

State of New Mexico Educational Retirement Board

Comprehensive Annual Financial Report
For The Fiscal Years Ended
June 30, 2013 and 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 Years Ended June 30, 2013 and June 30, 2012**

Prepared by the Staff of the ERB Finance and Investments Divisions

Educational Retirement Board

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Introductory Section





Government Finance Officers Association

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, 2012

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is written in a cursive style.

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2013***

Presented to

New Mexico Educational Retirement Board

In recognition of meeting professional standards for
plan funding and 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)

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is written in a cursive style with a large, stylized 'A' and 'W'.

Alan H. Winkle
Program Administrator

Introductory Section

Letter of Transmittal



Letter of Transmittal
December 15, 2013

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, 2013. 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, 2012. This was the fourth 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 42 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, 2013, 2012 and 2011.

	June 30, 2013	June 30, 2012	June 30, 2011
Total Additions <Decreases>	\$ 1,567,052,868	\$ 707,519,696	\$ 2,104,304,938
Total Deductions	864,315,234	807,121,468	748,265,431
Net Change	\$ 702,737,634	\$ (99,601,772)	\$ 1,356,039,507

Additions increased by \$859,533,172 from FY2012 to FY2013 and decreased by \$1,396,785,242 from FY2011 to FY2012. The increases and decreases for each fiscal year results from financial market activity. Deductions increased by \$57,193,766 from FY2012 to FY2013 and by \$58,856,037 from FY2011 to FY2012, 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 103.

The unfunded actuarial accrued liability (UAAL) is a measure of the currently unfunded part of future benefit obligations. The UAAL increased from \$6,230,668,513 in FY2012 to \$6,533,731,295 in FY2013. 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 FY2011, the Board voted to change its assumed rate of return on the Fund’s investments from 8% to 7.75%. During FY2013, the Board made these changes to the ERB’s actuarial assumptions based on the actuarial experience study presented.

- Lowering wage inflation,
- lower payroll growth,
- minor changes to demographic assumptions, and
- population growth.

Prior to FY2013, actuarial changes included the following:

- 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 \$303.1 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 changed from Infinite at June 30, 2012 to 95.1 years for June 30, 2013. 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. Additionally for fiscal years 2010 through 2013, the original schedule was modified to temporarily transfer a portion of the contribution requirements from the employers to the members. For FY 2010, 2011, and 2013, members were required to pay an additional 1.50% in contributions if they were earning a salary equal to or greater than \$20,000. For FY 2012, members were required to pay an additional 3.25% in contributions if they were earning a salary equal to or greater than \$20,000. For members earning a salary of \$20,000 or less their contribution percentage remained the same. 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 the 2013 Legislative session, the State Legislature passed Senate Bill 115. The bill raises employee contribution rates for employees with an annual salary greater than \$20,000 and reduces the cost of living adjustment for all non-disability retirees until the plan is 100% funded. For new employees hired on or after July 1, 2013 there is a soft minimum retirement age of 55 and the cost of living adjustment begins at age 67.

INVESTMENT ACTIVITY

Recognizing the permanent 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 April 2011, the Board has adopted an actuarial rate of return is 7.75%.

ERB's investment portfolio produced a total gross return of 11.0% for the year ended June 30, 2013. The policy benchmark return for the same period was 9.4%. The portfolio outperformed its benchmark by 1.6%. 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.

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

LEGISLATIVE ACTION IN FY2013

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 whose salaries are greater than \$20,000 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 equals 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 adjustment (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 had been 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.

During the 2013 legislative session, the above proposals above were brought before the Senate Education Committee, the Senate Finance Committee, and the full Senate. The proposal was amended in the Senate Finance Committee to include a COLA reduction for all non-disability retirees until the plan is 100% funded. Once the bill passed the full Senate, it was heard in the House Education Committee, the House Labor Committee, the House Appropriation and Finance Committee, and the Full House. The bill was amended in the House Appropriation and Finance Committee to lower the COLA reduction once the plan is 90% funded. The COLA reduction will be in place until the plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Senate Bill 115 passed the full House and was signed into law by the Governor on March 29, 2013.

After Senate Bill 115 was passed and signed into law, petitioners comprising retired teachers, professors, and other public education employees filed a writ of mandamus with the New Mexico Supreme Court against the Educational Retirement Board. The petitioners were seeking to compel the Educational Retirement Board to pay the annual COLA to their retirement benefits according to the statute that preceded the signing of Senate Bill 115. The petitioners claim was that the COLA calculation was a vested property right based on Article XX, Section 22 of the New Mexico Constitution. On December 19, 2013 the New Mexico Supreme Court issued a unanimous opinion supporting the constitutionality of the COLA reduction in Senate Bill 115.

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.

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.

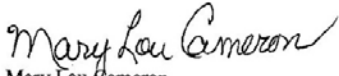
INDEPENDENT AUDIT

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

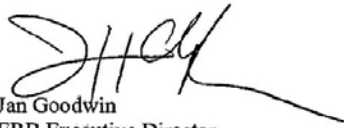
ACKNOWLEDGEMENTS

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
ERB Board Chairman



Jan Goodwin
ERB Executive Director



Sara M. Brownstein
ERB Chief Financial Officer

Mission and Vision of the Educational Retirement Board

The New Mexico Educational Retirement Board is a statutory entity that provides secure retirement benefits for New Mexico's educational employees – past, present, and future.

Vision: To be an effective and trusted manager of New Mexico's educational retirement system.

Values

- ❖ Innovation
- ❖ Integrity
- ❖ Quality
- ❖ Respect
- ❖ Service
- ❖ Stewardship
- ❖ Transparency

