtaining the investment. The disclosure requirements do not apply to investments in publicly traded equities or fixed-income securities. Any person who knowingly withholds the required disclosure is guilty of a fourth degree felony, punishable by a fine of not more than $20,000, imprisonment for a definite term not to exceed eighteen months, or both. The ERB informs all investment managers and placement agents soliciting investments of the disclosure requirement and the penalty for failing to disclose. The ERB adopted a policy regarding placement agent disclosures in December 2009. In September 2011, the ERB adopted an Amended and Restated Policy Regarding Placement Agent Disclosures. A copy of this policy can be found at ERB's website (http://www.nmerb.org/pdfs/placementagentpolicy.pdf).

The ERB does not have any direct contractual relationships with placement agents and has not directly paid fees for such services. In addition, the ERB's investment consultants and advisors do not receive any compensation other than advisory fees paid by the ERB and do not accept compensation from investment fund managers or their placement agents.

NOTE 18. SUBSEQUENT EVENTS

During fiscal year 2012, the Department of Finance and Administration (DFA) resolved unposted transactions for old payrolls that had not been reconciled as far back as 2005. During fiscal year 2012, limited review was done on resolving reconciling items by DFA. During fiscal year 2013, DFA and ERB will continue researching and reconciling these items to determine any amounts owed by either party.

The ERB does not have any direct contractual relationships with placement agents and has not directly paid fees for such services. In addition, the ERB's investment consultants and advisors do not receive any compensation other than advisory fees paid by the ERB and do not accept compensation from investment fund managers or their placement agents.

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REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF FUNDING PROGRESS

(Unaudited)

Valuation Date June 30	(1) Actuarial Value of Assets (AVA)	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded Actuarial Accrued Liability (2) - (1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) Unfunded Liability Actuarial as a Percentage of Covered Payroll (3)/(5)
2007	8,591.4	12,190.1	3,598.7	70.5%	2,341.1	153.7%
2008	9,272.8	12,967.0	3,694.2	71.5%	2,491.7	148.3%
2009	9,366.3	13,883.3	4,517.0	67.5%	2,585.7	174.7%
2010	9,431.3	14,353.5	4,922.2	65.7%	2,575.8	191.1%
2011	9,642.2	15,293.1	5,650.8	63.0%	2,523.8	223.9%
2012	9,606.3	15,837.0	6,230.7	60.7%	2,495.3	249.7%

Note: Dollar amounts are in millions.

Note: An expanded version of this table and additional discussion of changes in actuarial

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Unaudited)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	$ 364,128,448	70.3%
2008	$ 368,196,682	79.0%
2009	$ 375,430,722	86.2%
2010	$ 357,220,043	87.7%
2011	$ 377,884,749	81.6%
2012	$ 400,461,343	63.4%

NOTE: An expanded version of this table and additional discussion of changes in actuarial assumptions is included in the Actuarial section of this report

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Years Ended June 30, 2012 and 2011
(Unaudited)

ACTUARIAL METHODS AND SIGNIFICANT ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	2012	**2011**
Valuation date	June 30, 2012	June 30, 2011
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level payment, open	Level payment, open
Amortization period for GASB 25 ARC**	30 years	30 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.75%	7.75%
Projected salary increases*	4.75% to 13.50%	4.75% to 13.50%
* Includes inflation calculated at	3.00%	3.00%
Cost of living adjustments	2.00%	2.00%

**The Governmental Accounting Standards Board ("GASB") Annual Required Contribution ("ARC") for this Plan is defined as the larger of (a) the employer normal cost plus a 30-year amortization of the Unfunded Actuarial Accrued Liability ("UAAL"), and (b) the statutory employer contribution rate, plus the 3.00% contribution on behalf of ARP members. Under GASB 25, the maximum allowable amortization period is 30 years.

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OTHER SUPPLEMENTAL INFORMATION

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF REVENUES AND EXPENSES—BUDGET AND ACTUAL (NON-GAAP BASIS)
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Budgetary Basis	Variance— Final Budget Favorable (Unfavorable)
REVENUES:				
Other state funds	$ 26,908,300	37,208,300	37,208,300	-
TOTAL BUDGETED REVENUE	$ 26,908,300	37,208,300	37,208,300	-
EXPENSES:				
Personal services and employee benefits	$ 4,197,400	4,197,400	4,087,075	110,325
Contractual services	21,826,700	30,976,700	24,276,385	6,700,315
Other costs	884,200	2,034,200	1,468,538	565,662
TOTAL EXPENSES	$ 26,908,300	37,208,300	29,831,998	7,376,302

RECONCILIATION OF GAAP BASIS TO BUDGETARY BASIS:

Revenue GAAP basis	$ 2,104,304,938
Net appreciation in investment value	1,396,479,035
Investment advisor and custody fees (a)	(35,247,716)
Current-year revenue not needed for budgeted expenses	(3,428,327,957)
Revenue (non-GAAP) budgetary basis	$ 37,208,300

Expenses GAAP basis—administrative (b)	$ 11,407,033
Capital outlay	(57,000)
Depreciation expense	(2,068,829)
Investment advisor and custody fees (a)	20,550,794
Expenses (non-GAAP) budgetary basis	$ 29,831,998

(A) Certain fund managers deduct their fees directly from the earnings reported, while others are paid directly. The total is shown as a reconciling item for revenues above, but only the amount paid directly is budgeted and showing in the expense reconciliation above. The amount deducted from earnings in 2011 was $14,696,922.(B) Significant revenues and non-administrative expenses are not budgeted (see Note 1).

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF CASH ACCOUNTS
As of June 30, 2012 and 2011

Educational Employees' Retirement Fund
Pension Trust Account
Fund 605

	2012	2011
Petty cash	$ 100	$ 100
Qualified Excess Benefit Arrangement Trust		
Checking Account at Wells Fargo Bank	21,200	11,815
Short-term investment accounts:		
Overnight repurchase agreement pool—State Treasurer	5,521,436	6,346,596
Short-Term Investment Fund—STIF	314,782,587	552,266,403
Balance per financial statements	$ 320,325,323	$ 558,624,914

	2012	2011
Pledged collateral for Wells Fargo demand deposit account:		
Total amount on deposit at June 30	$ 21,200	$ 11,815
Less Federal Deposit Insurance Corporation coverage	(21,200)	(11,815)
Total uninsured public funds	$ -	$ -

INVESTMENT SECTION

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
REPORT ON INVESTMENT ACTIVITY
JUNE 30, 2012

Members & Retirees of NMERB:

Fiscal Year 2012 marked another profitable year for the NMERB investment portfolio, although the magnitude of the return was less than in the last two years. The total Fund posted a return of 2.0%, for annual investment gains of $178 million. The Fund's investment performance ranked in the top 15% of the ERB's peer group of U.S. public pension funds with assets of $1 billion or more. The median fund performance in this comparison group was 0.8% for the year. Given the challenging market environment during the fiscal year, ERB's performance was quite good by comparison. One of the primary reasons for our good relative performance is our asset allocation. Our allocation plan is designed to result in a lower volatility of returns than the average pension fund. This means we expect to lag those funds somewhat when equity markets move up sharply. We also expect to exceed the returns on those same funds when the equity markets have very small gains or losses. In short, we are seeking to mute the extreme differences in returns from one quarter or one year to the next. This philosophy contributed positively to our result in the fiscal year.

The 2.0% portfolio return underperformed the fund's policy index slightly by 0.3%. In addition, the fund fell short of the actuarially required annual return assumption of 7.75%.

In terms of major market index returns, U.S equities produced positive returns. The S&P 500 index returned 5.4%% for the fiscal year. Foreign stocks produced negative returns, however. The EAFE index for developed foreign equity markets lost 13.8%, while the MSCI Emerging Markets Equity index was down 15.9%. In the fixed income sector, markets were positive. The Barclays Capital Aggregate index representing the U.S. investment grade bond market posted a 7.5% return for the year, while in the high yield bond space, the Merrill Lynch BB-B constrained High Yield index returned 7.0%%. ERB's portfolio is a combination of managers operating in markets related to those two indices. Our portfolio trailed the benchmark, but still generated a positive return of 6.1%. In subsequent sections of this report, you will see the performance of the various major components of ERB's investment portfolio. This includes a comparison of the aforementioned indices and others to the components of ERB's portfolio.

In the longer term, performance results continue to improve. ERB's three-year total fund return of 13.0% per year exceeded its policy target return of 10.9% by 2.1%. The policy target represents the return that would have been earned by the Fund based on its target asset allocation and assuming that the investments in each separate asset class mirrored their benchmark returns. This also exceeded the 7.75% target mentioned earlier. The three-year return ranks in the top 9% of ERB's peer group. The median return for this group was 11.6% per year. Thus our portfolio did substantially better than most other large public pension funds and relative to the conditions prevailing in the markets in the time period.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
REPORT ON INVESTMENT ACTIVITY
JUNE 30, 2012 (CONTINUED)

ERB's five-year total Fund return was 2.3% annually, outperforming its benchmark of 1.3%. While the return is disappointing, one must keep in mind the dramatic plunge in stock market values that took place in Fiscal Years 2008-09, with the S&P 500 large capitalization U.S. index losing 53% of its value in an 18-month period. We are happy to report that the capital markets are continuing to recover from these low points. The Fund's performance ranked in the top 16% of the public fund peer group for the five year period. Thus, while the five-year return does not meet the target of 7.75%, it is a good result on a relative basis, once again given the market conditions.

ERB's ten-year total Fund return was 6.8% which was 0.50% above its policy return of 6.3% and somewhat below the actuarial rate of 7.75%. The fund ranked in the top 29% of its peer group for the period. The ten year result has continued to improve thanks to actions taken by ERB in more recent time periods. For comparison sake, the ten year return reported for the Fiscal Year 2011 was 5.5%. The 2012 results show significant progress in raising the return to achieve our long term goal.

In October 2007, the Board adopted new asset allocation targets designed to mute the volatility in returns for the portfolio. In October 2010, these targets were further refined. The details of the 2010 allocation plan are more fully discussed in the "INVESTMENTS OVERVIEW" section of this report. Most notably, the new allocation reduced the amount invested in equities to 40%, from the previous allocation of 45% in 2007, and added opportunistic credit and emerging market debt as new asset classes. Allocations to these two categories are in process. As we saw in the 2008-09 and 2000-02 periods, stock markets can be extremely volatile. The goal of the new allocation is to further diversify the Fund and place less reliance on the public equity markets by seeking alternative sources of investment return, thereby decreasing the volatility of investment returns for the total portfolio.

The investment performance reported in this letter is based on time weighted rates of return calculated using the market value of assets as of June 30, 2012. Performance shown for periods longer than one year has been annualized.

Sincerely,

Bob Jacksha

Bob Jacksha
Chief Investment Officer

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENTS OVERVIEW
JUNE 30, 2012

I. Investment Objectives

Recognizing the important and perpetual nature of the Fund and the fiduciary responsibilities of the Board, the primary goal in investing the assets shall be to provide significant real returns adjusted for inflation over long periods of time with acceptable risk. In light of these dual goals, the Investment Division seeks to diversify the Fund's assets for purposes of both controlling risk and enhancing return. Over the long term, the fund's objective is to earn the actuarial rate of return, currently set at 7.75%.

The primary goal of the equity investment program is to build a diversified portfolio of stocks. This includes large and small capitalization domestic stocks, as well as international equities. Large capitalization stocks are managed in an S&P 500 index strategy. This portfolio replicates all of the holdings in that index. A portfolio of REITs (real estate investment trusts) provides exposure to real estate through an equity vehicle. A portion of this exposure is also obtained through an index portfolio based on the Wilshire REIT Index. The other stock portfolios are actively managed by external managers.

Investment grade fixed income securities are actively managed by external investment managers. The investment grade securities include US Treasury and agency, corporate, and asset backed securities. Additional diversification is achieved through investments in the opportunistic credit allocation which incorporates high yield debt and other credit strategies in both domestic and foreign debt. The Fund also has investments in other alternative investment sectors to further diversify risks. These include investments in private equity, private real estate, hedge funds/absolute return strategies, global tactical asset allocation, and real assets in the form of infrastructure, agriculture, and timber assets.

II. Investment Process

While ultimately responsible, the Board relies on the Investment Committee of the Board (the Director and three Board members) to monitor the activities of the Investment Division. Within the applicable statutes and investment guidelines established by the Board, the Investment Division uses both internal and external managers for managing its assets. The S&P 500 equity and REIT index portfolios are managed internally. All other portfolios are managed externally.

The Board has approved an asset allocation plan to guide the Investment Committee and staff in carrying out the investment responsibility. These asset allocation decisions are made in conjunction with an analysis of the long-term liabilities of the Fund (the latest analysis may be found here: http://www.nmerb.org/asset_allocation.html). In view of the importance of asset allocation to investment performance, staff and the Investment Committee regularly monitor the position of the Fund relative to its target allocation and staff periodically rebalances among the asset classes. The general guidelines relating to these asset classes are reviewed annually by the Investment Committee and are included in ERB's written Investment Policy Statement available on ERB's website: http://www.nmerb.org/investment_policies.html.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENTS OVERVIEW
JUNE 30, 2012 (CONTINUED)

The investment activity is governed by the Educational Retirement Act of New Mexico (Chapter 22, Article 11 NMSA 1978). The "prudent investor" standard, as defined in the state statutes (Section 22-11-13 NMSA 1978), requires all members of the Board and the investment staff to discharge their duties solely in the interest of Fund participants and beneficiaries and with the care, skill, prudence and diligence which they would exercise in the conduct of their own affairs.

III. Asset Allocation

Asset allocation is the single greatest determinant of Fund performance. Based on a study conducted by the Fund's investment consultant, who considered the expected risk and market returns of various asset classes, the Board adopted a revised asset allocation plan in October 2010. The targeted asset allocation is shown in Exhibit A of the Investment Policy Statement. This revision continued the trend established with the 2007 plan to reduce the reliance on public equities due to the volatility and unpredictability of that asset class. The new plan added the category of opportunistic credit and emerging market debt with the goal of further diversifying the investment of the ERB. Implementation of the new asset allocation plan is ongoing and we are transitioning to the new asset allocation targets. Full implementation is expected to be a multi-year process due to the nature of the some of the alternative assets.

State of New Mexico
Educational Retirement Board
Asset Allocation Policy as of June 30, 2012

Asset Class:	Target Weight	Actual
Cash	**1%**	**2%**
Equities		
Domestic Equity	25%	26%
International Equities	15%	14%
Total Equities	**40%**	**40%**
Fixed Income		
Investment Grade Bonds	5%	15%
Emerging Market Debt	2%	2%
Opportunistic Credit	20%	16%
Total Fixed Income	**27%**	**33%**
Alternatives		
Real Estate/REITs	5%	6%
Private Equity	7%	6%
Absolute Return	8%	7%
Real Assets	7%	1%
Global Tactical Asset Allocation	5%	6%
Total Alternatives	**32%**	**26%**

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT PERFORMANCE OVERVIEW
JUNE 30, 2012

I. ERB Fund Strategy
The ERB investment strategy focuses on a long-term approach, given the long-term nature of the Fund liabilities. Diversifying the portfolio across several different asset classes mitigates risk by ensuring that the Fund is not completely exposed to one poorly performing market. The long-term approach to asset allocation requires that the Fund be periodically rebalanced by taking profits from the better performing asset classes and redeploying the cash into areas which have fallen in value. This discipline enforces a buy low/sell high philosophy during periods of market volatility and uncertainty.