Introductory Section

Board of Trustees

NM Educational Retirement Board Organization Chart As of June 30, 2013



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

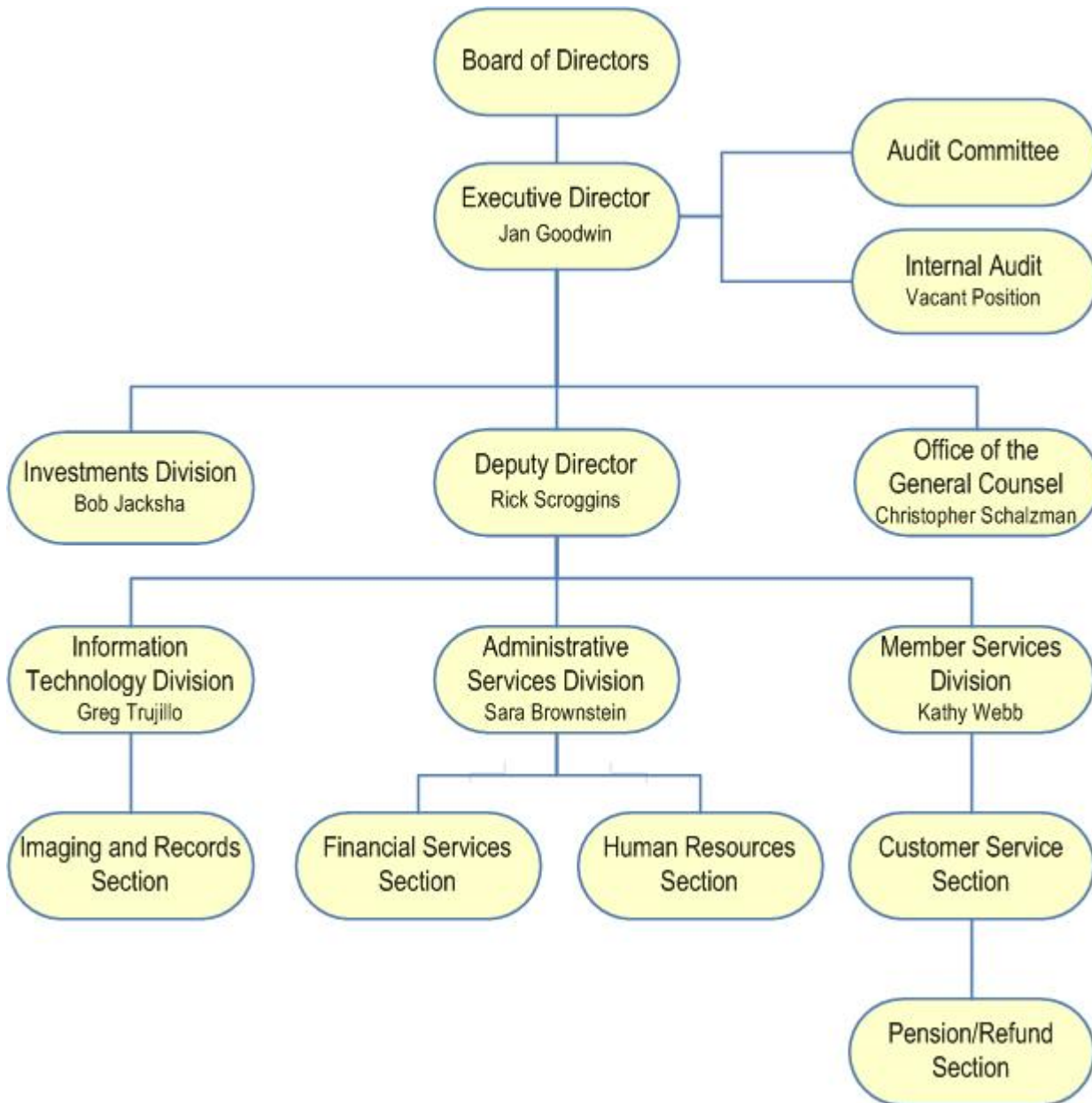


James B. Lewis,
Member

State Treasurer
Ex-Officio

Introductory Section

NM Educational Retirement Board Organization Chart



Introductory Section

NM Educational Retirement Board Staff

<p>Administration Jan Goodwin, Executive Director Rick Scroggins, Deputy Director (Vacant), Internal Auditor</p>	<p>Office of the General Counsel Christopher Schatzman, General Counsel Robert Shulman, Attorney Anita Tellez, Attorney Margo Salazar, Paralegal Assistant Amanda Olsen, Paralegal Assistant</p>
<p>Administrative Services Division Sara Brownstein, Chief Financial Officer Kevin Long, Plant/Systems Operator Financial Services Section Robert Cardon, Accountant and Auditor Supervisor Michelle Lopez, Accountant and Auditor (Vacant), Accountant and Auditor Melinda Marquez, Employer Bureau Chief Angelina Romero, School Reporting Analyst Stephanie Ortiz, School Reporting Analyst (Vacant), School Reporting Analyst Debbi Lucero, Operations Manager Elizabeth Fischer, Accountant and Auditor Human Resources Section (Vacant), HR Payroll and Benefits</p>	<p>Member Services Division Kathy Webb, Member Services Manager (Vacant), Bureau Chief, Member/Customer Service Karla Leyba, Financial Advisor Jerome Lopez, Financial Advisor Cordelia Anaya, Financial Advisor Barbara Feeney, Financial Advisor Laura Crawford, Financial Advisor Anders Engstrom, Financial Advisor Raquel Varela, Financial Advisor Customer Service Section Cynthia Martinez, Customer Service Representative (Vacant), Customer Service Representative Rosalie Garcia, Customer Service Representative Pension/Refund Section Raul Duran, Payroll Administrator Amanda Padilla, Payroll Specialist Rosa Weese, Payroll Specialist (Vacant), Payroll Specialist (Vacant), Refund Specialist Melissa Gurule, Refund Specialist</p>
<p>Information Technology Gregory Trujillo, Information Systems Manager Jonas Aylward, IT Business Analyst (Vacant), IT Generalist Robert Hampton, IT Generalist Bea Pacheco, IT Business Analyst Matthew Martinez, Network Administrator Karyn Lujan, Public Relations Coordinator Nicole Jaramillo, Accountant and Auditor Imaging and Records Section Frank Arellano, Records Clerk Darlene Gibbs, Records Clerk (Vacant), Records Clerk</p>	<p>Investments Bob Jacksha, Chief Investment Officer Steve Neel, Deputy Chief Investment Officer Mark Canavan, Investment Officer Kay Chippeaux, Investment Officer Jude Perez, Investment Officer Christine Ortega, Financial Analyst Supervisor Kelley Koehler, Financial Analyst Alan Meyers, Financial Analyst</p>

Introductory Section

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.

<p>Actuary</p> <p>Gabriel, Roeder, Smith & Co. 1000 Town Center, Suite 1000 Southfield, Michigan 58075</p> <p>The actuary is chosen by the Board and is responsible for the following.</p> <ul style="list-style-type: none"> ❖ Certifying the adequacy of the contribution rate used by the System. ❖ Measuring and reporting the assets and liabilities of the System. ❖ Reviewing and analyzing trends in the System's contributions. <p>Auditor</p> <p>Moss Adams LLP 6100 Uptown Blvd. NE, Suite 400 Albuquerque, New Mexico 87110</p>	<p>General Investment Consultant</p> <p>NEPC One Main Street Cambridge, MA 02142</p> <p>NEPC provides general investment consulting services and advises on private equity.</p> <p>Other Investment Consultants</p> <p>Caledon Capital Management provides consulting services related to infrastructure investments.</p> <p>Real Asset Portfolio Management provides consulting services related to investments in real estate and natural resources.</p>
<p>Legal Services</p> <ul style="list-style-type: none"> ❖ 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 	<p>Medical Review Committee</p> <p>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 Committee. The Medical Review Committee is responsible for the following:</p> <ul style="list-style-type: none"> ❖ Reviewing all disability examination reports and advising the ERB of the nature and extent of the disability.

Financial Section



MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position of the New Mexico Educational Retirement Board (the "ERB") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the ERB's basic financial statements 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 presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

Financial Section

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

ERB's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the plan net position of the ERB as of June 30, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance 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, 2013.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the employers' net pension liability, schedule employers' net pension liability, schedule of employer contributions, and schedule of investment returns on pages 10 through 18 and 63 through 66 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.

Financial Section

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ERB's basic financial statements. The schedule of cash accounts, schedule of administrative, consultant, and budgeted investment expenses, and the schedule of accountability in government act – performance measures are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of cash accounts, schedule of administrative, consultant, and budgeted investment expenses, and the schedule of accountability in government act – performance measures is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of cash accounts, schedule of administrative, consultant, and budgeted investment expenses, and the schedule of accountability in government act – performance measures is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2013 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* in considering the ERB's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
November 1, 2013

Financial Section

Management's Discussion and Analysis

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended June 30, 2013, 2012 and 2011

Agency management prepared this Management's Discussion and Analysis (MD&A) of the financial position of the State of New Mexico Educational Retirement Board (ERB) for the fiscal years ended June 30, 2013 (FY13), June 30, 2012 (FY12), and June 30, 2011 (FY11). For more detailed information of ERB's FY13 and FY12 financial activities, the reader should review the financial statements, including the notes and required supplementary information.