II. Investment Activity
The ERB adopted a new asset allocation in October of 2010 and new investment policy in June 2011. As a result, ERB continued the implementation of alternative investment strategies in the current fiscal year, with the goal of further diversifying the assets of the Fund.

III. ERB Portfolio Performance
The median public fund return was slightly positive at 0.8% for the Fiscal Year ended June 30. The ERB investment portfolio returned 2.0% over the period. Given ERB's long term allocation strategy of lower equity holdings, this is within the expectations in a year when public equity returns were very strong compared to other asset classes. ERB's lower volatility strategy was a positive contributor during a challenging and volatile year. The ERB investment portfolio did lag the policy index return of 2.3% by a slight margin and also lagged the 7.75% long term return target.

Fiscal year 2012 was marked by a tale of two distinct environments based on geography. The environment was positive for U.S. investment markets, both equities stocks and bonds. Foreign markets, on the other hand, were markedly negative for stocks.

The domestic equity portfolio gained 4.1%, versus the Russell 3000 return of 3.8%. As to foreign stocks, the ERB Non-U.S. Equity Portfolio returned -17.9% versus the MSCI ACWI ex U.S. index return of -14.6%.

Fixed income produced positive returns. The ERB core fixed income portfolio produced an 8.4% return versus 7.5% for the Barclays Capital Aggregate Bond Index.
The opportunistic credit portfolio returned 2.7% versus the Merrill Lynch High Bond BB/B index return of 5.2%.

The internally managed REIT portfolio returned 13.2%, in line with the Wilshire REIT Index return of 13.2%.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT PERFORMANCE OVERVIEW
JUNE 30, 2012 (CONTINUED)

The private equity investment allocation also turned in a positive return at 10.5%. This slightly trailed the Cambridge Associates index return of 10.8%.

Private real estate investments returned 11.2% versus the NCREIF Index return of 12.0%.

Absolute return hedge fund strategies were negative, returning -2.8%% versus the benchmark of -3.3%.

Finally, global asset allocation strategies returned 12.8% versus the benchmark index return of 2.2%.

Further detailed performance figures may be found on the ERB website in the 2nd Quarter 2012 Investment Performance Report: http://www.nmerb.org/pdfs/2Q2012Report.pdf. The investment results basis for calculations is a time-weighted rate of return based on the market rate of return.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
LARGEST INVESTMENT HOLDINGS
JUNE 30, 2012

Ten Largest Stock Holdings

Company	Shares	Market Value
EXXON MOBIL CORP COM STK	164,638	$96,148,592.00
APPLE INC COM STK	832,180	$71,209,642.60
SIMON PROPERTY GROUP INC COM STK	1,318,447	$40,331,293.73
IBM CORP COM STK	204,647	$40,024,860.26
CHEVRON CORP COM STK	1,868,107	$39,248,928.07
GENERAL ELECTRIC CO. COM STK	1,046,743	$37,326,855.38
MICROSOFT CORP COM STK	349,056	$36,825,408.00
AT&T INC COM STK	484,643	$32,742,481.08
SAMSUNG ELECTRONICS CO	399,635	$31,451,274.50
JOHNSON & JOHNSON COM STK	930,966	$31,131,503.04

Ten Largest Fixed Income Holdings

Issue	Market Value
U.S. TREASURY NOTES 1% DUE 10-31-2011	$20,215,517.12
U.S. TREASURY NOTES 0.75% DUE 06-15-2014	$18,991,021.11
U.S. TREASURY NOTES 3.125% DUE 05-15-2021	$14,218,570.79
U.S. TREASURY NOTES 1.000% DUE 05-15-2014	$14,180,699.69
FNMA SINGLE FAMILY MORTGAGE 4.50% 30 YEARS	$13,972,935.63
U.S. TREASURY NOTES 1.375% DUE 03-15-2013	$11,947,768.82
FHLMC GOLD SINGE FAMILY MORTGAGE 4.50% 30 YEARS	$11,876,482.17
GNMAII JUMBO 4.50% 30 YEARS	$11,001,412.92
U.S. TREASURY BONDS 4.75% DUE 02-15-2041	$10,623,400.00
U.S. TREASURY BONDS TIPS DUE 02-15-.2040	$10,527,217.22

Note: Ten Largest Fixed Income Holdings based on the Fund's separately managed portfolios.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF INVESTMENT MANAGEMENT FEES AND COMMISSIONS
JUNE 30, 2012

SCHEDULE OF INVESTMENT MANAGEMENT FEES
AND COMMISSIONS FOR YEAR ENDED JUNE 30, 2012

	Investment Fees	Commissions
Domestic Fixed Income	$ 4,754,400	$ 19,009
Domestic Equities	$ 1,876,542	$ 790,530
International Equities	$ 3,669,598	$ 1,452,142
Short Term Investments	$ -	N/A
Total	$ 10,300,540	$ 2,261,681
Custodian Fees	$ 664,384	N/A
Consultant Fees	$ 1,600,386	N/A
Grand total	$ 12,565,310	$ 2,261,681

Excludes fees and commissions associated with comingled funds

ACTUARIAL SECTION

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631

469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

November 27, 2012

Board of Trustees
Educational Retirement Board of New Mexico
P.O. Box 26129
Santa Fe, NM 87502-0129

Dear Members of the Board:

Subject: Actuarial Valuation as of June 30, 2012

The results of the June 30, 2012 annual actuarial valuation are presented in this report. We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Educational Retirement Board of New Mexico (ERB) as of June 30, 2012.

This report was prepared at the request of the Board and is intended for the Board's use and those designated or approved by the Board. This report may be provided to parties other than the ERB only in its entirety and only with the permission of the Board

To the best of our knowledge, this report is based on benefit provisions in effect as of June 30, 2012, audited financial information prepared as of that date, member data gathered as of that date, and actuarial assumptions and methods previously adopted by the Board.

Actuarial Valuation

The primary purposes of the valuation report are to determine the adequacy of the current employer contribution rate, to describe the current financial condition of ERB, and to analyze changes in ERB's condition. In addition, the report provides information required by ERB in connection with Governmental Accounting Standards Board Statement No. 25 (GASB 25), and it provides various summaries of the data.

The valuation report is a snapshot of the Plan's estimated financial condition as of the valuation date. The valuation does not predict the Plan's future financial condition or its ability to pay benefits in the future and it also does not provide any guarantee of future financial soundness of the Plan. Over time, the plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of members receiving benefits, the period of time over which benefits are paid, plan expenses, and the amount earned on any assets invested toward the payment of benefits. These amounts and other variable are uncertain and unknowable at the valuation date.

To prepare the valuation report, actuarial assumptions, including those adopted with the June 30, 2010 experience study, are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities; the results based on that single scenario are included in the valuation. The future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material because these results are

Board of Trustees
November 27, 2012
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sensitive to the assumption made, and, in some cases, to the interaction between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a long period of time, no one projection is uniquely "correct" and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future.

Valuations are prepared annually, as of June 30 of each year, the last day of ERB's plan and fiscal year.

Financing Objectives

In accordance with HB 628, employer and member contributions are scheduled as follows.

For employees with annual salary more than $20,000/less than $20,000 per year:

Fiscal Year End	*Employer Contribution Rate*	*Member Contribution Rate*
2013	10.90%/12.40%	9.40%/7.90%
2014	13.15%/13.15%	7.90%/7.90%
2015 and thereafter	13.90%/13.90%	7.90%/7.90%

In addition, certain higher education employers make an additional contribution equal to 3.00% of the total pay for their employees who elected to join the Alternative Retirement Program rather than ERB.

These rates are intended to be sufficient to pay ERB's normal cost and to amortize ERB's unfunded actuarial accrued liability (UAAL) in payments which are level as a percentage of payroll. Except for short-term fluctuations, the amortization period should not exceed the maximum 30-year period currently allowed under GASB No.25. (The amortization period, also referred to as the funding period, is the number of years expected to be required to completely amortize the UAAL, assuming that ERB's experience exactly follows the actuarial assumptions.) This funding policy is set by the Board of Trustees.

Progress Toward Realization of Financing Objectives

The funded condition of the plan, as measured by the funded ratio, declined from 2011 to 2012. The decline was due to the continued loss on the actuarial value of assets (a loss of $524 million) and a net gain on the liabilities of $200 million.

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November 27, 2012
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The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio at June 30, 2011 was 63.0%, while it is now 60.7%. Five years ago the ratio stood at 70.5%, and ten years ago the ratio was 86.8%. However, if the ratio were calculated using the market value rather than the actuarial value of assets, it would be 59.9% as of June 30, 2012, down from 62.7% as of June 30, 2011. During the last fiscal year, the UAAL increased from $5.7 billion to $6.2 billion.

The plan's funding period as of the valuation date is infinite. This is a theoretical calculation of the period that will be required to amortize the UAAL, assuming that the current year's amortization payment increases at the payroll growth rate (3.75%) each year in the future. The infinite period compares with infinite funding period calculated as of the prior actuarial valuation. An infinite period means that the principal on the UAAL will never be paid down.

This calculation of the funding period is a snapshot as of the valuation date and ignores a number of factors: (i) the scheduled future increases in the employer contribution rates, (ii) the known deferred asset gains and losses that are reflected in the actuarial value of assets and that will be recognized over the next four years, and (iii) the expected future growth in the active membership (0.75%).

Recent Events

In FYE 2009, the financial markets experienced major losses. The equity markets dropped dramatically through early March 2009 before beginning to recover. Many pension trusts lost 30% to 40% through early March 2009 but then rebounded off of those lows. For instance, the market value of the ERB trust was $7.1 billion as of June 30, 2009 and is $9.5 billion as of June 30, 2012. Most of the investment losses from FYE 2009 have been recognized in this valuation but some are still being deferred and will be recognized in future valuations. The total amount of deferred losses as of June 30, 2012 is $117.3 million dollars and the plan's funding period has become infinite.

The annual return from 2011 to 2012 on the market value of assets was 1.6% and the annual return from that same period on the actuarial value of assets was 2.2%. The return on the actuarial value of assets of less than the assumed return of 7.75% reflects the smoothing of gains and losses at work in the asset method- for instance, in 2009 not all the losses were recognized at one time in the actuarial value of assets and likewise, for this valuation, not all the 2012 losses have been recognized in the actuarial value of assets. The net result of the losses from 2009 and 2012 and the gains from 2010 and 2011 that are recognized in this valuation is an overall loss on the actuarial value of assets.

Benefit Provisions

HB 628 was enacted in 2011. This bill extended the 1.50% shift in contributions that was enacted in prior legislation from the employer to the member and added an additional shift of 1.75%. The 1.75% shift expired as of June 30, 2012 and the 1.50% shift will expire at June 30, 2013. The result is the employer is contributing 10.90% for FYE 2013 and the member is contributing 9.40%.

Board of Trustees
November 27, 2012
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(Members with annual salary less than $20,000 per year will continue to contribute 7.90% and the employer will contribute 12.40% for FYE 2013).

Previous legislation enacted a new "tier" of benefits for members who join ERB after June 30, 2010. This is the second valuation that reflects new members in the plan under the provisions of the new tier. The provisions include later eligibility for retirement and a change in the reduction of benefits for members who take an early retirement.

Assumptions and Methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. The last review of these assumptions occurred following the 2010 actuarial valuation, and the Board adopted a number of assumption changes, including a decrease in the discount rate from 8% to 7.75%, and changes in mortality, retirement and salary increase rates. A change was also made to use the traditional entry age normal cost method. Under this method, the normal cost should generally remain level from year to year. However, as tier 2 members enter the system, the normal cost will gradually decrease to the cost of the tier 2 benefits. As of this valuation, the normal cost decreased from 13.83% last year to 13.79% this year.

The three tier licensure program is still in effect for ERB members. We have made no separate adjustment to account for this program; the impact of the three tier licensure program has been accounted for in the salary scale assumptions.

We believe the recommended assumptions are internally consistent and are reasonably based on the actual experience of ERB. The actuarial assumptions and methods used in this report comply with the parameters for disclosure that appear in GASB 25.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions.

Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods.

Member and Financial Data

Member data for retired, active, and inactive participants was supplied as of June 30, 2012, by the ERB staff. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was also supplied by the ERB staff.

We provided some of the information used in the Comprehensive Annual Financial Report. Specifically, we provided information used in preparing the schedules of Active Member Valuation Data, Retirants and Beneficiaries, Analysis of Financial Experience, and the Solvency Test that are found in the Actuarial Section; and we provided the Schedule of Funding Progress

Board of Trustees
November 27, 2012
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and the Schedule of Required Contributions in the Financial Section.

Certification

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of New Mexico state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board.

The undersigned are independent actuaries and consultants. Both are Enrolled Actuaries and are Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Both of the undersigned are experienced in performing valuations for large public retirement systems.

We would like to thank the ERB staff for their assistance with this project.

Sincerely,

Leslie L. Thompson

Leslie L. Thompson, FSA, FCA, MAAA, EA
Senior Consultant

R. Ryan Falls

R. Ryan Falls, FSA, MAAA, EA
Senior Consultant

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXECUTIVE SUMMARY
JUNE 30, 2012

Executive Summary

Valuation as of:	06/30/2012	06/30/2011
Contribution Rates for Fiscal Year Ending:	06/30/2013	06/30/2012
Membership		
• Number of		
- Active members	60,855	61,673
- Retirees and beneficiaries	37,336	35,457
- Inactive, vested	9,684	9,333
- Inactive, nonvested	24,384	23,678
- Total	132,223	130,141
• Payroll	$ 2.5 billion	$ 2.5 billion
Statutory contribution rates		
• Employer	10.9%	9.15%
• Member	9.4%	11.15%
Assets		
• Market value	$ 9.5 billion	$ 9.6 billion
• Actuarial value	$ 9.6 billion	$ 9.6 billion
• Return on market value	1.6%	19.0%
• Return on actuarial value	2.2%	4.2%
• Employer contributions	$ 253.8 million	$ 308.4 million
• External cash flow %	-2.8%	-2.0%
• Ratio of actuarial to market value	101.2%	100.6%
Actuarial Information		
• Normal cost %	13.79%	13.83%
• Unfunded actuarial accrued liability (UAAL)	$ 6.2 billion	$ 5.7 billion
• Funded ratio	60.7%	63.0%
• Funding period (years)	Infinite	Infinte
• GASB Annual Required Contribution	17.59%	14.54%
Gains/(losses)		
• Asset experience	$ (524.0) million	$ (358.7) million
• Liability experience	200.1 million	225.8 million
• Benefit changes	-	-
• Assumption/method changes	-	(426.1) million
• Total	$ (323.9) million	$ (559.0) million

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2012

Introduction

Table 1 summarizes the key actuarial results. Table 2 analyzes changes in the UAAL. Tables 3 and 4 show more detailed actuarial information. Tables 5a and 5b develop the GASB 25 Annual Required Contribution for the last fiscal year, and Tables 6a-6c show required GASB 25 disclosure information. Tables 7a, 7b, 15, 16 and 17 show statistical information about the membership, and Tables 8a-11b, and Table 13 show information about plan assets. Tables 12a and 12b show the calculation of the actuarial gains and losses. Table 14 shows the solvency test, used by some funds in their annual report. Finally, Appendix 1 is a summary of the benefit and contribution provisions of ERB, Appendix 2 is a summary of the actuarial methods and assumptions, and Appendix 3 is a Glossary.

Actuarial Information

The determination of the unfunded actuarial accrued liability (UAAL) and the funding period involves the following steps:

- The actuarial present value of future benefits is determined for the present members, including retired members, beneficiaries, inactive members and active members. This amounts to $18.3 billion, as shown on Table 3.