FINANCIAL REPORTING REQUIREMENTS

The financial statements include the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. The financial statements also include notes, which explain the history and purpose of ERB, 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 position restricted for pension benefits increased \$702.7 million in FY13 after decreasing \$99.6 million in FY12 when compared to FY11. The majority of ERB's net position restricted for pension benefits comprises the investment portfolio. Based on the FY13 to FY11 range, ERB experienced strong returns on its investment portfolio. However, there were lower investment portfolio returns for FY12 as compared to FY13 and FY11.
- Investment advisor and custodial fees increased \$4.46 million in FY13 after decreasing \$24.3 million in FY12 when compared to FY11. This is reflected in the following factors:
 - ❖ These fees are based on investment returns and portfolio balance, so robust returns with an increasing portfolio balance lead to higher advisor and custody fees.
 - ❖ During FY12, ERB adopted and implemented a revised asset allocation plan. The newly adopted asset allocation plan enacted the following: moved some assets from managers who are paid fees in the traditional manner to new managers whose fees are deducted from the managed assets. Therefore, the management fees are not reflected in the financial statements expense categories and ERB reported a lower investment return. These arrangements are common industry practice.
 - ❖ The increase in investment management fees for FY13 is consistent with the asset allocation plan, negotiated management fees, and performance of the investment portfolio.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) Years Ended June 30, 2013, 2012 and 2011

- Total cash and cash equivalents increased \$429.6 million as of June 30, 2013 after decreasing \$235.2 million in FY12 when compared to FY11. It is normal for the cash balance, as of a specific date, to fluctuate as ERB adjusts holdings. For example, at June 30, 2013, ERB was transitioning between fund managers. This transition explains the increased cash on hand at year-end. For FY11, the cash target allocation range was 0% to 5%. ERB was slightly over the 5% range in FY11. The cash balance was increased in anticipation of funding newly approved investment managers. ERB's cash target allocation range for FY13 and FY12 was between 0% and 10%. For FY13 and FY12, ERB has been in compliance with its' cash target allocation.
- Investment holdings increased \$261.3 million in FY13 after decreasing \$150.8 million in FY12 when compared to FY11. In FY12, ERB had a 2% net investment increase which was offset by net pension benefit payments. This resulted in an overall asset decrease. For FY13, the total fund posted a return of 11%. The portfolio return outperformed the fund's policy index return of 9.4%.
- Total receivables increased \$11.2 million in FY13 after decreasing \$38.1 million in FY12 when compared to FY11. The majority of changes are accounted for in investment sales. For FY12, a decrease indicates a smaller volume of investments were sold at or near fiscal year end and remained outstanding on June 30. Whereas, for FY13, the increase indicates that a larger volume of investments were sold at or near fiscal year end as compared to FY12. Securities sales and purchases in the United States equity markets are usually based on "trade date + 3 days," meaning the transaction will settle three business days after initiation. The number of days varies in other U.S. and foreign securities markets.
- Accounts payable decreased \$11.8 million in FY13 after increasing \$13.5 million in FY12 when compared to FY11. The change is primarily due the amount of investment advisor fees due at each year-end.
- Investment purchases payable increased \$10.1 million in FY13 after decreasing \$126.7 million in FY12 when compared to FY11. An increase/decrease indicates that a larger/smaller 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 the transaction will settle three business days after initiation.
- Employer and member contributions increased \$4.7 million in FY13 after decreasing \$12.1 million in FY12 when compared to FY11. The total employer and employee contributions rates did not change for FY11 through FY13. Therefore, the current year increase or prior year decrease is statistically insignificant and may be attributable to hiring and/or salary fluctuations.

EDUCATIONAL RETIREMENT BOARD
PERFORMANCE AND ANALYSIS (CONTINUED)
2012 and 2011

ADDITIONAL INFORMATION

Statement of Fiduciary Net Position

	FY13	FY12	FY11	FY12-FY13 \$ Difference	FY11-FY12 \$ Difference	FY12-FY13 % Difference	FY11-FY12 % Difference
	\$ 746,623,052	\$ 317,056,896	\$ 552,278,318	\$ 429,566,156	\$ (235,221,422)	135.49%	-42.59%
	164,616,757	153,420,332	191,498,873	11,196,425	(38,078,541)	7.30%	-19.88%
Investment Pool	5,353,975	5,521,436	6,346,596	(167,461)	(825,160)	-3.03%	-13.00%
	9,439,289,300	9,177,972,688	9,328,773,209	261,316,612	(150,800,521)	2.85%	-1.62%
Other Assets	2,175,777	2,862,746	4,201,681	(686,969)	(1,338,935)	-24.00%	-31.87%
	<u>\$ 10,358,058,861</u>	<u>\$ 9,656,834,098</u>	<u>\$ 10,083,098,677</u>	<u>\$ 701,224,763</u>	<u>\$ (426,264,579)</u>	<u>7.26%</u>	<u>-4.23%</u>
	166,129,255	167,669,129	494,307,120	(1,539,874)	(326,637,991)	-0.92%	-66.08%
Liabilities	230,803	203,800	228,616	27,003	(24,816)	13.25%	-10.85%
	<u>166,360,058</u>	<u>167,872,929</u>	<u>494,535,736</u>	<u>(1,512,871)</u>	<u>(326,662,807)</u>	<u>-0.90%</u>	<u>-66.05%</u>
	<u>\$ 10,191,698,803</u>	<u>\$ 9,488,961,169</u>	<u>\$ 9,588,562,941</u>	<u>\$ 702,737,634</u>	<u>\$ (99,601,772)</u>	<u>7.41%</u>	<u>-1.04%</u>

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years Ended June 30, 2013, 2012 and 2011

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Statement of Changes in in Fiduciary Net Position