- The entry age normal funding method is used to allocate the actuarial present value of future benefits between the portion due for the current year (the normal cost), prior years (the actuarial accrued liability) and future years. The actuarial accrued liability is $15.8 billion, as shown in line 6d on Table 1.

- Under the entry age normal cost method the current and future normal costs are determined as a level percentage of payroll. Table 4 shows an analysis of the normal cost rate. The amount needed to fund the current and future normal costs is 13.79% of payroll inclusive of member contributions. This is the total (member plus employer) contribution rate needed to pay for the average new member.

- Part of the normal cost is paid by the employee contributions of 9.40%, leaving 4.39% to be funded by the employers. i.e., the current year's employer normal cost is 4.39% of payroll. This is shown in Line 3 of Table 1. The balance of the employer contribution is used as payment on the UAAL. The employer contribution is expected to increase in future years, and this will affect the amount of funding available to amortize the UAAL.

- The unfunded actuarial accrued liability (UAAL) is determined by subtracting the actuarial value of assets from the actuarial accrued liability. (The actuarial value of assets is a smoothed market value, as discussed in more detail below.) The UAAL is $6.2 billion as shown in line 8 on Table 1.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2012 (CONTINUED)

- Since the statutory employer contribution rate is 10.90%, and the employer normal cost rate is 4.39%, the difference of 6.51% is used to amortize the UAAL. *(Next year the employer contribution rate is scheduled to be 13.15%).* The 3% contribution made on behalf of ARP members is also used to amortize the UAAL.

- Finally, the funding period is calculated by determining how long it will take to reduce the UAAL to zero, assuming that the current year's amortization contribution increases at the 3.75% payroll growth period each year. This period is currently infinite. (Note, however, that this calculation does not reflect the scheduled increases in the employer contribution rate. Further, it tacitly assumes a 7.75% return on the actuarial value of assets, not the market value. More realistic projections show that it will take about 56 years to amortize the UAAL if the trust earns 7.75% each year in the future on market and if the employer contribution rate increases occur as scheduled under current law, and if the membership grows 0.75% per year.)

Analysis of Changes
Table 2 shows an analysis of the changes in the UAAL. Since the UAAL is an actuarial present value, with future anticipated benefits discounted using a 7.75% interest rate, the UAAL increases each year by the imputed interest rate, less employer contributions made to amortize the UAAL. (Keep in mind that part of the employer contribution is used to pay the normal cost, so only part of each year's contribution is available to amortize the UAAL.)

As shown on Table 2, the UAAL increased by $437.9 million for imputed interest and decreased by $181.9 million because of payments made. This means that the UAAL was expected to increase $256.0 million before recognizing plan experience. The UAAL as of June 30, 2011 was $5.65 billion, and the expected UAAL at June 30, 2012, recognizing actual contributions made, was $5.9 billion.

The plan experienced a liability gain of $200.1 million the vast majority of which is due to a gain from salary increases less than expected. This gain represents 1.3% of the total actuarial accrued liability.

A 2% cost-of-living adjustment was applied as of July 1, 2012 to retirement benefits for retirees eligible to receive a cola. Note that the adjustment is only applied to members who retired in calendar year 2011 or earlier; members who retired in 2012 are ineligible. This increase also applied to disabled retirees who had been retired for at least three years, i.e., members who began receiving a disability retirement benefit in calendar year 2008 or earlier.

A small actuarial gain on investments had been anticipated because under the smoothing method used to determine the actuarial value of assets the amount of deferred gains to be recognized this year was greater than the deferred losses. This gain did not materialize due to the lower than expected investment return which occurred in FYE 2012.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2012 (CONTINUED)

The plan experienced an actuarial loss on investments of $524.0 million. The investment loss resulted from the fact that the return on the actuarial value of assets, 2.2%, was less than the 7.75% assumed investment return. This loss was the result of recognizing 20% of the losses from FYE 2008 and FYE 2009, with 20% of the gains from FYE 2010 and FYE 2011, and 20% of the loss from FYE 2012. The market rate of return in FYE 2012 was 1.6%.

There were no material benefit changes or new assumption changes adopted since the last actuarial valuation. As a result of all the experience, the UAAL increased from $5.7 billion to $6.2 billion.

GASB 25 Disclosure
Governmental Accounting Standards Board Statement No. 25 (GASB 25) is the relevant accounting standard for governmental retirement systems like ERB. However, the Standards Board has enacted a new accounting standard (GASB 67) for governmental retirement systems that will be effective as of the plan year beginning July 1, 2013 for ERB. The new standard will have no impact on the funding of the plan but will require some new disclosure items to be reported in the year-end accounting statements beginning FYE 2014.

Tables 5a and 5b show the calculation of the Annual Required Contribution (ARC) as computed under GASB 25, and they show what percent of this amount was actually received. For ERB, the ARC is defined to be the actual contributions required by statute, as long as this is not less than the minimum allowed under GASB 25. The GASB 25 minimum is equal to the employer normal cost, plus a 30-year amortization of the UAAL.

Tables 6a, 6b, and 6c show information required to be reported under GASB 25. Table 6a shows a history of funding progress--a comparison of the actuarial value of assets with the actuarial accrued liability and a comparison of the UAAL with covered payroll. This table shows steady progress over the years from 1992 to 2001, with the best funded ratio in 2001, 91.9%, then it began to decrease as the negative investment experience in the 2001 – 2003 fiscal years was phased into the actuarial value of assets. The ratio increased slightly in 2007 and 2008, as some gains from prior years were recognized. Finally, due to the poor returns of the financial markets for FYE 2008, FYE 2009 and again FYE 2012, the ratio decreased to 60.7% as of 2012.

Table 6b shows a fifteen-year comparison of (a) the employer contributions actually received, with (b) the GASB 25 ARC. Note that this shows that 63.4% of the ARC was contributed during FYE 2012, since the 9.15% employer contribution rate in FYE 2012 was less than the 30-year contribution calculated in last year’s valuation (14.54%). For FYE 2013, the financial reports prepared for ERB will show that only approximately 62% of the ARC was contributed. This is because the 10.90% statutory rate is less than the calculated 30-year contribution rate of 17.59%.

Table 6c shows other information which must be included in the notes section of the financial report. The auditor’s notes should also disclose the following items that may affect the comparability of the trend information shown in Tables 6a and 6b:

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2012 (CONTINUED)

- Actuarial assumptions were changed at June 30, 1998, June 30, 2001, June 30, 2003, June 30, 2005 and June 30, 2011.

- The legislative changes made by HB 573, HB 631, and HB 854 in 2009 were recognized at June 30, 2009 and the changes made by SB 91 in 2010 were recognized at June 30, 2010. The changes made by HB 628 were recognized at June 30, 2011.

- There is a contribution deficiency of 6.69% as of June 30, 2012, and this is compared to a contribution deficiency of 5.39% as of June 30, 2011. The 6.69% deficiency is the difference between the 17.59% ARC for FYE 2013, as shown on Table 5a, and the 10.90% statutory employer contribution for that year.

Benefit Provisions
Appendix 1 summarizes the provisions of ERB. This valuation reflects benefits promised to members by statute. There are no ancillary benefits - retirement type benefits not required by statutes but which might be deemed an ERB liability if continued beyond the availability of funding by the current funding source.

HB 628 was enacted in 2011. This bill extended the 1.50% shift in contributions that was enacted in prior legislation from the employer to the member and added an additional shift of 1.75%. The 1.75% shift expired as of June 30, 2012 and the 1.50% shift will expire at June 30, 2013. The result is the employer is contributing 10.90% for FYE 2012 and the member is contributing 9.40%. (Members with annual salary of less than $20,000 will continue to contribute 7.90% and the employer will contribute 12.40% for FYE 2013).

In Section 16 of HB 628, there is a provision that could modify the FYE 2013 contribution rates. The employer and employee contribution rates will continue for the period July 1, 2012 through June 20, 2013 if the secretary of finance and administration certifies that (1) general fund revenues in fiscal year 2012 were less than one hundred million dollars more than the general fund revenue forecast reflected in the fiscal year 2012 state budget; and (2) at the end of fiscal year 2012, the total amount in the state reserve funds is less than five percent of the total general fund appropriations for fiscal year 2012. For purposes of projections we have assumed that the contribution rates will return from the employer rate of 9.15%, employee rate of 11.15%, to an employer rate for FYE 2013 of 10.90% and an employee rate of 9.40% for those members with annual salary greater than $20,000.

HB 129 was also enacted in 2011 and changed the payment of the member-plus-employer contribution made on behalf of retired retirees. Under prior law, the employer paid the total contribution rate, while under HB 129, the employer and employee each pay their own share. SB 119 allows for certain post-retirement beneficiary option designations. Neither of these two bills has a material impact on the valuation.

There has been no legislation enacted in 2012 that impacts ERB.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2012 (CONTINUED)

Impact of the Second Tier "Tier 2" Benefits
For members hired after June 30, 2010, their plan membership will be under the Tier 2 benefit provisions. These benefits have a later date of retirement and a lower cost to the plan. In the course of the past two years, approximately 9,600 new members entered the system and were covered under this second tier. These tier 2 members have an average age of 38.9, average service of 1.1 years and average pay of $35,431.

Actuarial Assumptions and Methods
In determining costs and liabilities, actuaries use assumptions about the future, such as rates of salary increase, probabilities of retirement, termination, death and disability, and an investment return assumption. ERB's Board adopts the assumptions used, taking into account the actuary's recommendations. The last review of these assumptions occurred following the 2010 actuarial valuation, and the Board adopted a number of assumption changes, including a decrease in the discount rate from 8% to 7.75%, and changes in mortality, retirement and salary increase rates. A change was also made to use the traditional entry age normal cost method.

We believe the recommended assumptions are internally consistent and are reasonably based on the actual experience of ERB. Appendix 2 summarizes the current assumptions.

In addition to the actuarial assumptions, the actuary also makes use of an actuarial funding method to allocate costs to particular years. In common with most public-sector plans, ERB uses the entry age normal method. This method produces a relatively level pattern of funding over time, and thereby provides equity between various generations of taxpayers. We continue to believe this method is appropriate for ERB.

Assets
ERB assets are held in trust. The ERB staff has provided the asset information used in this valuation.

Table 8a presents a summary of the market value of assets held by the fund, and Table 8b shows the allocation of assets held for investment. About 43% of the assets are now held in traditional equities, about the same as last year. Table 9 shows a reconciliation of the assets from the beginning of the prior year to the valuation date.

Tables 10a and 10b show the development of the actuarial value of assets (AVA). The AVA is a smoothed market value. A smoothed value is used in order to dampen some of the year-to-year fluctuations that would occur if the market value were used instead. The method used phases in differences between the actual and expected market returns over five years. The expected return is determined using the 7.75% assumption and the plan's market value, adjusted for contributions received and benefits and refunds paid. Both the actual and expected returns are computed net of investment and administrative expenses.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL REPORT DISCUSSION
JUNE 30, 2012 (CONTINUED)

Assets
Note that the actuarial value is currently 101.2% of the market value. The dollar amount of the difference between the actuarial value and market value is the value of the deferred losses, and totals $117.3 million dollars. Over any short time period, a disparity between actuarial value and market value may appear, but in the long-run, we would expect the actuarial value and the market value to continue to track each other fairly closely.

Table 11a shows that the investment return rate for FYE 2012 on market value was 1.6%, while it was 2.2% on actuarial value. Table 11b shows historical return rates since the current actuarial asset method was adopted.

Finally, Table 13 shows a history of cash flows to the trust, and the net cash flow measured as a percentage of the assets. The cash flow is slightly negative, 2.8% of market value.

Member Data
Membership data was provided on electronic files by the ERB staff. Data for active members includes sex, birth date, service, salary paid in the prior year, and accumulated contributions. Data for inactive, nonretired members was similar, but includes the member’s accrued benefit as well. For retired members, data includes status (service retiree, disabled retiree or beneficiary), sex, birthdate, pension amount, form of payment, beneficiary sex and birthdate if applicable, and date of retirement.

While not verifying the correctness of the data at the source, we performed various tests to ensure the internal consistency of the data and its overall reasonableness.

Table 7a summarizes data on all members. Table 7b is a history of key statistical information about active members, and Table 15 is a history of statistical information about retirees. Table 16 is an age/service distribution of active members and their average pay. Table 17 is a reconciliation that tracks changes in the plan population from last year to this year.

The number of active members decreased 1.3% since last year, from 61,673 to 60,855.

Total payroll decreased 1.1% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2011-2012 member pay). However, this figure is increased by one year’s pay increase to determine the member’s rate of pay at July 1, 2012. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 0.2% since last year. Average pay for members active in both this valuation and the last year’s valuation increased 1.6%. The difference between these two figures is due to the effect of retirements and terminations, and their replacement by new members who generally earn less.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 1 - Actuarial Information

		June 30, 2012 (1)	June 30, 2011 (2)
1.	Payroll		
a.	Supplied by System (annualized)	$ 2,495,275,534	$ 2,523,816,000
b.	Adjusted for one-year's pay increase	2,649,331,144	2,678,376,300
2.	Actuarial present value of future pay	$ 17,996,149,386	$ 18,332,502,820
3.	Normal cost rate (payable monthly)		
a.	Total normal cost rate	13.79%	13.83%
b.	Less: member contribution rate	(9.40%)	(11.15%)
c.	Employer normal cost rate	4.39%	2.68%
4.	Employer normal cost (Item 3c * Item 1b)	$ 116,305,637	$ 71,780,485
5.	Actuarial accrued liability for active members		
a.	Actuarial present value of future benefits	$ 9,029,857,760	$ 9,179,336,511
b.	Less: actuarial present value of future normal costs (Item 3a * Item 2)	(2,420,181,490)	(2,478,518,951)
c.	Actuarial accrued liability	$ 6,609,676,270	$ 6,700,817,560
6.	Total actuarial accrued liability for:		
a.	Retirees and beneficiaries	$ 8,338,284,890	$ 7,726,559,891
b.	Inactive members	889,011,370	865,694,973
c.	Active members (Item 5c)	6,609,676,270	6,700,817,560
d.	Total	$ 15,836,972,530	$ 15,293,072,424
7.	Actuarial value of assets	$ 9,606,304,017	$ 9,642,229,673
8.	Unfunded actuarial accrued liability (UAAL) (Item 6d - Item 7)	$ 6,230,668,513	$ 5,650,842,751
9.	Amortization payment for next fiscal year		
a.	Employer contribution rate	10.90%	9.15%
b.	Less: Employer normal cost rate (Item 3c)	(4.39%)	(2.68%)
c.	Amortization rate	6.51%	6.47%
d.	Amortization contribution (Item 9c * Item 1b)	$ 172,471,457	$ 173,290,947
e.	Expected ARP contribution	5,137,269	4,209,632
d.	Total	$ 177,608,726	$ 177,500,579
10.	Funding period based on current 9.15% employer contribution requirement, with payments increasing at assumed payroll growth rate	Infinite	Infinite

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 2 - Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

		Year Ending	
	Basis	June 30, 2012	June 30, 2011
	(1)	(2)	(3)
1.	UAAL at prior valuation	$ 5,650.8	$ 4,922.2
2.	Increases/(decreases) due to:		
	a. Interest on UAAL	437.9	393.8
	b. Amortization payments [1]	(181.9)	(224.2)
	c. Liability experience	(200.1)	(225.8)
	d. Asset experience	524.0	358.7
	e. Changes in actuarial assumptions and methoc	-	426.1
	f. Benefit change	-	-
	g. Total	$ 579.9	$ 728.6
3.	Current UAAL (1+2g)	$ 6,230.7	$ 5,650.8

Note : Dollar amounts in millions

[1] Actual contributions reduced by normal cost, and adjusted for timing.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 3 - Actuarial Present Value of Future Benefits

		June 30, 2012 (1)	June 30, 2011 (2)
1.	Active members		
	a. Service retirement benefits	$ 8,127,672,598	$ 8,264,475,122
	b. Refunds and deferred termination benefits	721,795,120	731,928,946
	c. Survivor benefits	83,460,253	84,455,810
	d. Disability retirement benefits	96,929,789	98,476,633
	e. Total	$ 9,029,857,760	$ 9,179,336,511
2.	Retired members		
	a. Service retirement	$ 7,908,613,236	$ 7,317,422,879
	b. Disability retirement	75,673,134	73,290,123
	c. Beneficiaries	353,998,520	335,846,889
	d. Total	$ 8,338,284,890	$ 7,726,559,891
3.	Inactive members		
	a. Vested terminations	$ 792,429,496	$ 776,174,841
	b. Nonvested terminations	96,581,874	89,520,132
	c. Total	$ 889,011,370	$ 865,694,973
4.	Total actuarial present value of future benefits	$ 18,257,154,020	$ 17,771,591,375

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 4 - Analysis of Normal Cost

		June 30, 2012 (1)	June 30, 2011 (2)
1.	Gross normal cost rate (payable monthly)		
	a. Service retirement benefits	9.70%	9.78%
	b. Refunds and deferred termination benefits	3.77%	3.74%
	c. Disability retirement benefits	0.19%	0.19%
	d. Survivor benefits	0.13%	0.13%
	e. Total	13.79%	13.83%
2.	Less: member contribution rate	(9.40%)	(11.15%)
3.	Employer normal cost rate	4.39%	2.68%

Table 5a - Calculation of GASB 25 ARC as Percent of Payroll
(For Following Fiscal Year)

		June 30, 2012 (1)	June 30, 2011 (2)
1.	GASB 25 funding period (years)	30	30
2.	Amortization contribution percentage		
	a. Amortization payment	$ 354,862,518	$ 321,839,027
	b. Less: expected payment for ARP members	5,137,269	4,209,632
	c. Net (a-b)	$ 349,725,249	$ 317,629,395
	d. Expected payroll	2,649,331,144	2,678,376,300
	e. Amortization contribution percentage (c/d)	13.20%	11.86%
3.	GASB 25 Annual Required Contribution		
	a. Employer normal cost rate	4.39%	2.68%
	b. Amortization percentage	13.20%	11.86%
	c. Total	17.59%	14.54%
	d. Statutory rate	10.90%	9.15%
	e. ARC (greater of (c,d))	17.59%	14.54%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 5b - Contributions as Percentage of ARC for Year Ending 06/30/2012

1.	Actual contributions	
	a. On behalf of ERB members	$ 248,893,693
	b. On behalf of ARP members	4,951,584
	c. Total	$ 253,845,277
2.	Statutory employer contribution rate	9.15%
3.	Imputed fiscal year payroll for ERB members (Item 1a / Item 2)	$ 2,720,149,646
4.	GASB 25 Annual Required Contribution	
	a. Required GASB 25 employer contribution for ERB members as percent of payroll	14.54%
	b. Required GASB 25 employer contribution for ERB members (Item 4a * Item 3)	$ 395,509,759
	c. GASB 25 ARC (Item 4b + Item 1b)	$ 400,461,343
5.	Percentage of ARC contributed (Item 1c / Item 4c)	63.4%

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 6a - Schedule of Funding Progress
(As required by GASB #25)

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 1993	2,798.2	4,207.7	1,409.5	66.5%	1,191.0	118.3%
June 30, 1994	3,180.1	4,657.7	1,477.6	68.3%	1,258.7	117.4%
June 30, 1995	3,561.8	5,079.6	1,517.8	70.1%	1,356.5	111.9%
June 30, 1996	3,993.6	5,542.3	1,548.7	72.1%	1,413.6	109.6%
June 30, 1997	4,516.4	5,854.4	1,338.0	77.1%	1,448.7	92.4%
June 30, 1998	5,169.5	6,398.8	1,229.3	80.8%	1,542.8	79.7%
June 30, 1999	5,988.5	6,971.7	983.1	85.9%	1,637.5	60.0%
June 30, 2000	6,835.8	7,460.6	624.8	91.6%	1,795.7	34.8%
June 30, 2001	7,418.3	8,070.3	652.0	91.9%	1,819.6	35.8%
June 30, 2002	7,595.1	8,748.0	1,152.8	86.8%	1,978.5	58.3%
June 30, 2003	7,518.2	9,266.6	1,748.5	81.1%	2,032.5	86.0%
June 30, 2004	7,488.0	9,927.1	2,439.1	75.4%	2,142.4	113.8%
June 30, 2005	7,457.5	10,591.8	3,134.3	70.4%	2,209.1	141.9%
June 30, 2006	7,813.9	11,436.3	3,622.4	68.3%	2,219.4	163.2%
June 30, 2007	8,591.4	12,190.1	3,598.7	70.5%	2,341.1	153.7%
June 30, 2008	9,272.8	12,967.0	3,694.2	71.5%	2,491.7	148.3%
June 30, 2009	9,366.3	13,883.3	4,517.0	67.5%	2,585.7	174.7%
June 30, 2010	9,431.3	14,353.5	4,922.2	65.7%	2,575.8	191.1%
June 30, 2011	9,642.2	15,293.1	5,650.8	63.0%	2,523.8	223.9%
June 30,2012	9,606.3	15,837.0	6,230.7	60.7%	2,495.3	249.7%

Note : Dollar amounts in millions

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 6b - Schedule of Employer Contributions
(As required by GASB #25)

Fiscal Year	Annual Required Contribution	Percentage Contributed
1994	Not computed	N/A
1995	Not computed	N/A
1996	Not computed	N/A
1997	$131,535,477	98.9%
1998	$136,190,862	100.0%
1999	$145,521,527	100.0%
2000	$153,260,317	100.0%
2001	$161,524,340	100.0%
2002	$173,863,363	100.0%
2003	$179,132,226	100.0%
2004	$203,937,432	92.8%
2005	$243,237,303	81.3%
2006	$299,967,996	75.5%
2007	$364,128,448	70.3%
2008	$368,196,682	79.0%
2009	$375,430,722	86.2%
2010	$357,220,043	87.7%
2011	$377,884,749	81.6%
2012	$400,461,343	63.4%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 6c - Notes to Required Supplementary Information
(as required by GASB #25)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level payment, open
Amortization period for GASB 25 ARC**	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases*	4.75% to 13.50%
Cost-of-living adjustments	2.00%

*Includes inflation at 3.00%.

** The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the employer normal cost plus a 30-year amortization of the UAAL, and (b) the statutory employer contribution rate, plus the 3.00% contribution on behalf of ARP members. Under GASB 25, the maximum allowable amortization period is 30 years. GASB 25 had allowed the use of a 40-year amortization during a transitional period that ended with FY 2006.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 7a - Current Membership Data

			June 30, 2012 (1)	June 30, 2011 (2)
1.	Active members			
	Tier 1			
	a.	Number	51,255	56,459
	b.	Total payroll supplied by System (annualized)	$ 2,192,479,208	$ 2,366,248,754
	c.	Average salary	$ 42,776	$ 41,911
	d.	Average age	48.6	47.6
	e.	Average service	11.7	10.8
	Tier 2			
	a.	Number	9,600	5,214
	b.	Total payroll supplied by System (annualized)	$ 302,796,326	$ 157,467,246
	c.	Average salary	$ 31,541	$ 30,201
	d.	Average age	38.9	38.3
	e.	Average service	1.1	0.8
2.	Vested inactive members (excluding pending refunds)			
	a.	Number	9,648	9,333
	b.	Total annual deferred benefits	$ 93,351,929	$ 89,866,163
	c.	Average annual deferred benefit	$ 9,676	$ 9,629
3.	Nonvested inactive members and vested pending refunds			
	a.	Number	24,384	23,678
	b.	Employee assessments with interest due	$ 96,581,874	$ 89,520,132
	c.	Average refund due	$ 3,961	$ 3,781
4.	Service retirees			
	a.	Number	33,741	31,974
	b.	Total annual benefits	$ 720,860,730	$ 665,619,322
	c.	Average annual benefit	$ 21,365	$ 20,818
5.	Disabled retirees			
	a.	Number	786	774
	b.	Total annual benefits	$ 7,683,718	$ 7,418,072
	c.	Average annual benefit	$ 9,776	$ 9,584
6.	Beneficiaries			
	a.	Number	2,809	2,709
	b.	Total annual benefits	$ 39,596,127	$ 37,244,633
	c.	Average annual benefit	$ 14,096	$ 13,748

Note: Retirement benefits include impact of July 1 cost-of-living increases.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 7b - Historical Summary of Active Member Data

	Active Members		Covered Payroll		Average Salary			
Year Ending June 30,	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1982	42,015	---	$622	---	$14,810	---	40.9	10.7
1984	40,385	-3.9%	670	7.7%	16,600	12.1%	42.0	9.9
1986	45,311	12.2%	786	17.3%	17,353	4.5%	41.7	9.7
1988	45,492	0.4%	863	9.8%	18,968	9.3%	43.9	10.1
1990	48,858	7.4%	1,033	19.7%	21,146	11.5%	42.6	8.5
1992	51,161	4.7%	1,150	11.3%	22,486	6.3%	43.0	8.9
1993	52,296	2.2%	1,191	3.6%	22,774	1.3%	43.2	8.9
1994	53,744	2.8%	1,259	5.7%	23,420	2.8%	43.3	9.0
1995	54,840	2.0%	1,356	7.7%	24,735	5.6%	43.2	9.0
1996	55,782	1.7%	1,414	4.3%	25,341	2.4%	43.7	9.1
1997	56,685	1.6%	1,449	2.5%	25,556	0.8%	43.9	9.1
1998	58,097	2.5%	1,543	6.5%	26,555	3.9%	44.0	9.0
1999	58,615	0.9%	1,637	6.1%	27,936	5.2%	44.3	9.2
2000	60,090	2.5%	1,796	9.7%	29,884	7.0%	44.5	9.1
2001	60,155	0.1%	1,820	1.3%	30,248	1.2%	44.9	9.2
2002	61,091	1.6%	1,979	8.7%	32,387	7.1%	45.2	9.3
2003	62,614	2.5%	2,032	2.7%	32,460	0.2%	45.3	9.3
2004	62,901	0.5%	2,142	5.4%	34,061	4.9%	45.6	9.4
2005	63,362	0.7%	2,209	3.1%	34,865	2.4%	45.6	9.3
2006	61,829	-2.4%	2,219	0.5%	35,896	3.0%	45.7	9.2
2007	62,687	1.4%	2,341	5.5%	37,347	4.0%	45.9	9.3
2008	63,698	1.6%	2,492	6.4%	39,118	4.7%	46.1	9.4
2009	63,819	0.2%	2,586	3.8%	40,517	3.6%	46.3	9.6
2010	63,295	-0.8%	2,576	-0.4%	40,695	0.4%	46.5	9.7
2011	61,673	-2.6%	2,524	-2.0%	40,923	0.6%	46.8	10.0
2012	60,855	-1.3%	2,495	-1.1%	41,004	0.2%	47.0	10.0

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 8a - Plan Net Assets
(Assets at Market or Fair Value)

Item			Valuation as of June 30, 2012	Valuation as of June 30, 2011
(1)			(2)	(3)
1.	Cash and cash equivalents			
	a. Cash		$ 21,301	$ 11,915
	b. Short term investments		317,035,595	552,266,403
	c. Total cash and cash equivalents		$ 317,056,896	$ 552,278,318
2.	Receivables:			
	a.	Contributions	$ 70,941,621	$ 71,938,279
	b.	Investment income	55,468,316	31,350,765
	c.	Investment sales proceeds - brokers	26,127,712	86,433,723
	d.	Other	882,683	1,776,106
	e.	Total receivables	$ 153,420,332	$ 191,498,873
3. Interest in state general fund investment pool			$ 5,521,436	$ 6,346,596
4.	Investments			
	a.	U.S. treasury securities	$ 345,637,771	$ 597,060,723
	b.	Government agency securities	376,212,714	451,764,467
	c.	Asset and mortgage backed securities	593,136,863	200,365,752
	d.	Domestic corporate bonds	986,267,569	1,419,705,812
	e.	Domestic stocks	2,774,109,793	2,698,482,870
	f.	International stocks	1,303,988,823	1,473,098,558
	g.	Non-U.S. government bonds	30,378,318	0
	h.	Private equities	577,114,685	398,411,954
	i.	Hedge funds	715,935,010	663,541,830
	j.	Private real estate	160,562,922	119,497,509
	k.	Other investments	1,314,628,220	1,093,388,583
	l.	Invested securities lending collateral	0	213,455,151
	m.	Total investments	$ 9,177,972,688	$ 9,328,773,209
5.	Properties : land, building, furniture and equipment (at cost, less accumulated depreciation)		$ 2,862,746	$ 4,201,681
6.	Total assets		$ 9,656,834,098	$ 10,083,098,677
7.	Liabilities			
	a.	Accounts payable	$ 15,122,201	$ 1,964,740
	b.	Accounts payable school contributions	681,409	327,151
	c.	Accounts payroll and employee benefits	154,904	123,474
	d.	Accrued compensated absences	203,800	228,616
	e.	Refunds payable	851,892	672,751
	f.	Investment purchases payable - brokers	150,839,658	277,566,065
	g.	Due to other funds	19,065	190,801
	h.	Securities lending collateral	0	213,462,138
	i.	Total liabilities	$ 167,872,929	$ 494,535,736
8.	Total market value of assets available for benefits (Item 6 - Item 7i)		$ 9,488,961,169	$ 9,588,562,941

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 8b - Allocation of Cash and Investments

		June 30, 2012	June 30, 2011
		(1)	(2)
1.	Cash and short-term equivalents	3.3%	5.8%
2.	U.S. treasury securities	3.6%	6.2%
3.	U.S. government agencies	4.0%	4.7%
4.	Domestic corporate bonds	10.4%	14.7%
5.	Domestic equities	29.3%	27.9%
6.	Non-U.S. government bonds	0.3%	0.0%
7.	International equities	13.7%	15.1%
8.	Mortage backed securities	6.2%	2.1%
9.	Private equities	6.1%	4.1%
10.	Hedge funds	7.5%	6.9%
11.	Private real estate	1.7%	1.2%
12.	Other investments	13.9%	11.3%
13.	Total investments	100.0%	100.0%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 9 - Reconciliation of Plan Net Assets

	Year Ending	
	June 30, 2012	June 30, 2011
	(1)	(2)
1. Value of assets at beginning of year		
a. Value reported in prior valuation	$ 9,588,562,941	$ 8,232,523,434
b. Prior period adjustments	-	-
c. Revised value	$ 9,588,562,941	$ 8,232,523,434
2. Revenue for the year		
a. Contributions		
i. Member contributions (including redeposits and service purchases)	$ 291,766,525	$ 250,681,286
ii. Employer contributions	248,893,693	304,310,476
iii. Employer contributions for ARP members	4,951,584	4,057,476
iv. Total	$ 545,611,802	$ 559,049,238
b. Income		
i. Interest, dividends, and other income	$ 173,438,306	$ 184,024,381
ii. Investment expenses	(10,964,924)	(35,247,716)
iii. Net	$ 162,473,382	$ 148,776,665
c. Net realized and unrealized gains	$ (565,488)	$ 1,396,479,035
d. Total revenue	$ 707,519,696	$ 2,104,304,938
3. Expenditures for the year		
a. Refunds	$ 40,580,979	$ 35,086,806
b. Benefit payments	754,554,951	701,771,592
c. Administrative and miscellaneous expenses	11,985,538	11,407,033
d. Total expenditures	$ 807,121,468	$ 748,265,431
4. Increase in net assets (Item 2 - Item 3)	$ (99,601,772)	$ 1,356,039,507
5. Value of assets at end of year (Item 1 + Item 4)	$ 9,488,961,169	$ 9,588,562,941