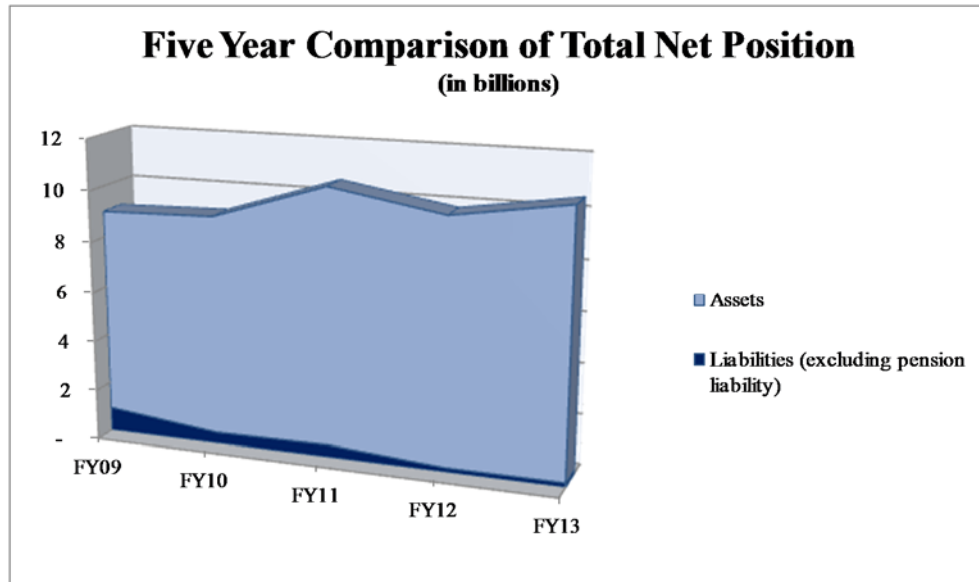
	FY13	FY12	FY11	FY12-FY13 \$ Difference	FY11-FY12 \$ Difference	FY12-FY13 % Difference	FY11-FY12 % Difference
Additions							
Contributions	\$ 548,442,717	\$ 543,697,371	\$ 555,775,940	\$ 4,745,346	\$ (12,078,569)	0.87%	-2.17%
Investment income less investment expenses	179,518,742	161,326,103	148,016,532	18,192,639	13,309,571	11.28%	8.99%
Net change in fair value of investments	837,193,133	(565,488)	1,396,479,035	837,758,621	(1,397,044,523)	-148147.90%	-100.04%
Other income	1,898,276	3,061,710	4,033,431	(1,163,434)	(971,721)	-38.00%	-24.09%
Total additions	<u>1,567,052,868</u>	<u>707,519,696</u>	<u>2,104,304,938</u>	<u>859,533,172</u>	<u>(1,396,785,242)</u>	<u>121.49%</u>	<u>-66.38%</u>
Deductions							
Benefit payments	811,665,051	754,554,951	701,771,592	57,110,100	52,783,359	7.57%	7.52%
Refunds	41,664,216	40,580,979	35,086,806	1,083,237	5,494,173	2.67%	15.66%
Administrative expenses	10,985,967	11,985,538	11,407,033	(999,571)	578,505	-8.34%	5.07%
Total deductions	<u>864,315,234</u>	<u>807,121,468</u>	<u>748,265,431</u>	<u>57,193,766</u>	<u>58,856,037</u>	<u>7.09%</u>	<u>7.87%</u>
Net increase (decrease)	702,737,634	(99,601,772)	1,356,039,507	802,339,406	(1,455,641,279)	-805.55%	-107.35%
Net position restricted for pensions							
Beginning of year	9,488,961,169	9,588,562,941	8,232,523,434	(99,601,772)	1,356,039,507	-1.04%	16.47%
End of year	<u>\$ 10,191,698,803</u>	<u>\$ 9,488,961,169</u>	<u>\$ 9,588,562,941</u>	<u>\$ 702,737,634</u>	<u>\$ (99,601,772)</u>	<u>7.41%</u>	<u>-1.04%</u>

Financial Section

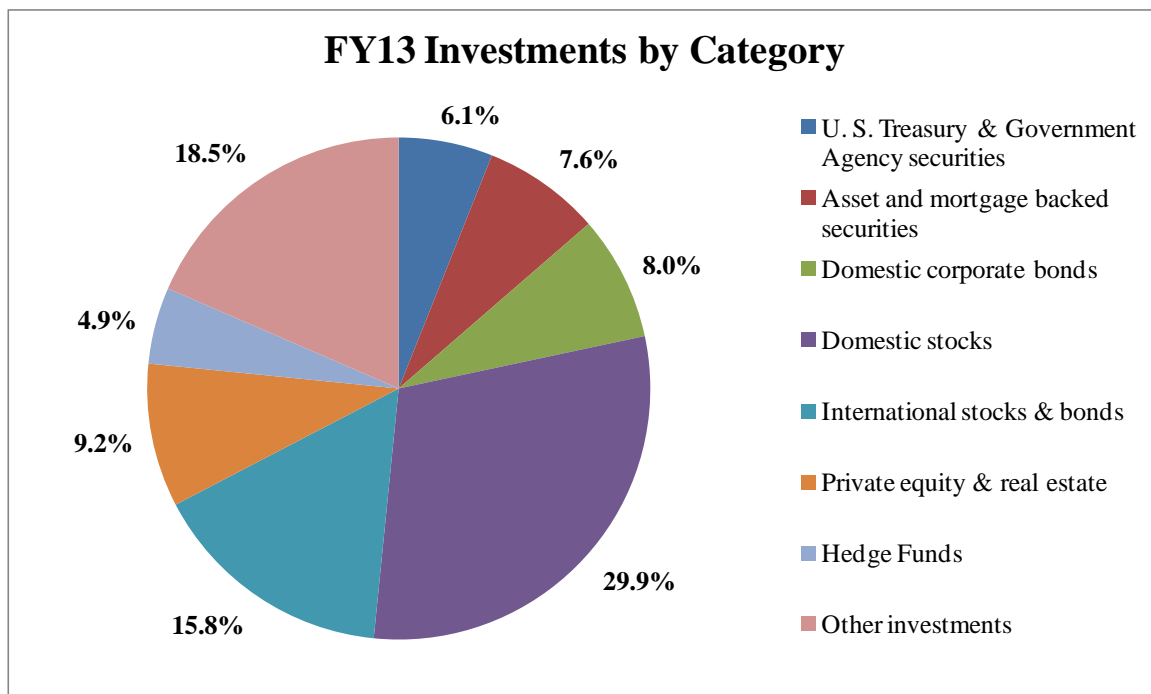
STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) Years Ended June 30, 2013, 2012 and 2011

COMPARATIVE SUMMARY STATEMENTS

The following chart represents the total net position for the Educational Retirement Board over the last five years.