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 10a - Determination of Excess Earnings to be Deferred

Year ended :	June 30, 2009	June 30, 2010	June 30, 2011	June 30, 2012
	(2)	(3)	(4)	(4)
1. MVA at beginning of year	$ 8,770,044,039	$ 7,113,651,700	$ 8,232,523,434	$ 9,588,562,941
2. Net new investments				
a. Contributions	$ 538,793,240	$ 566,843,306	$ 559,049,238	$ 545,611,802
b. Benefits and refunds paid	(647,391,550)	(685,012,325)	(736,858,398)	(795,135,930)
c. Subtotal	$ (108,598,310)	$ (118,169,019)	$ (177,809,160)	$ (249,524,128)
3. MVA at end of year	$ 7,113,651,700	$ 8,232,523,434	$ 9,588,562,941	$ 9,488,961,169
4. Net MVA earnings (3 - 1 - 2c)	$ (1,547,794,029)	$ 1,237,040,753	$ 1,533,848,667	$ 149,922,356
5. Assumed investment return rate	8.00%	8.00%	8.00%	7.75%
6. Expected return	$ 697,259,591	$ 564,365,375	$ 651,489,508	$ 73,344,568
7. Excess return (4 - 6)	$ (2,245,053,620)	$ 672,675,378	$ 882,359,159	$ (583,522,212)
8. Excess return deferral percent	20%	40%	60%	80%
9. Amount deferred	$ (449,010,724)	$ 269,070,151	$ 529,415,495	$ (466,817,770)

Note : MVA is market value of assets.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 10b - Development of Actuarial Value of Assets

1.	Market value of assets as of valuation	$	9,488,961,169
2.	Deferred amounts for fiscal year ending June 30,		
	a. 2011	$	(466,817,770)
	b. 2010	$	529,415,495
	c. 2009	$	269,070,151
	d. 2008	$	(449,010,724)
	e. Total	$	(117,342,848)
3.	Actuarial value of assets (1 - 2e)	$	9,606,304,017
4.	Actuarial value as percent of market value		101.2%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
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Table 11a - Estimation of Yields

	Year Ending June 30, 2012 (1)	Year Ending June 30, 2011 (2)
A. Market value yield		
1. Beginning of year market assets	$ 9,588,562,941	$ 8,232,523,434
2. Investment income (including realized and unrealized gains and losses)	$ 149,922,356	$ 1,545,255,700
3. End of year market assets	$ 9,488,961,169	$ 9,588,562,941
4. Estimated dollar weighted market value yield	1.6%	19.0%
B. Actuarial value yield		
1. Beginning of year actuarial assets	$ 9,642,229,673	$ 9,431,321,589
2. Actuarial return	$ 213,598,472	$ 388,717,244
3. End of year actuarial assets	$ 9,606,304,017	$ 9,642,229,673
4. Estimated actuarial value yield	2.2%	4.2%

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JUNE 30, 2012 (CONTINUED)

Table 11b - History of Investment Return Rates

Plan Year Ending June 30 of	Market	Actuarial
(1)	(2)	(3)
1995	18.5%	11.5%
1996	12.2%	12.0%
1997	20.3%	13.4%
1998	19.6%	15.0%
1999	11.3%	16.4%
2000	13.1%	15.1%
2001	-11.1%	9.5%
2002	-8.8%	3.3%
2003	2.7%	0.1%
2004	15.3%	0.8%
2005	9.6%	1.1%
2006	12.0%	6.4%
2007	16.7%	11.6%
2008	-6.0%	9.3%
2009	-17.7%	2.2%
2010	17.7%	2.0%
2011	19.0%	4.2%
2011	19.0%	4.2%
2012	1.6%	2.2%
Average Returns		
Last 5 years	1.9%	3.9%
Last 10 years	6.4%	3.9%
Last 15 years	5.6%	6.5%

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Table 12a - Investment Experience Gain or Loss

Item (1)		Year Ending June 30, 2012 (2)	June 30, 2011 (3)
1. Actuarial assets, beginning of year		$ 9,642,229,673	$ 9,431,321,589
2. Total contributions during year		$ 545,611,802	$ 559,049,238
3. Benefits and refunds paid		$ (795,135,930)	$ (736,858,398)
4. Assumed net investment income at 8%			
a.	Beginning of year assets	$ 747,272,800	$ 754,505,727
b.	Contributions	21,142,457	22,361,970
c.	Benefits and refunds paid	(30,811,517)	(29,474,336)
d.	Total	$ 737,603,740	$ 747,393,361
5. Expected actuarial assets, end of year (Sum of items 1 through 4)		$ 10,130,309,285	$ 10,000,905,790
6. Actual actuarial assets, end of year		$ 9,606,304,017	$ 9,642,229,673
7. Asset gain (loss) for year (Item 6 - Item 5)		$ (524,005,268)	$ (358,676,117)

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Table 12b - Total Experience Gain or Loss

Item	Year Ending June 30, 2012	Year Ending June 30, 2011
(1)	(2)	(3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	$ 5,650,842,751	$ 4,922,187,834
2. Normal cost for the previous year	$ 370,419,442	$ 343,639,165
3. Less: contributions for the year	$ (545,611,802)	$ (559,049,238)
4. Interest at 7.75 %		
a. On UAAL	$ 437,940,313	$ 393,775,027
b. On normal cost	14,353,753	13,745,567
c. On contributions	(21,142,457)	(22,361,970)
d. Total	$ 431,151,609	$ 385,158,624
5. Expected UAAL (Sum of Items 1 - 4)	$ 5,906,802,000	$ 5,091,936,385
6. Actual UAAL	$ 6,230,668,513	$ 5,650,842,751
7. Total gain (loss) for the year (Item 5 - Item 6)	$ (323,866,513)	$ (558,906,366)
B. Source of gains and losses		
8. Asset gain (loss) for the year	$ (524,005,268)	$ (358,676,117)
9. Liability experience gain (loss) for the year	$ 200,138,755	$ 225,834,501
10. Assumption change	$ -	$ (426,064,750)
11. Benefit change	$ -	$ -
12. Total	$ (323,866,513)	$ (558,906,366)

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS
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Table 13 - History of Cash Flow

		Expenditures						
Year Ending June 30,	Contributions[1]	Benefit Payments	Refunds	Administrative Expenses	Total	External Cash Flow for the Year[2]	Market Value of Assets	External Cash Flow as Percent of Market Value
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2001	315.2	(340.6)	(36.6)	(3.5)	(380.7)	(65.5)	6,667.0	-1.0%
2002	328.6	(367.5)	(28.5)	(5.8)	(401.8)	(73.2)	6,011.2	-1.2%
2003	337.9	(396.1)	(28.3)	(4.3)	(428.7)	(90.8)	6,083.4	-1.5%
2004	355.6	(422.4)	(26.4)	(2.6)	(451.4)	(95.8)	6,911.5	-1.4%
2005	371.0	(455.0)	(27.2)	(5.3)	(487.5)	(116.5)	7,451.1	-1.6%
2006	408.5	(494.1)	(28.3)	(5.2)	(527.6)	(119.1)	8,219.3	-1.4%
2007	449.5	(540.1)	(27.5)	(5.6)	(573.2)	(123.7)	9,455.8	-1.3%
2008	496.2	(578.8)	(29.5)	(6.1)	(614.4)	(118.2)	8,770.0	-1.3%
2009	538.8	(617.7)	(29.7)	(8.7)	(656.1)	(117.3)	7,113.7	-1.6%
2010	566.8	(656.2)	(28.8)	(11.5)	(696.5)	(129.7)	8,232.5	-1.6%
2011	559.0	(701.8)	(35.1)	(11.4)	(748.3)	(189.3)	9,588.6	-2.0%
2012	545.6	(754.6)	(40.6)	(12.0)	807.2	261.6	9,489.0	-2.8%

Amounts in $ millions

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Table 14 - Solvency Test

	June 30, 2012 (1)	June 30, 2011 (2)
1. Actuarial accrued liability (AAL)		
a. Active member contributions	$ 2,304,519,473	$ 2,189,058,132
b. Retirees and beneficiaries	8,338,284,890	7,726,559,891
c. Active and inactive members (employer finan	5,194,168,167	5,377,454,401
d. Total	$ 15,836,972,530	$ 15,293,072,424
2. Actuarial value of assets	$ 9,606,304,017	$ 9,642,229,673
3. Cumulative portion of AAL covered		
a. Active member contributions	100%	100%
b. Retirees and beneficiaries	88%	96%
c. Active and inactive members (employer finan	0%	0%

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JUNE 30, 2012 (CONTINUED)

Table 15 - Historical Retired Participants' Data

Year Ending June 30,	Number	Average Monthly Benefit
(1)	(2)	(3)
1984	8,462	$430
1986	10,004	512
1988	11,375	663
1990	12,741	767
1992	14,107	846
1993	15,001	890
1994	15,814	966
1995	16,593	976
1996	17,381	1,011
1997	18,317	1,055
1998	19,244	1,104
1999	20,109	1,139
2000	21,186	1,228
2001	22,191	1,274
2002	23,052	1,315
2003	24,085	1,376
2004	24,947	1,420
2005	26,100	1,466
2006	28,539	1,472
2007	29,969	1,523
2008	31,192	1,566
2009	32,496	1,607
2010	33,747	1,628
2011	35,457	1,669
2012	37,336	1,714

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ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 16 - Distribution of Active Members by Age and by Years of Service

As of 06/30/2012

	Years of Credited Service												
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over	Total
Attained Age	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.	Count & Avg. Comp.
Under 25	369	368	127	63	35	15	0	0	0	0	0	0	977
	$16,414	$23,846	$22,160	$17,582	$19,266	$22,913	$0	$0	$0	$0	$0	$0	$20,238
25-29	414	838	601	512	461	627	9	0	0	0	0	0	3,462
	$23,667	$29,617	$29,753	$31,299	$33,496	$32,353	$24,816	$0	$0	$0	$0	$0	$30,177
30-34	404	724	550	464	527	2,119	404	6	0	0	0	0	5,198
	$26,534	$31,337	$31,940	$32,276	$34,355	$40,047	$41,025	$34,718	$0	$0	$0	$0	$35,725
35-39	979	916	677	584	699	2,061	1,709	255	3	0	0	0	7,883
	$27,219	$30,651	$32,542	$35,166	$36,491	$39,626	$46,814	$46,788	$25,406	$0	$0	$0	$37,610
40-44	315	532	435	402	505	2,245	1,795	1,240	207	2	0	0	7,678
	$33,970	$32,243	$36,457	$35,316	$35,080	$39,646	$45,400	$50,078	$46,948	$34,743	$0	$0	$41,418
45-49	255	459	389	360	449	2,100	1,739	1,386	984	162	2	0	8,285
	$35,874	$31,693	$40,537	$36,632	$32,561	$37,247	$41,609	$47,835	$52,268	$52,600	$44,456	$0	$41,544
50-54	272	421	355	348	424	2,077	1,961	1,679	1,304	623	115	2	9,581
	$34,539	$33,535	$43,623	$38,468	$33,169	$37,049	$41,605	$45,105	$53,104	$56,626	$54,887	$45,326	$42,965
55-59	201	350	310	329	346	1,701	1,865	1,666	1,303	636	321	83	9,111
	$33,435	$35,311	$45,779	$39,884	$37,821	$38,179	$41,259	$46,191	$54,682	$58,498	$63,562	$54,746	$45,190
60-64	132	188	192	214	258	1,258	1,206	859	800	437	245	128	5,917
	$34,166	$41,470	$42,624	$43,782	$36,634	$41,269	$43,687	$47,487	$53,709	$62,267	$70,578	$69,825	$47,509
65 & Over	66	101	92	106	114	1,031	422	288	219	120	103	101	2,763
	$29,174	$31,607	$35,278	$30,991	$34,851	$38,404	$40,723	$47,673	$52,487	$71,133	$73,142	$83,879	$44,215
Total	3,407	4,897	3,728	3,382	3,818	15,234	11,110	7,379	4,820	1,980	786	314	60,855
	$28,066	$31,351	$35,683	$35,244	$34,740	$38,584	$43,120	$47,126	$53,151	$59,000	$65,687	$70,204	$41,004

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ACTUARIAL EXHIBITS
JUNE 30, 2012 (CONTINUED)

Table 17a - Reconciliation of Members by Status for Year Ending June 30, 2012

		Inactive, Non-retired Members		Annuitants			
	Active Members	Vested	Non-vested	Service Retirees	Disabled Retirees	Beneficiaries	Grand Total
Number at beginning of year	61,673	9,333	23,678	31,974	774	2,709	130,141
Refund paid (non-death)	(1,358)	(416)	(1,541)				(3,315)
Refund due	(3,091)		3,091				0
Vested terminations	(2,776)	2,776					0
Retirements (nondisabled)	(883)	(1,551)	(34)	2,468			0
Disabled retirements	(26)	(22)			48		0
New Alternate Payee				33			33
Death before retirement - refund	(11)	(25)	(2)				(38)
Death before retirement - annuity							0
Death of annuitant - survivor benefit due				(187)	(32)	219	0
Death of annuitant - no further benefits due				(532)	(4)	(119)	(655)
New hires	6,057						6,075
Reemployments	1,270	(447)	(808)	(15)			0
Adjustments and corrections							0
Number at end of year	60,855	9,648	24,384	33,741	786	2,809	132,223

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
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I. Valuation Date

The valuation date is June 30th of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

II. Actuarial Cost Method

The contribution rate is set by statute for both employees and for the employers. The funding period is determined, as described below, using the Entry Age Normal actuarial cost method.

The Individual Entry Age Normal actuarial cost method assigns the plan's total unfunded liabilities (the actuarial present value of future benefits less the actuarial value of assets) to various periods. The unfunded actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are the normal costs for future years. Then each year's contribution is composed of (i) that year's normal cost, plus (ii) a payment used to reduce the unfunded actuarial accrued liability.

The normal cost is the level (as a percentage of pay) contribution required to fund the benefits for a new member. Under the entry age method, a calculation is made to determine the average uniform and constant percentage rate of employer contribution which, if applied to the compensation of each new participant during the entire period of his anticipated covered service, would be required in addition to the contributions of the participant to meet the cost of all benefits payable on their behalf. Part of the normal cost is paid from the employees' own contributions. The local employers pay the balance from their contributions.

The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of assets.

The balance of the employers' contributions--the remainder after paying their share of the normal cost--is used to reduce the unfunded actuarial accrued liability. The funding period is the length of time required for the unfunded actuarial accrued liability to be completely amortized, assuming that the portion used to reduce the unfunded remains level as a percentage of total payroll, which is assumed to grow 3.75% per year. The 3.00% contribution made by employers to ERB on behalf of employees who elected to participate in the Alternative Retirement Plan is also used to amortize the unfunded actuarial accrued liability.

It is assumed that all contributions are made monthly at the end of the month.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2012 (CONTINUED)

III. Actuarial Value of Assets

The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (less than) expected investment income. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). Returns are measured net of all investment and administrative expenses.

IV. Actuarial Assumptions

A. Economic Assumptions

1. Investment return: 7.75%, compounded annually, net of expenses. This is made up of a 3.00% inflation rate and a 4.75% real rate of return.

2. Salary increase rate: Inflation rate of 3.00% plus productivity increase rate of 1.75% plus step-rate/promotional as shown:

Years of Service	Annual Step-Rate/Promotional Component Rates of Increase	Total Annual Rate of Increase
0	8.75%	13.50%
1	3.00%	7.75%
2	2.00%	6.75%
3	1.50%	6.25%
4	1.25%	6.00%
5	1.00%	5.75%
6	0.75%	5.50%
7	0.50%	5.25%
8	0.50%	5.25%
9	0.50%	5.25%
10 or more	0.00%	4.75%

3. Cost-of-living increases: 2% per year, compounded annually. Note that increases are deferred until July 1 following the year a member retires, or the year in which a member attains the age of 65, whichever is later or, for disabled retirees, until July 1 the third year following retirement. Also, members who retired prior to July 1, 1984 and who are younger than age 65 receive an annual increase.

4. Payroll growth: 3.75% per year (with no allowance for membership growth)

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STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2012 (CONTINUED)

5. Contribution accumulation: Member contributions are assumed to have grown at 5.50% per year, with 4.00% interest, compounded annually, applicable to the account balances in the past as well as the future.

B. Demographic Assumptions

1. Mortality after termination or retirement -

   a. Healthy males - 90% of RP-2000 Combined Mortality Table with White Collar Adjustment for males, set back one year, projected to 2010

   b. Healthy females - 90% of RP-2000 Combined Mortality Table with White Collar Adjustment for females, set back one year, projected to 2010

   c. Disabled males and females - 1981 Disability Table

   d. To account for future mortality improvement, the tables selected for nondisabled annuitants were chosen so that the assumed mortality rates are smaller than the rates observed in the most recent experience study, covering experience for FYE 2005 – FYE 2010. The ratio of the actual number of deaths occurring during this period to the expected number based on the selected assumptions was:

      i. 114% for nondisabled male annuitants
      ii. 109% for nondisabled female annuitants.

   No mortality improvement assumption was made for disabled retirees or active members.

   See sample rates below:

	Deaths per 100 Lives		
Age	Healthy Males	Healthy Females	Disabled Males and Females
40	.07	.05	1.76
45	.10	.07	2.08
50	.14	.11	2.42
55	.22	.19	2.83
60	.38	.36	3.29
65	.76	.66	3.76
70	1.34	1.16	4.36
75	2.32	1.95	5.62
80	4.28	3.25	8.84
85	7.87	5.57	12.95

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STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2012 (CONTINUED)

2. Mortality rates of active members - As shown below for sample ages:

	Deaths per 100 Members	
Age	Males	Females
25	.10	.02
30	.10	.02
35	.08	.04
40	.08	.03
45	.11	.05
50	.15	.10
55	.23	.17
60	.31	.24
65	.46	.31

3. Disability - As shown below for selected ages (rates are only applied to eligible members — members with at least 10 years of service):

	Occurrences of Disability per 100 Members	
Age	Males	Females
25	.00	.00
30	.00	.03
35	.06	.07
40	.13	.12
45	.19	.16
50	.24	.19
55	.26	.20
60	.24	.19
65	.18	.16

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4. Retirement - Select and ultimate as shown below for selected ages (rates are only applied to members eligible for retirement):

Retirement Per 100 Members – Members Hired Before July 1, 2010

	Males - Years of Service					
Age	0-4	5-9	10-14	15-19	20-24	25+
45	0.00	0.00	0.00	0.00	0.00	15.00
50	0.00	0.00	0.00	0.00	0.00	18.00
55	0.00	0.00	0.00	0.00	5.00	20.00
60	0.00	0.00	0.00	15.00	20.00	25.00
62	0.00	0.00	40.00	40.00	35.00	35.00
65	0.00	30.00	45.00	45.00	45.00	45.00
70	100.00	100.00	100.00	100.00	100.00	100.00

	Females - Years of Service					
Age	0-4	5-9	10-14	15-19	20-24	25+
45	0.00	0.00	0.00	0.00	0.00	15.00
50	0.00	0.00	0.00	0.00	0.00	18.00
55	0.00	0.00	0.00	0.00	6.00	23.00
60	0.00	0.00	0.00	20.00	15.00	30.00
62	0.00	0.00	50.00	35.00	35.00	40.00
65	0.00	35.00	40.00	40.00	45.00	45.00
70	100.00	100.00	100.00	100.00	100.00	100.00

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Retirement Per 100 Members – Members Hired On or After July 1, 2010

	Males - Years of Service						
Age	0-4	5-9	10-14	15-19	20-24	25-29	30+
45	0.00	0.00	0.00	0.00	0.00	0.00	N/A
50	0.00	0.00	0.00	0.00	0.00	0.00	30.00
55	0.00	0.00	0.00	0.00	0.00	5.00	40.00
60	0.00	0.00	0.00	0.00	20.00	25.00	40.00
62	0.00	0.00	0.00	40.00	35.00	35.00	40.00
67	0.00	25.00	40.00	45.00	45.00	45.00	45.00
70	100.00	100.00	100.00	100.00	100.00	100.00	100.00

	Females - Years of Service						
Age	0-4	5-9	10-14	15-19	20-24	25-29	30+
45	0.00	0.00	0.00	0.00	0.00	0.00	N/A
50	0.00	0.00	0.00	0.00	0.00	0.00	30.00
55	0.00	0.00	0.00	0.00	0.00	6.00	43.00
60	0.00	0.00	0.00	0.00	15.00	30.00	45.00
62	0.00	0.00	0.00	35.00	35.00	40.00	45.00
67	0.00	35.00	35.00	35.00	35.00	35.00	35.00
70	100.00	100.00	100.00	100.00	100.00	100.00	100.00

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2012 (CONTINUED)

5. Termination (for causes other than death, disability or retirement) - Select and ultimate as shown below for selected ages:

Terminations per 100 Members

Males

	Years of Service										
Age	0	1	2	3	4	5	6	7	8	9	10+
25	45.10	33.50	23.39	17.10	13.75	11.68	10.21	8.94	7.79	7.10	8.86
30	42.28	28.78	20.12	14.85	11.95	10.34	9.17	8.08	7.04	6.28	5.99
35	40.37	26.82	18.43	13.40	10.65	9.29	8.37	7.48	6.58	5.80	3.84
40	39.28	26.65	17.89	12.64	9.85	8.56	7.82	7.13	6.38	5.65	2.40
45	38.59	26.98	18.04	12.55	9.58	8.20	7.49	6.94	6.37	5.79	1.81
50	37.83	27.06	18.60	13.10	9.90	8.24	7.35	6.83	6.45	6.13	2.50
55	36.87	26.97	19.58	14.29	10.83	8.70	7.43	6.77	6.54	6.59	5.30
60	35.79	27.22	21.09	16.11	12.36	9.58	7.69	6.74	6.57	7.11	10.67
65	34.67	28.18	23.21	18.55	14.47	0.00	0.00	0.00	0.00	0.00	0.00

Females

	Years of Service										
Age	0	1	2	3	4	5	6	7	8	9	10+
25	40.50	29.30	21.62	17.88	16.08	14.90	13.60	11.81	9.39	6.66	7.55
30	36.06	25.45	18.97	15.08	12.93	11.68	10.69	9.58	8.12	6.36	5.47
35	33.25	23.24	16.75	12.79	10.57	9.37	8.62	7.94	7.11	6.03	3.87
40	31.79	22.00	15.10	11.14	9.05	7.99	7.34	6.86	6.35	5.66	2.76
45	31.29	21.37	14.28	10.40	8.46	7.48	6.83	6.32	5.87	5.32	2.20
50	31.49	21.39	14.49	10.65	8.71	7.71	6.96	6.32	5.74	5.18	2.27
55	32.32	22.32	15.72	11.79	9.67	8.47	7.57	6.76	6.02	5.39	3.10
60	33.76	24.34	17.95	13.71	11.24	9.62	8.51	7.54	6.72	6.07	4.95
65	35.82	27.54	21.14	16.33	13.36	0.00	0.00	0.00	0.00	0.00	0.00

Rates are not applied after the member is eligible for reduced or unreduced retirement benefits.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2012 (CONTINUED)

C. Other Assumptions

1. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses. All beneficiaries are assumed to be spouses.

2. Percent electing annuity on death: It is assumed that beneficiaries of deceased members will elect to receive the refund of contributions with interest, unless the member is eligible for early or normal retirement, in which case the beneficiary will elect to receive the survivor annuity.

3. Percent electing deferred termination benefit: All vested active members terminating prior to eligibility for a retirement benefit are assumed to elect the more valuable of (i) an immediate refund, or (ii) a deferred annuity commencing when the member is eligible for an unreduced retirement benefit.

4. Assumed age for commencement of deferred benefits: Members electing to receive a deferred benefit are assumed to commence receipt when eligible for an unreduced benefit (or attained age if later).

5. Administrative expenses: The assumed investment return rate is intended to be the net rate of return after payment of all investment and administrative expenses.

6. Percent married: For valuation purposes 100% of members are assumed to be married.

V. Participant Data

Participant data was supplied in electronic files for (i) active members, (ii) inactive members, who are entitled to either a future deferred benefit or a refund of their employee contributions and the accumulated interest, and (iii) members and beneficiaries receiving benefits.

The data for active and inactive, non-retired members include birth date, sex, years of service, salary, and accumulated employee contributions (without interest). For retired members and beneficiaries, the data included date of birth, sex, beneficiary or joint annuitant date of birth (where applicable), current monthly benefit, date of retirement, and a form of payment code.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2012 (CONTINUED)

Salary supplied for the current year was the total earnings for the year preceding the valuation date. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
GLOSSARY OF ACTUARIAL TERMS
JUNE 30, 2012

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of Future Plan Benefits which is not provided for by future Normal Costs. It is equal to the Actuarial Present Value of Future Plan Benefits minus the actuarial present value of future Normal Costs.

Actuarial Assumptions: Assumptions as to future experience under the Plan. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and future investment and administrative expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

Actuarial Cost Method or ***Funding Method:*** A procedure for allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability. These items are used to determine the ARC.

Actuarial Gain or ***Actuarial Loss:*** A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Plan's assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
GLOSSARY OF ACTUARIAL TERMS (CONTINUED)
JUNE 30, 2012

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)

b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and

c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of those benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive, nonretired members either entitled to a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.

Actuarial Valuation: The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB 25, such as the funded ratio and the ARC.

Actuarial Value of Assets or ***Valuation Assets:*** The value of the Plan's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly actuaries use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ARC.

Actuarially Determined: Values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
GLOSSARY OF ACTUARIAL TERMS (CONTINUED)
JUNE 30, 2012

Amortization Method: A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.

Amortization Payment: That portion of the pension plan contribution or ARC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Annual Required Contribution (ARC): The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB 25. The ARC consists of the Employer Normal Cost and the Amortization Payment.

Closed Amortization Period: A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.

Decrements: Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.

Defined Benefit Plan: A retirement plan that is not a Defined Contribution Plan. Typically a defined benefit plan is one in which benefits are defined by a formula applied to the member's compensation and/or years of service.

Defined Contribution Plan: A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, and the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.

Employer Normal Cost: The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.

Experience Study: A periodic review and analysis of the actual experience of the Plan which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
GLOSSARY OF ACTUARIAL TERMS (CONTINUED)
JUNE 30, 2012

Funded Ratio: The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA, although GASB 25 reporting requires the use of the AVA.

Funding Period or ***Amortization Period:*** The term "Funding Period" is used in two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ARC. This funding period is chosen by the Board of Trustees. In the second sense, it is a calculated item: the number of years in the future that will theoretically be required to amortize (i.e., pay off or eliminate) the Unfunded Actuarial Accrued Liability, based on the statutory employer contribution rate, and assuming no future actuarial gains or losses.

GASB: Governmental Accounting Standards Board. The GASB is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. Established in 1984 by agreement of the Financial Accounting Foundations (FAF) and ten national associations of state and local government officials, the GASB is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments.

GASB 25 and ***GASB 27***: Governmental Accounting Standards Board Statements No. 25 and No. 27. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 25 sets the rules for the systems themselves.

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STATISTICAL SECTION

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INTRODUCTION TO STATISTICAL SECTION
JUNE 30, 2012

This statistical section of the report is intended to provide additional information about the entities that employ members of the Educational Retirement Plan. A complete listing of employers is provided, as well as the number of members and the percent of the total represented by the ten largest employers of the plan.

We also provide additional schedules provided to give more history on the changes in plan assets than is provided in the basic financial statements, and a summary of historical actuarial data. A history of member and employer contribution rates is provided to assist the reader in understanding how members and employers have contributed to their plan. A breakdown of benefit payments by type (regular retirement benefits and disability payments) as of June 30, 2012, is provided for several benefit levels with information on the number of recipients receiving benefits and the average years of service for each level of benefits. A report is presented on certain performance measures deemed important by the board. Finally, a summary of plan provisions is provided to give more information on the plan including the year established, fiscal year, plan administration, and details of plan participation, contribution requirements, and benefits.

Data for this section was generated from prior annual reports, current and prior actuarial studies, and data maintained in our Integrated Retirement Information System (IRIS). For the tables showing average benefit payments by benefit level and by years of service, we imported data from IRIS as of June 30, 2012 into Microsoft Excel and sorted, summarized, and averaged the data in groupings we felt would be useful to the reader.