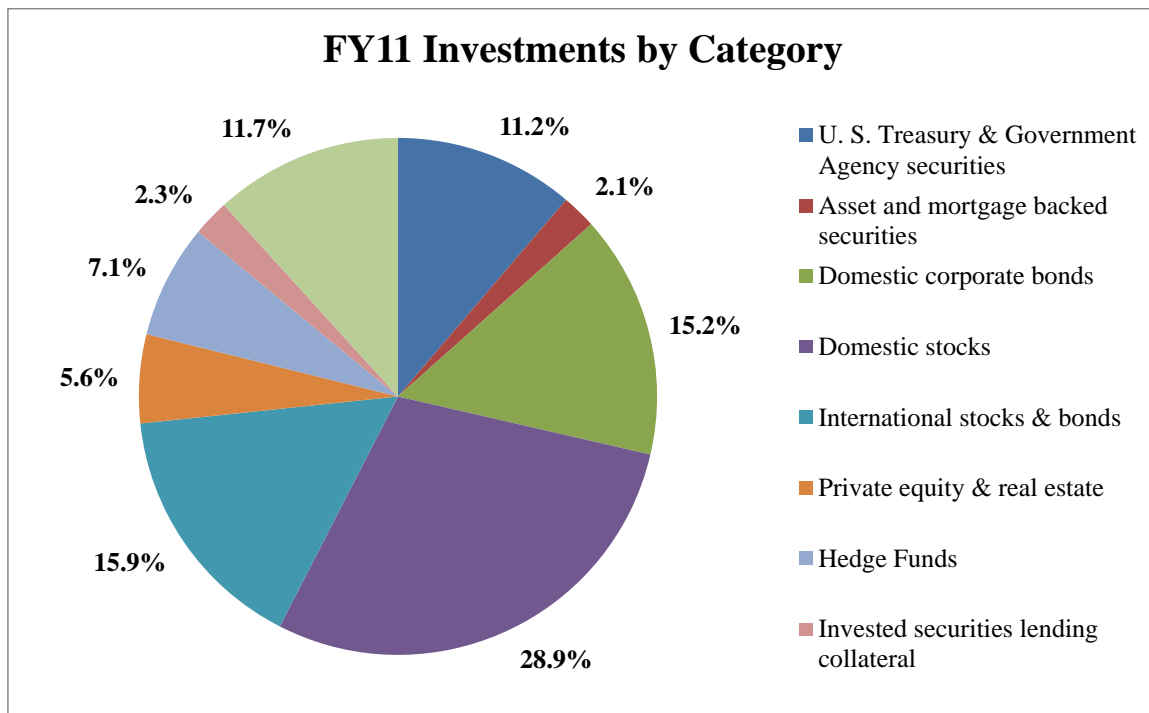
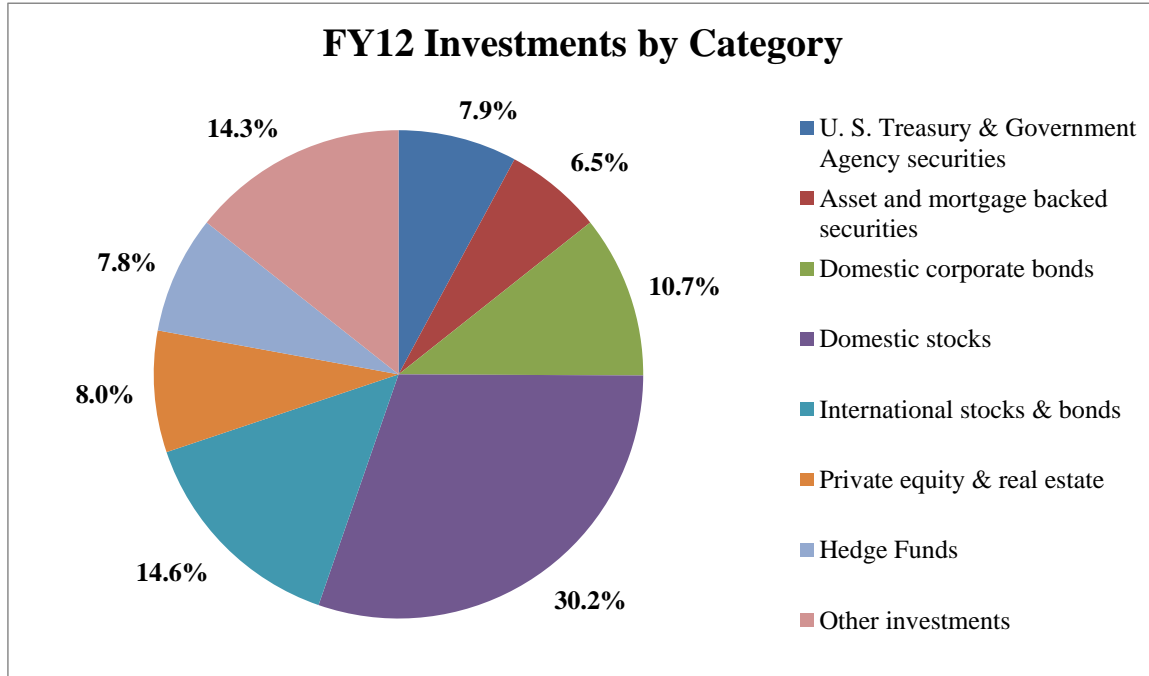


The following charts depict the changes in investment categories over the last three years.



Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) Years Ended June 30, 2013, 2012 and 2011



Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) Years Ended June 30, 2013, 2012 and 2011

CAPITAL ASSETS

The net investment in Capital Assets at June 30, 2013, 2012 and 2011, is as follows:

	Cost	Accumulated Depreciation	Book Value
2013			
Land	\$ 248,172	\$ -	\$ 248,172
Depreciable land improvements	19,361	(5,721)	13,640
Integrated Retirement Information System	9,156,963	(9,156,963)	-
Building and building improvements	3,365,714	(1,616,025)	1,749,689
Furniture and equipment	1,113,074	(948,798)	164,276
Total	<u>13,903,284</u>	<u>(11,727,507)</u>	<u>\$ 2,175,777</u>
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	1,155,929	(912,815)	243,114
Total	<u>13,946,139</u>	<u>(11,082,881)</u>	<u>\$ 2,863,258</u>
2011			
Land	248,172	-	\$ 248,172
Depreciable land improvements	19,361	(4,322)	15,039
Integrated Retirement Information System	9,156,963	(7,448,865)	1,708,098
Building and building improvements	3,365,714	(1,401,117)	1,964,597
Furniture and equipment	1,122,920	(857,145)	265,775
Total	<u>\$ 13,913,130</u>	<u>\$ (9,711,449)</u>	<u>\$ 4,201,681</u>

LONG-TERM DEBT

The only long-term liability activity relates to compensated absences reported in Note 10.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) Years Ended June 30, 2013, 2012 and 2011

CURRENTLY KNOWN FACTS AND CONDITIONS

Senate Bill 115 was signed into law on March 29, 2013. Below is a summary of the enacted legislation:

- Raises employer and employee contribution rates:
 - ❖ Employees with a salary over \$20,000 will have a contribution rate 10.1% in FY14 and 10.7% in FY15.
 - ❖ Employees with a salary below \$20,000 will have a contribution rate remaining at 7.9%.
 - ❖ The employer contribution will be 13.15% for all members.
- For new employees hired on or after July 1, 2013, there is a soft minimum retirement age of 55 meaning that ERB will calculate an actuarial reduction if member retires with 30 years and is younger than age 55.
- For new employees hired on or after July 1, 2013, the COLA begins at age 67, rather than age 65.
- For current retirees there is an immediate reduction of the COLA until the plan is 100% funded. The COLA reduction is based on the median retirement benefit (approximately \$18,000 for FY12) of all retirees excluding disability retirements. For a further description of the COLA changes please see Note 2.

ERB conducts an actuarial experience study every two years. The actuarial experience study, presented to the Board of Trustees on April 26, 2013, compiled data for the six-year period ending June 30, 2013. The Board of Trustees approved assumptions changes were included in the GASB 67 calculation and are the following:

- Lower wage inflation from 4.75% to 4.25%
- Lower payroll growth from 3.75% to 3.50%
- Minor changes to demographic assumptions
- Population growth per year from 0.75% to 0.50%

Changes were not made to the following assumptions:

- Investment return will remain at 7.75%
- Inflation will remain at 3.00%

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.

Financial Section

Basic Financial Statements

Financial Section

Statement of Fiduciary Net Position

**STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
STATEMENT OF FIDUCIARY NET POSITION
As of June 30, 2013 and 2012**