We hope the readers of this report find this information useful.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
PARTICIPATING EMPLOYERS
JUNE 30, 2012

PUBLIC SCHOOLS

ALAMOGORDO PUBLIC SCHOOLS	JEMEZ VALLEY PUBLIC SCHOOLS
ALBUQUERQUE PUBLIC SCHOOLS	LAKE ARTHUR MUNICIPAL SCHOOLS
ANIMAS PUBLIC SCHOOLS	LAS CRUCES SCHOOL DISTRICT
ARTESIA PUBLIC SCHOOLS	LAS VEGAS CITY SCHOOLS
AZTEC MUNICIPAL SCHOOLS	LAS VEGAS WEST
BELEN CONSOLIDATED SCHOOLS	LOS ALAMOS SCHOOLS
BERNALILLO PUBLIC SCHOOLS	LOS LUNAS SCHOOLS
BLOOMFIELD SCHOOLS	LOVING MUNICIPAL SCHOOLS
CAPITAN MUNICIPAL SCHOOLS	LOVINGTON MUNICIPAL SCHOOLS
CARLSBAD MUNICIPAL SCHOOLS	MAGDALENA MUNICIPAL SCHOOLS
CARRIZOZO MUNICIPAL SCHOOLS	MAXWELL MUNICIPAL SCHOOLS
CENTRAL CONSOLIDATED SCHOOLS	MELROSE SCHOOLS
CHAMA VALLEY SCHOOLS	MESA VISTA CONSOLID SCHOOLS
CIMARRON MUNICIPAL SCHOOLS	MORA INDEPENDENT SCHOOLS
CLAYTON MUNICIPAL SCHOOLS	MORIARTY MUNICIPAL SCHOOLS
CLOUDCROFT MUNICIPAL SCHOOLS	MOSQUERO MUNICIPAL SCHOOLS
CLOVIS MUNICIPAL SCHOOLS	MOUNTAINAIR PUBLIC SCHOOLS
COBRE CONSOLIDATED SCHOOLS	PECOS INDEPENDENT SCHOOLS
CORONA PUBLIC SCHOOLS	PENASCO INDEPENDENT SCHOOLS
CUBA INDEPENDENT SCHOOLS	POJOAQUE VALLEY SCHOOLS
DEMING PUBLIC SCHOOLS	PORTALES MUNICIPAL SCHOOLS
DES MOINES MUNICIPAL SCHOOLS	QUEMADO INDEPENDENT SCHOOL DISTRICT #2
DEXTER CONSOLIDATED SCHOOLS	QUESTA INDEPENDENT SCHOOLS
DORA CONSOLIDATED SCHOOLS	RATON PUBLIC SCHOOLS
DULCE INDEPENDENT SCHOOLS	RESERVE INDEPENDENT SCHOOLS
ELIDA MUNICIPAL SCHOOLS	RIO RANCHO PUBLIC SCHOOLS
ESPANOLA PUBLIC SCHOOLS	ROSWELL INDEPENDENT SCHOOLS
ESTANCIA MUNICIPAL SCHOOLS	ROY MUNICIPAL SCHOOLS
EUNICE PUBLIC SCHOOLS	RUIDOSO MUNICIPAL SCHOOLS
FARMINGTON MUNICIPAL SCHOOLS	SAN JON SCHOOLS
FLOYD MUNICIPAL SCHOOLS	SANTA FE PUBLIC SCHOOLS
FORT SUMNER MUNICIPAL SCHOOLS	SANTA ROSA CONSOLID SCHOOLS
GADSDEN INDEPENDENT SCHOOLS	SILVER CONSOLIDATED SCHOOLS
GALLUP MCKINLEY CTY SCHOOLS	SOCORRO CONSOLIDATED SCHOOLS
GRADY MUNICIPAL SCHOOLS	SPRINGER MUNICIPAL SCHOOLS
GRANTS-CIBOLA COUNTY SCHOOLS	TAOS MUNICIPAL SCHOOLS
HAGERMAN MUNICIPAL SCHOOLS	TATUM MUNICIPAL SCHOOLS
HATCH VALLEY MUNICIPAL SCHOOLS	TEXICO MUNICIPAL SCHOOLS
HOBBS MUNICIPAL SCHOOLS	TRUTH OR CONSEQUENSES MUNICIPAL SCHOOLS
HONDO VALLEY PUBLIC SCHOOLS	TUCUMCARI MUNICIPAL SCHOOLS
HOUSE MUNICIPAL SCHOOLS	TULAROSA MUNICIPAL SCHOOLS
JAL PUBLIC SCHOOLS	VAUGHN SCHOOLS
JEMEZ MOUNTAIN SCHOOL DISTRICT	WAGON MOUND PUBLIC SCHOOLS
LOGAN MUNICIPAL SCHOOLS	ZUNI PUBLIC SCHOOL DISTRICT
LORDSBURG MUNICIPAL SCHOOLS	

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
PARTICIPATING EMPLOYERS
JUNE 30, 2012 (CONTINUED)

CHARTER SCHOOLS

ABQ INSTITUE FOR MATH AND SCIENCE AT UNM (formerly High Tech High)	LA ACADEMIA DE ESPERANZA	SAN DIEGO RIVERSIDE CHARTER
ABQ TALENT DEV. SECONDARY CHARTER	LA ACADEMIA DE LENGUA Y CULTURA	SCHOOL OF DREAMS ACADEMY
ACE LEADERSHIP HIGH SCHOOL	LA ACADEMIA DOLORES HUERTA (formerly La Academia De Idiomas Y Cultura)	SCHOOL FOR INTEGRATED ACAD & TECH
ACADEMY OF TRADES & TECHNOLOGY (formerly Youth Build Community School)	LA JICARITA COMMUNITY SCHOOL	SIDNEY GUTIERREZ MIDDLE CHARTER
ALBUQUERQUE SCHOOL OF EXCELLENCE	LA PROMESA EARLY LEARNING CENTER	SOUTH VALLEY CHARTER HIGH
ALDO LEOPOLD HIGH SCHOOL	LA RESOLANA LEADERSHIP ACADEMY	SW AERONAUTICS MATH & SCIENCE ACADEMY
ALICE KING COMMUNITY SCHOOL (Formerly North Albuquerque Community Charter)	LA TIERRA MONTESSORI SCHOOL	SW INTERMEDIATE LEARNING CENTER (formerly La Luz Del Monte Learning Center)
AMY BIEHL CHARTER HIGH	LAS MONTANES CHARTER SCHOOL	SOUTHWEST PRIMARY LEARNING CENTER
ANANSI CHARTER SCHOOL	LEARNING COMMUNITY CHARTER	SOUTHWEST SECONDARY LEARNING
ANTHONY CHARTER	LINDRITH AREA HERITAGE SCHOOL	TAOS ACADEMY CHARTER SCHOOL
BATAAN CHARTER SCHOOL	LOS PUENTES	TAOS INTEGRATED SCHOOL OF THE ARTS
CAREER ACADEMIC TECHNICAL ACADEMY	MC CURDY CHARTER SCHOOL	TAOS MUNICIPAL CHARTER SCHOOL
CARINOS DE LOS NINOS	MIDDLE COLLEGE HIGH SCHOOL	THE ACADEMY FOR TECHNOLOGY AND THE CLASSICS
CESAR CHAVEZ COMMUNITY SCHOOL	MISSION ACHIEVEMENT AND SUCCESS CHARTER SCHOOL	THE ALBUQUERQUE SIGN LANGUAGE ACADEMY
CIEN AGUAS INTERNATIONAL SCHOOL	MONTE DEL SOL CHARTER SCHOOL	THE ASK ACADEMY
CHRISTINE DUNCAN COMMUNITY SCHOOL	MONTESSORI ELEMENTARY	THE GREAT ACADEMY
CORAL COMMUNITY CHARTER SCHOOL	MONTESSORI OF THE RIO GRANDE CHARTER	THE INTERNAT'L SCH AT MESA DEL SOL
CORRALES INTERNATIONAL SCHOOL	MORENO VALLEY HIGH SCHOOL	THE MASTERS PROGRAM
COTTONWOOD CLASSICAL PREP SCHOOL	MOSAIC ACADEMY CHARTER	THE MONTESSORI ELEMENTARY SCHOOL
COTTONWOOD VALLEY CHARTER	MOUNTAIN MAHOGONY COMMUNITY	THE NEW MEXICO INTERNATIONAL SCHOOL
CREATIVE ED PREP #1	NATIVE AMERICAN COMMUNITY ACADEMY	TIERRA ADENTRO OF NEW MEXICO
GILBERT L SENA CHARTER HIGH SCHOOL (formerly Creative Prep #2)	NEW AMERICA SCHOOL – LAS CRUCES	TIERRA ENCANTADA CHARTER HIGH (formerly Charter School #37)
DEMING CESAR CHAVEZ	NEW MEXICO SCHOOL FOR THE ARTS	TURQUOISE TRAIL CHARTER SCHOOL
DIGITAL ARTS AND TECH. ACADEMY (formerly ABQ Charter Vo Tec High)	NEW MEXICO VIRTUAL ACADEMY	TWENTY-FIRST CENTURY CHARTER
EAST MOUNTAIN HIGH SCHOOL	NORTH VALLEY ACADEMY (formerly Horizon Academy Northwest)	UPLIFT COMMUNITY SCHOOL
EL CAMINO REAL ACADEMY	NUESTROS VALEROS CHARTER SCHOOL	VILLAGE ACADEMY
ESTANCIA VALLEY CLASSICAL ACADEMY	PUBLIC ACADEMY FOR PERFORMING ARTS	VISTA GRANDE HIGH SCHOOL
GORDON BERNELL CHARTER SCHOOL	RALPH J. BUNCHE ACADEMY	WALATOWA
HORIZON ACADEMY SOUTH	RED RIVER VALLEY CHARTER	WILLIAM W & JOSEPHINE DORN CHARTER COMMUNITY SCHOOL
HORIZON ACADEMY WEST	ROBERT F KENNEDY CHARTER	
J. PAUL TAYLOR ACADEMY	ROOTS AND WINGS COMMUNITY	
JEFFERSON MONTESSORI ACADEMY	SAGE MONTESSORI CHARTER SCHOOL	

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
PARTICIPATING EMPLOYERS
JUNE 30, 2012 (CONTINUED)

UNIVERSITIES and COLLEGES
CENTRAL NM COMMUNITY COLLEGE
CLOVIS COMMUNITY COLLEGE
EASTERN NEW MEXICO UNIVERSITY
ENMU-ROSWELL
LUNA COMMUNITY COLLEGE
MESALANDS COMMUNITY COLLEGE
NEW MEXICO HIGHLANDS UNIVERSITY
NEW MEXICO JUNIOR COLLEGE
NEW MEXICO STATE UNIVERSITY
NM INSTITUTE OF MINING & TECH
NORTHERN NM COMM COLLEGE
SAN JUAN COLLEGE
SANTA FE COMMUNITY COLLEGE
UNIVERSITY OF NEW MEXICO
WESTERN NEW MEXICO UNIVERSITY

STATE AGENCIES
CENTRAL REGIONAL ED COOP #5
DEPARTMENT OF FINANCE & ADMINISTRATION
HIGH PLAINS REGIONAL EDUCATION COOP #3
LEA REGIONAL EDUCATION COOP #7
NEW MEXICO ACTIVITIES ASSOC
NORTHEAST REGIONAL EDUCATION COOP #4
PECOS VALLEY REGIONAL EDUCATION COOP #8
REGIONAL EDUCATION COOP #6
REGION IX EDUCATIONAL COOP #9
SOUTHWEST REC #10
NW REGIONAL EDUCATION COOP #2

SPECIAL SCHOOLS
NEW MEXICO MILITARY INSTITUTE
NEW MEXICO SCHOOL FOR THE DEAF
NM SCH FOR VISUALLY HANDICAP
UNIVERISITY HOSPITAL

Educational Employees at the following additional agencies are covered by ERB
NM DEPARTMENT OF CORRECTIONS
NM PUBLIC EDUCATION DEPARTMENT
NM DEPARTMENT OF HEALTH
NEW MEXICO DEPARTMENT OF VOCATIONAL REHABILITATION
NM EDUCATIONAL RETIREMENT BOARD
NMCYFD

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
TEN LARGEST PARTICIPATING EMPLOYERS
JUNE 30, 2012 (CONTINUED)

Ten Largest Employers with Employee Count
Fiscal Years Ending June 30, 2007 to June 30, 2012

EMPLOYER	EMPLOYEE COUNT June 30, 2007		EMPLOYEE COUNT June 30, 2008		EMPLOYEE COUNT June 30, 2009		EMPLOYEE COUNT June 30, 2010		EMPLOYEE COUNT June 30, 2011		EMPLOYEE COUNT June 30, 2012	
Albuquerque Public Schools	12,535	20%	12,706	20%	12,824	20%	13,090	21%	12,801	20%	11,685	19%
University of New Mexico	7,513	12%	7,807	12%	7,270	11%	7,261	11%	7,240	11%	6,501	11%
New Mexico State University	4,779	8%	4,622	7%	4,486	7%	4,439	7%	4,312	7%	4,365	7%
Las Cruces School District	3,978	6%	3,530	6%	3,514	6%	3,543	6%	3,538	6%	2,955	5%
Gallup McKinley County Schools	2,197	4%	2,148	3%	2,165	3%	2,175	3%	2,163	3%	1,910	3%
Rio Rancho Public Schools	1,774	3%	1,877	3%	1,911	3%	2,125	3%	2,122	3%	1,998	3%
Gadsden independent schools	2,010	3%	2,116	3%	2,104	3%	2,015	3%	1,943	3%	1,837	3%
Central NM Community College	1,904	3%	1,758	3%	1,816	3%	1,871	3%	1,863	3%	1,861	3%
Santa Fe Public Schools	1,728	3%	1,719	3%	1,704	3%	1,697	3%	1,667	3%	1,499	2%
Farmington Public Schools	1,286	2%	1,264	2%	1,298	2%	1,322	2%	1,260	2%	1,182	2%
All Others	22,983	36%	24,151	38%	24,730	39%	23,759	38%	24,388	39%	25,062	41%
Total Active Members	62,687		63,698		63,822		63,297		63,297		60,855	

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STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
CHANGES IN PLAN NET ASSETS - LAST TEN FISCAL YEARS

YEAR ENDED JUNE 30	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
Contributions										
Employer	$ 179,010,098	$ 189,324,788	$ 197,872,532	$ 226,479,332	$ 255,853,194	$ 290,846,065	$ 323,685,497	$ 313,276,296	$ 308,367,952	$ 253,845,277
Member	154,427,006	162,118,792	169,099,212	178,220,782	189,391,152	201,916,230	212,014,023	250,666,650	247,407,988	289,852,094
Net Investment Income	160,929,270	923,928,365	656,107,462	887,217,751	1,360,224,241	(567,837,271)	(1,539,724,404)	1,248,320,486	1,544,495,567	160,760,615
Miscellaneous Income	4,344,038	4,200,818	4,032,754	3,866,927	4,331,489	3,662,453	3,696,085	3,108,550	4,033,431	3,061,710
Total Additions	498,710,412	1,279,572,763	1,027,111,960	1,295,784,792	1,809,800,076	(71,412,523)	(1,000,328,799)	1,815,371,982	2,104,304,938	707,519,696
Deductions										
Benefit Payments										
Age & Service	390,931,959	416,862,335	449,036,895	487,912,505	533,923,520	572,191,714	610,664,369	648,962,031	694,153,334	746,493,523
Disability	5,149,796	5,556,031	5,946,557	6,184,110	6,220,203	6,583,897	7,040,669	7,270,639	7,618,258	8,061,428
Refunds to Terminated Members	21,132,480	21,859,555	23,444,332	24,062,559	23,335,088	23,729,865	24,051,878	24,573,831	29,286,820	34,520,423
Interest On Refunds	7,205,976	4,525,458	3,770,343	4,243,297	4,190,043	5,745,306	5,634,632	4,205,824	5,799,986	6,060,556
Administrative Expenses	4,287,345	2,583,048	5,320,667	5,230,633	5,625,343	6,088,509	8,671,992	11,487,923	11,407,033	11,985,538
Total Deductions	428,707,556	451,386,427	487,518,794	527,633,104	573,294,197	614,339,291	656,063,540	696,500,248	748,265,431	807,121,468
Change in Plan Net Assets	70,002,856	828,186,336	539,593,166	768,151,688	1,236,505,879	(685,751,814)	(1,656,392,339)	1,118,871,734	1,356,039,507	(99,601,772)
Net Assets Held in Trust										
Beginning of Year	6,013,355,928	6,083,358,784	6,911,545,120	7,451,138,286	8,219,289,974	9,455,795,853	8,770,044,039	7,113,651,700	8,232,523,434	9,588,562,941

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF ACTUARIAL VALUE OF ASSETS, ACCRUED LIABILITIES, AND UAAL
JUNE 30, 2012

Year ended June 30	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liability (UAAL)
2002	7,595,590,780	8,747,971,400	1,152,380,620
2003	7,518,163,450	9,266,626,972	1,748,463,522
2004	7,487,979,776	9,927,058,567	2,439,078,791
2005	7,457,547,183	10,591,808,489	3,134,261,306
2006	7,813,888,383	11,436,324,190	3,622,435,807
2007	8,591,417,402	12,190,080,577	3,598,663,175
2008	9,272,828,135	12,966,995,130	3,694,166,995
2009	9,366,271,312	13,883,273,082	4,517,001,770
2010	9,431,321,589	14,353,509,423	4,922,187,834
2011	9,642,229,673	15,293,072,424	5,650,842,751

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
HISTORY OF CONTRIBUTION RATES
JUNE 30, 2012

Fiscal Year Beginning July 1	Employee Rate %	Employer Rate %	Total Rate %
1984	7.600%	7.600%	15.200%
1986	7.600%	7.600%	15.200%
1988	7.600%	7.600%	15.200%
1990	7.600%	7.600%	15.200%
1992	7.600%	7.600%	15.200%
1993	7.600%	7.600%	15.200%
1994	7.600%	8.650%	16.250%
1995	7.600%	8.650%	16.250%
1996	7.600%	8.650%	16.250%
1997	7.600%	8.650%	16.250%
1998	7.600%	8.650%	16.250%
1999	7.600%	8.650%	16.250%
2000	7.600%	8.650%	16.250%
2001	7.600%	8.650%	16.250%
2002	7.600%	8.650%	16.250%
2003	7.600%	8.650%	16.250%
2004	7.600%	8.650%	16.250%
2005	7.600%	8.650%	16.250%
2006	7.675%	9.400%	17.075%
2007	7.825%	10.150%	17.975%
2008	7.900%	10.900%	18.800%
2009	7.900%	11.650%	19.550%
2010 & 2011 FTE earnings >= $20,000	9.400%	10.900%	20.300%
2010 & 2011 FTE earnings < $20,000	7.900%	12.400%	20.300%
2012 FTE earnings >= $20,000	11.150%	9.150%	20.300%
2012 FTE earnings < $20,000	7.900%	12.400%	20.300%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
AVERAGE MONTHLY BENEFIT PAYMENTS BY BENEFIT AMOUNT
JUNE 30, 2012

Range of Monthly Pension Amount	Number of Members	Average Years Service	Average Monthly Benefit
REGULAR RETIREMENTS			
$0 - $499	5,203	10.43	$298.92
$500 - $999	6,645	17.27	$741.47
$1,000 - $1,499	6,089	20.87	$1,245.65
$1,500 - $1,999	5,865	23.96	$1,749.70
$2,000 - $2,499	4,698	26.15	$2,236.77
$2,500 - $2,999	3,085	27.97	$2,726.45
$3,000 - $3,499	1,847	29.31	$3,228.34
$3,500 - $3,999	1,063	30.71	$3,729.02
$4,000 - $4,499	622	31.54	$4,235.46
$4,500 - $4,999	365	32.88	$4,728.19
$5,000 - $5,499	241	32.31	$5,221.70
$5,500 - $5,999	131	31.73	$5,746.45
$6,000 - $6,499	87	32.02	$6,251.71
$6,500 - $6,999	59	32.01	$6,748.29
$7,000 - $7,499	38	33.80	$7,254.76
over $7,500	130	33.43	$9,447.87
Total	36,168	21.74	$1,715.82
DISABILITY RETIREMENTS			
$0 - $499	287	13.33	$358.25
$500 - $999	435	15.11	$744.05
$1,000 - $1,499	241	17.18	$1,201.23
$1,500 - $1,999	98	22.46	$1,726.01
$2,000 - $2,499	51	25.39	$2,228.43
$2,500 - $2,999	26	29.44	$2,732.22
$3,000 - $3,499	19	29.04	$3,215.50
over $3,500	12	28.46	$4,298.90
Total	1169	16.86	$1,014.35

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
AVERAGE MONTHLY BENEFIT PAYMENTS BY YEARS OF SERVICE
JUNE 30, 2012

Years Service		Number of Members	Average Monthly Benefit
REGULAR RETIREMENTS			
0 -	9.99	3,558	$390.23
10 -	14.99	4,144	$771.43
15 -	19.99	5,932	$1,143.95
20 -	24.99	5,706	$1,543.95
25 -	29.99	11,127	$2,163.24
30 -	34.99	4,194	$2,925.77
35 -	39.99	1,287	$3,225.98
40 -	44.99	197	$4,310.74
45 -	49.99	21	$4,147.45
over	49.99	2	$6,928.23
		36,168	$1,715.82
DISABILITY RETIREMENTS			
10* -	14.99	555	$699.63
15	19.99	297	$841.25
20	24.99	155	$1,224.91
25 -	29.99	116	$2,036.61
30 -	34.99	38	$2,538.54
over	34.99	8	$3,225.98
		1,169	$1,014.35

* Ten years service credit required for disability retirement.

Note - Final Average Salary by Years of Service is not readily available for inclusion in this table.

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF ACCOUNTABILITY IN GOVERNMENT ACT—
PERFORMANCE MEASURES
As of June 30, 2012
(Unaudited)

Type	Description	Target	Actual
Outcome	Average number of days to process refund requests	15	3.42
Output	Average number of days to respond to requests for benefits estimates and purchase of service requests	18	18
Outcome	Percentage of member satisfaction with seminars and trainings	95%	99%
Outcome	Average rate of return over a cumulative five-year period	8.00%	5.30%
Output	Percent of retirement applications processed within 60 days	95%	95%
Output	Number of benefit estimates and purchase of service	6,250	7,425

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF ACCOUNTABILITY IN GOVERNMENT ACT— PERFORMANCE MEASURES
As of June 30, 2012 (Unaudited)

Type	Description	Target	Actual
Outcome	Average number of days to process refund requests	15	3.42
Output	Average number of days to respond to requests for benefits estimates and purchase of service requests	18	18
Outcome	Percentage of member satisfaction with seminars and trainings	95%	99%
Outcome	Average rate of return over a cumulative five-year period	8.00%	5.30%
Output	Percent of retirement applications processed within 60 days	95%	95%
Output	Number of benefit estimates and purchase of service requests computed annually	6,250	7,425
Output	Number of member workshops conducted	30	28
Quality	Percent of accurately computed retirements	99.5%	99.5%
Outcome	Funding period of UAAL in years	≤ 30	Infinite

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2012

1. Effective Date: July 1, 1957.

2. Plan Year/Fiscal Year: Twelve-month period ending June 30th.

3. Administration: The Educational Retirement Board is responsible for administration of the System and investment of System assets.

4. Type of Plan: The System is a qualified, defined benefit, governmental retirement plan. For government accounting purposes, it is a cost-sharing multiple-employer PERS.

5. Eligibility: All teachers, nurses, and administrators employed by public schools in New Mexico, including public colleges and universities, participate in the System. These are the "regular members", and their participation is a condition of employment. However, see the section on the Alternative Retirement Plan below for an exception. Generally, other employees of these schools are also required to participate, although such employees employed continuously since June 30, 1971 may exempt themselves from membership. Employees of state schools and certain state agencies also participate.

6. Member Contributions: Members must contribute a percentage of their salary to the System. “Salary” for this purpose includes substantially all earnings. The member contribution rate is set by statute, and has been changed from time to time. The following schedule shows recent and future member contribution rates. Employee contributions are "picked up" by the local employer for federal income tax treatment.

Fiscal Year Ended	Member Contribution Rate
FYE 2005 and earlier	7.600%
FYE 2006	7.675%
FYE 2007	7.750%
FYE 2008	7.825%
FYE 2009	7.900%
FYE 2010*	9.400%
FYE 2011*	9.400%
FYE2012*	11.150%
FYE2013*	9.400%
FYE 2014 and later	7.900%

* For members whose annual salary is greater than $20,000. Members with annual salary of $20,000 or less will continue to contribute 7.900%.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2012 (CONTINUED)

7. Employer Contributions: The school district or other local administrative unit which employs a member contributes a percentage of the member's salary to the System. “Salary” for this purpose includes substantially all earnings. The employer contribution rate is set by statute, and has been changed from time to time. The following schedule shows recent and future employer contribution rates. In addition, state universities, colleges and junior colleges contribute 3% of the earnings of non-members who are participating in the Alternative Retirement Plan.

Fiscal Year Ended	Employer Contribution Rate
FYE 2005 and earlier	8.65%
FYE 2006	9.40%
FYE 2007	10.15%
FYE 2008	10.90%
FYE 2009	11.65%
FYE 2010*	10.90%
FYE 2011*	10.90%
FYE 2012*	9.15%
FYE 2013*	10.90%
FYE 2014	13.15%
FYE 2015 and later	13.90%

* For members whose annual salary is greater than $20,000. For members with annual salary of $20,000 or less, the employer will contribute 12.40% in FYE2010 through FYE2013.

8. Service: Employees receive credit for each calendar quarter in which they are contributing members. Credit is also granted for service prior to the System's effective date, and certain military service. Credit may also be purchased for some out-of-state service under certain circumstances.

9. Tier: Members who join ERB by June 30, 2010 are in Tier 1, while members who join later are in Tier 2. If a Tier 1 member terminates, takes a refund, and later rejoins ERB after June 30, 2010 and does not pay back the refund to ERB to restore the prior service, that member will be in Tier 2 after being reemployed.

10. Final Average Compensation (FAC): The average of the member's earnings for the last five consecutive years, or such other five consecutive year period that gives the largest average. Monthly benefits are based on one-twelfth of this amount.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2012 (CONTINUED)

11. Normal Retirement

   a. Eligibility:

      - Tier 1 member may retire upon Normal Retirement on the earliest of (i) the date he/she attains age 65 with credit for 5 years of service, or (ii) the date the member completes 25 years of service, or (iii) the date that the sum of the member's age and service is at least 75, provided the member is at least age 60.

      - Tier 2 member may retire upon Normal Retirement on the earliest of (i) the date he/she attains age 67 with credit for 5 years of service, or (ii) the date the member completes 30 years of service, or (iii) the date that the sum of the member's age and service is at least 80, provided the member is at least age 65.

   b. Monthly Benefit: 2.35% of FAC (monthly) times years of service.

   c. Payment Form: Benefits are paid as a monthly life annuity, with a guarantee that if the sum of payments made does not exceed the member's accumulated contributions with interest, determined as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. Optional forms of payment are available; see below.

12. Early Retirement

   a. Eligibility: Tier 1 member may take early retirement once the sum of his/her age and service equals or exceeds 75, while Tier 2 member may take early retirement once the sum of his/her age and service equals or exceeds 80. The reduction for Tier 1 members is from age 60 and the reduction for Tier 2 members is from age 65. The reduction is 2.4% per year for the first five years the retirement precedes age 60 (Tier 1) or age 65 (Tier 2), and 7.2% for any additional years before the indicated age.

   b. Monthly Benefit: 2.35% of FAC (monthly) times years of service, multiplied by the early retirement factor below.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2012 (CONTINUED)

c. Early Retirement Factors:

Tier 1		Tier 2	
Age at Retirement	Factor	Age at Retirement	Factor
60 or later	1.000	65 or later	1.000
59	.976	64	.976
58	.952	63	.952
57	.928	62	.928
56	.904	61	.904
55	.880	60	.880
54	.808	59	.808
53	.736	58	.736
52	.664	57	.664
51	.592	56	.592
50	.520	55	.520
49	.448	54	.448
48	.376	53	.376
47	.304	52	.304
46	.232	51	.232
45	.160	50	.160

d. Payment Form: Same as for Normal Retirement above.

13. Disability Retirement

a. Eligibility: A member is eligible provided (i) he/she has credit for at least 10 years of service, and (ii) the disability is approved by the Board.

b. Monthly Benefit: 2% of FAC (monthly) times years of service, but not less than the smaller of (i) one-third of FAC, or (ii) 2% of FAC times years of service projected to age 60.

c. Payment Form: The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that if the payments made do not exceed the sum of the member's accumulated contributions with interest as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are available.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2012 (CONTINUED)

14. Vested Termination Benefit

    a. Eligibility: A member with at least 5 years of service who does not withdraw his/her contributions from the fund is eligible for a vested termination benefit.

    b. Monthly Benefit: 2.35% of FAC (monthly) times years of service. Both FAC and service are determined at the time the member leaves active employment.

    c. Payment Form: Benefits commence when the participant attains his/her normal retirement age. Optionally benefits may commence at the early retirement age, applying the same reduction factors as are used for regular early retirement. The form of payment is the same as for Normal Retirement above.

    d. Death Benefit: Upon the death of an inactive vested member who has not retired, the beneficiary may elect to receive an annuity as described under the Death in Service benefit below, with payments deferred until the member would have been eligible for retirement if the member was not eligible at the time of death. Alternatively, the beneficiary may receive a refund of the member's contributions, plus interest based upon a rate set by the Board of Trustees.

15. Withdrawal (Refund) Benefit

    a. Eligibility: All members leaving covered employment with less than 5 years of service for a reason other than the member's death. Optionally, members eligible for other benefits may withdraw their contributions in lieu of the regular benefits due.
    b. Benefit: The member who elects to withdraw receives a lump-sum payment of his/her employee contributions, plus interest computed at a rate set by the Board of Trustees.

16. Death in Service

    Benefit: Upon the death of an active member, the beneficiary may receive a refund of the member's contributions, plus interest based upon a rate set by the Board of Trustees. If the member has five or more years of service, the beneficiary may elect to receive an annuity determined as though the member had retired, elected option B below, and then died, in lieu of the refund. If the member is not eligible for early or normal retirement, this benefit may still be elected, with payments deferred until the member would have been eligible for retirement.

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SUMMARY OF PLAN PROVISIONS
JUNE 30, 2012 (CONTINUED)

17. Optional Forms of Payment: There are optional forms of payment available on an actuarially equivalent basis, as follows:

    a. Option B - A Joint and 100% Survivor annuity with a "pop-up" feature. The regular life annuity amount is reduced to provide a Joint and 100% Survivor benefit, i.e., a benefit payable as long as either the member or his joint annuitant shall live. However, if the joint annuitant predeceases the member, then the member's benefit amount reverts back to the regular life annuity amount.

    b. Option C - A Joint and 50% Survivor annuity with a pop-up feature. The benefit is reduced to provide a Joint and 50% Survivor benefit, i.e., a benefit payable as long as both the member and the joint annuitant are alive, reducing to 50% of this amount upon the member's death, if the joint annuitant is still living. If the joint annuitant predeceases the member, the benefit reverts to the regular life annuity amount.

18. Cost-of-living Increase: All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit commencing on July 1 following the year a member retires, or the year in which a member attains the age of 65, whichever is later. The adjustment is equal to one-half of the percentage increase in the cost-of-living index, except that the adjustment shall not exceed four percent, nor be less than two percent. However, if the percentage increase of the consumer price index is less than two percent, the adjustment factor will be equal to the percentage increase of the consumer price index. Members retired prior to July 1, 1984 are also entitled to an increase of the lesser of 2% or the percentage increase in the cost-of-living index for years prior to the attainment of 65. Members on disability retirement are entitled to an adjustment commencing on July 1 of the calendar year in which the third anniversary of disability retirement occurs.

19. Alternative Retirement Plan (ARP): Beginning July 1, 1991, new faculty members employed by state universities may elect participation in the ARP rather than in this System. If this election is not made, the employee remains a member of this System permanently. No benefits are paid to ARP members from ERB. Also as discussed in the section on Employer Contributions above, the employer of an ARP makes a contribution of 3.00% of the member’s salary to ERB.

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NMERB
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

TOLL FREE TO SANTA FE 1-866-691-2345

701 Camino De Los Marquez
Santa Fe, NM 87505

Phone (505) 827-8030
Fax (505) 827-1855

6201Uptown Blvd. NE
Suite 204
Albuquerque, NM 87110
Phone (505) 888-1560
Fax (505) 830-2976

WWW.NMERB.ORG