	2013	2012
Assets		
Cash	\$ 23,936	\$ 21,301
Short term Investments	746,599,116	317,035,595
Receivables		
Contributions	65,897,831	70,941,621
Investment sales proceeds-brokers	73,812,634	55,468,316
Interest and Dividends	24,271,724	26,127,712
Other, net	634,568	882,683
Total receivables	<u>164,616,757</u>	<u>153,420,332</u>
Interest in State General Fund Investment Pool	<u>5,353,975</u>	<u>5,521,436</u>
Investments, at fair value		
U. S. Treasury securities	282,558,476	345,637,771
Government agency securities	289,974,464	376,212,714
Asset and mortgage backed securities	714,757,627	593,136,863
Domestic corporate bonds	757,378,340	986,267,569
Non-U.S. corporate bonds	245,228,240	-
Domestic stocks	2,824,846,950	2,774,109,793
International stocks	1,134,562,079	1,303,988,823
Non-U.S. government bonds	109,518,808	30,378,318
Private equity	670,818,353	577,114,685
Hedge Funds	463,853,968	715,935,010
Private real estate	199,274,198	160,562,922
Other investments	1,746,517,797	1,314,628,220
Total investments	<u>9,439,289,300</u>	<u>9,177,972,688</u>
Capital assets, at cost, net of accumulated depreciation	<u>2,175,777</u>	<u>2,862,746</u>
Total assets	<u>\$ 10,358,058,861</u>	<u>\$ 9,656,834,098</u>
Liabilities		
Accounts payable	\$ 3,473,970	\$ 15,122,201
Accounts payable school contributions	514,809	681,409
Accrued payroll and employee benefits	105,889	154,904
Accrued compensated absences	230,803	203,800
Refunds payable	1,079,930	851,892
Investment purchases payable	160,921,030	150,839,658
Funds held for others	33,627	19,065
Total liabilities	<u>166,360,058</u>	<u>167,872,929</u>
Net position restricted for pensions	<u>\$ 10,191,698,803</u>	<u>\$ 9,488,961,169</u>

See Accompanying Notes to Financial Statements

Financial Section

Statement of Changes In Fiduciary Net Position

**STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Years Ended June 30, 2013 and 2012**

	2013	2012
Additions		
Contributions		
Employer	\$ 299,657,530	\$ 253,845,277
Member	248,785,187	289,852,094
Total contributions	<u>548,442,717</u>	<u>543,697,371</u>
Investment income from investing activities		
Net change in fair value of investments	837,193,133	(565,488)
Interest income	47,709,542	57,717,052
Dividend income	147,230,301	114,419,138
Total investing activity gain	<u>1,032,132,976</u>	<u>171,570,702</u>
Investing activity expenses:		
Investment advisor fees	(14,684,190)	(10,300,540)
Custody fees	(736,911)	(664,384)
Total investing activity expenses	<u>(15,421,101)</u>	<u>(10,964,924)</u>
Net gain from investing activities	<u>1,016,711,875</u>	<u>160,605,778</u>
From securities lending activities		
Securities lending income	-	85,111
Securities lending expenses:		
Borrower rebates	-	(91,845)
Agent fees	-	22,119
Total securities lending expenses	<u>-</u>	<u>(69,726)</u>
Net income from securities lending activities	<u>-</u>	<u>154,837</u>
Total net investment gain	<u>1,016,711,875</u>	<u>160,760,615</u>
Miscellaneous income		
Penalties	-	6,049
Interest on restoration of service	1,744,359	1,914,431
Other	153,917	1,141,230
Total miscellaneous income	<u>1,898,276</u>	<u>3,061,710</u>
Total additions	<u>1,567,052,868</u>	<u>707,519,696</u>
Deductions		
Age and service benefit payments	803,253,000	746,493,523
Refunds to terminated members	35,882,999	34,520,423
Interest on refunds	5,781,217	6,060,556
Administrative expenses	10,985,967	11,985,538
Disability benefit payments	8,412,051	8,061,428
Total deductions	<u>864,315,234</u>	<u>807,121,468</u>
Changes in net position	<u>702,737,634</u>	<u>(99,601,772)</u>
Net position restricted for pensions		
Beginning of the year	9,488,961,169	9,588,562,941
End of the year	<u>\$ 10,191,698,803</u>	<u>\$ 9,488,961,169</u>

See Accompanying Notes to Financial Statements

Financial Section

Notes to the Financial Statements

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2012, 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.

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, 2013. 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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2013, the Board had commitments for additional future contributions to the limited partnerships totaling \$1.731 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 Statement of Fiduciary Net Position, include investments in swap agreements, distressed debt, option agreements, real estate investment trusts, and timber partnerships.

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of pension plan investments. Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

For the fiscal year ending June 30, 2012, investment fees totaled \$78,715,507: \$13,279,066 was through the agency's operating budget and \$65,436,441 was deducted from investment account balances. For the fiscal year ending June 30, 2013, investment fees totaled \$125,478,811: \$17,665,292 was through the agency's operating budget and \$107,813,519 was deducted from investment account balances.

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 greater than \$5,000. 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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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.

New Accounting Pronouncements - Governmental Accounting Standards Board (GASB) 67, *Financial Reporting for Pension Plans* and GASB 68, *Accounting & Financial Reporting for Pensions (Employer)*, address accounting and financial reporting requirements for pension plans activities. The New Mexico Educational Retirement Board is a cost-sharing multiple employer pension plan as defined by GASB 67. The requirements for GASB 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Although GASB 67 is effective for fiscal years beginning after June 15, 2013, early adoption is permitted. The New Mexico Educational Retirement Board has elected early adopt and reflect these changes as of and for the year ended June 30, 2013. The implementation of GASB 67 did not significantly impact the accounts receivable and investment balances, as they were already accounted in accordance with GASB 67 requirements and therefore no restatement of their 2012 balances were necessary. New Mexico Educational Retirement Board's implementation consist of the assumptions and actuarial calculation of total and net pension liability, comprehensive footnote disclosures regarding the pension liability calculation and assumptions, and increased investment activity disclosures.

GASB 68 applies the changes implemented at the pension plan level and segregates and divides the pension liability to each participating employer. GASB 68 is effective for fiscal years beginning after June 15, 2014. The New Mexico Educational Retirement Board will implement the changes mandated by GASB 68 in the New Mexico Educational Retirement Board financial statements for the year ended June 30, 2015.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Pension Liability of Plan Membership—The components of the net pension liability of the plan’s membership at June 30, 2013, were as follows:

Total Pension Liability	\$ 16,468,550,952
Plan fiduciary net position	(10,191,698,803)
Plan membership net pension liability	<u>\$ 6,276,852,149</u>
 Plan fiduciary net position as a percentage of the total pension liability	 61.89%

Actuarial assumptions—The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2012. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2013. The roll-forward liabilities were adjusted to reflect the impact of Senate Bill 115 that was signed into law on March 29, 2013 and the new assumptions adopted by the Board on April 26, 2013. Specifically, the liabilities measured as of June 30, 2013 were adjusted to incorporate the following changes:

- All members with annual salary of more than \$20,000 will contribute 10.10% during the fiscal year ending June 30, 2014 and 10.70%, thereafter,
- Members hired after June 30, 2013 will have a minimum unreduced retirement age of 55 and their COLA will be deferred until age 67,
- COLAs for most retirees are reduced until ERB attains a 100% funded status, and
- The new assumptions adopted by the Board on April 26, 2013 in conjunction with the six-year experience study period ending June 30, 2012.

For purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years.

The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Inflation	3.00%
Salary increases	Composed of 3.00% inflation, plus 1.25% productivity increase rate, plus step-rate promotional increases for members with less than 10 years of service.
Investment rate of return	7.75%
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment, projected to 2014 using Scale AA (with one-year setback for females).

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) Rate of Return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation for 2012 and 2013 for 30-year return assumptions are summarized in the following table:

Asset Class	2012 Long-Term Expected Real Rate of Return	2013 Long-Term Expected Real Rate of Return
Cash	1.25%	0.75%
Treasuries	1.50%	1.00%
IG Corp Credit	4.50%	3.00%
MBS	3.25%	2.50%
Core Bonds	2.88%	2.04%
TIPS	1.75%	1.50%
High-Yield Bonds	7.00%	5.00%
Bank Loans	5.00%	5.00%
Global Bonds (Unhedged)	1.25%	0.75%
Global Bonds (Hedged)	1.49%	0.93%
EMD External	5.75%	4.00%
EMD Local Currency	0.07%	5.00%
Large Cap Equities	7.25%	6.75%
Small/Mid Cap Equities	7.50%	7.00%
International Equities (Unhedged)	7.75%	7.75%
International Equities (Hedged)	8.00%	8.00%
Emerging International Equities	9.75%	9.75%
Private Equity	9.75%	9.00%
Private Debt	9.50%	8.50%
Private Real Assets	NA	8.00%
Real Estate	6.00%	6.00%
Commodities	4.75%	5.00%
Hedge Funds Low Vol	5.50%	4.75%
Hedge Funds Mod Vol	7.25%	6.50%

Discount Rate—A single discount rate of 5.52% was used to measure the total pension liability as of June 30, 2012. This single discount rate was based on the expected rate of return on pension plan investments of 7.75% and a municipal bond rate of 3.95% (based on the 20-year Bond Buyer GO 20-Bond Municipal Bond Index as of June 28, 2012). Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through fiscal year 2037. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the fiscal year 2037 and the municipal bond rate was applied to all benefit payments after that date.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A single discount rate of 7.75% was used to measure the total pension liability as of June 30, 2013. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The main reason for the difference between the 2012 and 2013 projections is the combined impact of Senate Bill 115 and the favorable investment experience for the year ending June 30, 2013. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels. Additionally, contributions received through Alternative Retirement Plan (ARP) are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five-year contribution history.

Sensitivity of the net pension liability to changes in the discount rate assumption—The following table provides the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2013. In particular, the table presents the plan's net pension liability, if it were calculated using a single discount rate that is one-percentage-point lower (6.75%) or one-percentage-point higher (8.75%) than the single discount rate:

	1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
Plan membership net pension liability	\$ 8,286,923,513	\$ 6,276,852,149	\$ 4,599,162,126

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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Contributing employers to the Plan include the following:

Public schools	90
Universities and colleges	15
Charter schools	95
Special schools	7
State agencies	<u>24</u>
	<u>231</u>

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. The Educational Retirement Act created a governing Board composed of 7 members (22-11-3 NMSA, 1978). The membership composition is as follows:

1. The Secretary of Public Education, or a designee of the secretary who is a resident of New Mexico; is a current employee of the Public Education Department; and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management;
2. The State Treasurer, or a designee of the Treasurer who is a resident of New Mexico; is a current employee of the State Treasurer's office; and possesses experience relevant to the financial or fiduciary aspects of pension or investment fund management;
3. One member to be elected for a term of four years by members of the New Mexico Association of Educational Retirees;
4. One member to be elected for a term of four years by the members of the National Education Association of New Mexico;
5. One member to be elected for a term of four years by the New Mexico members of the American Association of University Professors; and
6. Two members to be appointed by the governor for terms of four years each. Each member appointed shall have a background in investments, finance, or pension fund administration.

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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

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 231 employers in the State and has an active and inactive membership of 135,603 and 132,225 at June 30, 2013 and 2012, respectively. The status and number of all participants at June 30, 2013 and 2012 consisted of the following:

	2013	2012
(1) Retirees and beneficiaries of deceased retirees currently receiving benefits	39,088	37,337
(2) Inactive members	35,304	34,033
(3) Current active members	61,211	60,855
	<u>135,603</u>	<u>132,225</u>

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.

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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

- (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, 2013, 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 member 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. 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.

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. 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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Prior to June 30, 2013 COLA, the COLA 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.

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%. All other retirees will have a 10% COLA reduction; their average will be 1.8%.

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.

(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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

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, 2013, 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 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, 2013 and 2012 were \$4,684,962 and \$4,280,780 respectively. The colleges and universities are responsible for submitting the employers' and the employees' contributions directly to the ARP vendors annuity carriers.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 2. EDUCATIONAL RETIREMENT BOARD (CONTINUED)

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 ARP 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-day 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.

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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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

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.

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 Remediation Project objective was to design and implement changes necessary to ensure ongoing completion of timely, accurate and comprehensive reconciliation of the Pool. DFA has or is in the process of implementing all the recommendations resulting for the Remediation Project and has made changes to the State's SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. This has enabled DFA to complete timely and accurate reconciliation of bank to book balances at the State and Business Unit level on a post-implementation basis, however it did not resolve historical reconciling items. Additional changes recommended by the Project continue to be cascaded through DFA and state agencies to support the Business Unit by Fund accounting requirements.

A plan to address historical reconciling items is being assessed and a separate initiative will need to be undertaken to resolve the historical reconciling items. Management considers it unlikely that this separate initiative will be successful in allocating all historical reconciling items to the State entities invested in the Pool. As a result, any remaining differences post specific allocation to Pool participants will be reported in the State General Fund.

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.

In fiscal year 2012, DFA/FCD recorded a loss contingency of \$101.7 million in the General Fund based on its estimate of the effect of issues related to the reconciliation of the Pool, that estimate is still current. 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

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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

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, 2013 and 2012, the Board had \$5,353,975 and \$5,521,436, 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 its 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.

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, 2013.

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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

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 \$746,623,052 and \$317,056,896 as of June 30, 2013 and 2012, respectively, are considered cash equivalents and are reported as cash and short term investments balances in the statement of fiduciary net position.

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, 2013 and 2012, 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 receivable for the total amount overpaid. During fiscal year 2013, ERB has estimated that \$158,756 of the refund overpayment will be uncollectible. 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, 2013, the uncollected balance, including interest assessed, was \$401,111.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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.

Asset Allocation Policy—The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the Educational Retirement Board of Directors. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following was the Educational Retirement Board’s adopted asset allocation policy:

<u>Asset Class</u>	<u>After 9/20/2012 Target Allocation</u>	<u>Prior to 9/20/2012 Target Allocation</u>
EQUITIES		
<i>Domestic Equities</i>		
Large Cap Equities	20%	23%
Small/Mid Cap Equities	2%	2%
<i>International Equities</i>		
Developed	5%	5%
Emerging Markets	10%	10%
TOTAL EQUITIES	37%	40%
FIXED INCOME		
Opportunistic Credit	20%	20%
Core Bonds	7%	5%
Emerging Market Debt	2%	2%
TOTAL FIXED INCOME	29%	27%
ALTERNATIVES		
Real Estate/REITS	5%	5%
Real Assets	7%	7%
Private Equity	8%	7%
Absolute Return	3%	8%
Global Tactical Asset Allocation	5%	5%
Risk Parity	5%	0%
TOTAL ALTERNATIVES	33%	32%
CASH	1%	1%
TOTAL	100%	100%

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 6. INVESTMENTS (CONTINUED)

Rate of Return—For the year ended June 30, 2013, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.12 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

Investment Description

Investments:	2013	2012
(held by the Board's agent in the Board's name)		
U.S. government and agency securities	\$ 572,532,940	\$ 721,850,485
Non-US government bonds	109,518,808	30,378,318
Asset- and mortgage-backed securities	692,017,167	593,136,863
Non-US asset-backed securities	22,740,459	-
Domestic corporate bonds	757,378,340	986,267,569
Non-US corporate bonds	245,228,240	-
Domestic stocks	2,824,846,950	2,774,109,793
International stocks	1,134,562,079	1,303,988,823
Hedge Funds of Funds	463,853,968	715,935,010
Private Equity	670,818,353	577,114,685
Private Real Estate	199,274,198	160,562,922
Infrastructure	116,052,810	99,554,625
Natural Resources	48,890,160	27,440,752
Other investments	1,581,574,828	1,187,632,843
Total	<u>\$ 9,439,289,300</u>	<u>\$ 9,177,972,688</u>

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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, 2013 was \$1,451,831,846. The Board's exposure to foreign currency risk as June 30, 2012 was \$1,265,825,419.

Exposure to foreign currency risk as of June 30, 2013 is as follows:

Currency	Equity Securities	Cash (overdraft)
Australian Dollar	\$ 31,982,137	\$ 153,383
Brazilian Real	76,289,449	243,540
British Pound Sterling	140,848,446	(5,968,354)
Canadian Dollar	3,457,884	328,511
Chilean Peso	247,115	-
Chinese Yuan Renminbi	19,030	-
Colombian Peso	2,678,948	-
Czech Koruna	4,796,272	52,531
Danish Krone	5,690,398	(14,859)
Euro	268,885,759	7,362,938
Hong Kong Dollar	181,672,431	2,751,963
Hungarian Forint	11,039,091	155,500
Indian Rupee	58,565,752	370,029
Indonesian Rupiah	33,443,062	54
Israeli Shekel	2,092,366	11,285
Japanese Yen	113,834,989	7,787
Malaysian Ringgit	16,253,070	-
Mexican Peso	19,059,786	133,195
Romanian Leu, New	708,909	-
Taiwan Dollar, New	54,219,803	1,416,346
Turkish Lira, New	47,101,447	55,644
New Zealand Dollar	-	1,610
Nigerian Naira	2,797,236	-
Norwegian Krone	5,448,046	(85,750)
Peruvian Nuevo Sol	2,332,307	-
Philippine Peso	1,358,743	-
Polish Zloty	22,538,302	60,114
Russian Ruble	13,487,050	143,826
Singapore Dollar	12,625,599	58,568
South African Rand	45,724,796	171,001
South Korean Won	174,895,731	133
Swedish Krona	9,723,172	67,237
Swiss Franc	43,407,409	33,512
Thai Baht	37,097,566	-
Total foreign exposure	1,444,322,102	7,509,744
Investments not subject to foreign currency risk	7,994,967,198	739,089,372
Total Investments	\$ 9,439,289,300	\$ 746,599,116

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 6. INVESTMENTS (CONTINUED)

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
Taiwan Dollar, New	62,781,683	1,968,587
Turkish Lira, New	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	<u>1,258,577,574</u>	<u>7,247,845</u>
Investments not subject to foreign currency risk	<u>7,919,395,114</u>	<u>309,787,750</u>
Total Investments	<u>\$ 9,177,972,688</u>	<u>\$ 317,035,595</u>

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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. In 2012, the Board ended its practice of securities lending.

All investments except securities lending collateral are held by J.P. Morgan (Dallas, Texas). Investments in securities lending collateral were held by ClearLand 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:

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

Investment Type	Amount		Duration (In Years)	
	2013	2012	2013	2012
U.S. Treasury Securities	\$ 276,356,253	\$ 261,391,999	6.05	10.13
U.S. Government & Agency Obligations	62,066,857	76,320,510	6.17	5.38
International Government Obligations	61,262,317	77,724,848	5.48	5.05
Corporate Obligations	1,035,566,130	994,115,882	4.03	3.99
Asset & Mortgage-Backed Securities	378,794,011	508,611,020	2.56	1.41
Short-Term Investments	124,396,288	149,851,923	0.01	0.00
Overall	<u>\$ 1,938,441,856</u>	<u>\$ 2,068,016,182</u>	3.68	4.13

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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, 2013 and 2012, is summarized below. The investments were rated and categorized according to Standard & Poor’s rating standards.

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 6. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/13

Investment Type	Rating	Fair Market Value	
Asset Backed Securities	A-	\$ 326,704	
	A+	3,396,227	
	AA-	2,752,095	
	AA+	1,373,085	
	AAA	1,166,787	
	B	1,475,147	
	B-	726,309	
	B+	843,752	
	BB	625,056	
	BB-	2,803,920	
	BB+	1,646,159	
	BBB-	754,798	
	BBB+	3,508,673	
	CC	4,541	
	CCC	2,914,298	
	CCC-	526,249	
	D	370,349	
	NR	10,731,333	
	Commercial Mortgage-Backed /REMIC	AA	171,868
		AA+	25,172,635
B		774,283	
BB		837,668	
BBB		1,111,448	
BBB-		393,258	
BBB+		2,066,226	
CC		1,193,566	
CCC		3,625,969	
D		3,203,620	
NR		1,230,638	
Commercial Mortgage-Backed /REMIC		A	4,272,389
	A-	2,069,348	
	A+	6,462,388	
	AA	4,779,333	
	AA-	1,734,784	
	AAA	20,849,127	
	BB	52,709	
	BB-	483,384	
	BB+	465,894	
	BBB	2,136,980	
	BBB-	9,537,378	
	BBB+	13,792,415	
	CCC	491,375	
	D	1,842,392	
	NR	7,729,662	
	Mortgage-Backed Securities	AA+	205,715,824
	Total Asset & Mortgage Backed Securities		<u>358,142,043</u>

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 6. INVESTMENTS (CONTINUED)

Summary of Investment by Rating - Credit Risk as of 06/30/13 (continued)

Investment Type	Rating	Fair Market Value
Corporate Bonds	A	\$ 41,111,424
	A-	75,261,961
	A+	14,506,159
	AA	4,762,359
	AA-	9,051,938
	AA+	7,068,655
	AAA	346,441
	B	53,906,046
	B-	81,556,774
	B+	19,718,930
	BB	5,464,875
	BB-	1,574,050
	BB+	8,870,611
	BBB	83,111,389
	BBB-	53,644,216
	BBB+	54,296,843
	C	1,276,843
	CC	4,273,315
	CCC	23,169,923
	CCC-	23,869,704
CCC+	87,221,268	
D	3,000,820	
NR	124,050,538	
Corporate Convertible Bonds	NR	12,581
Common Stock	N/A	60,019,213
Preferred Stock	N/A	15,031
Total Domestic Corporate Securities		<u>841,161,907</u>
Bank Loans	B	22,271,989
	B-	25,129,006
	B+	7,399,821
	CCC	16,730,614
	CCC+	17,394,221
	NR	61,994,639
Total Bank Loans		<u>150,920,290</u>
Municipal/Provincial Bonds	A	5,790,728
	A-	4,048,878
	A+	84,012
Total Government Agencies		<u>9,923,618</u>
Government Bonds	A	8,520,138
	A-	37,227,454
	A+	837,154
	AA-	3,978,722
	AA+	25,587,621
	AAA	2,821,180
	BB	5,992,772
	BBB	3,065,909
	BBB-	1,314,939
	BBB+	8,860,780
	NR	38,215,442
	Total Government Bonds	
Other Investments Not Rated	NR	4,707,917
Other Investments Not Subject To Credit Risk		7,938,011,414
TOTAL		<u>\$ 9,439,289,300</u>

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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		<u>458,761,090</u>

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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		<u>28,356,969</u>
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		<u>755,348,301</u>

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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		<u>127,981,214</u>
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		<u>7,177,733</u>
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	
Other Investments Not Rated	N/R	2,751,511
Other Investments Not Subject To Credit Risk		7,655,725,118
TOTAL		<u>\$ 9,177,972,688</u>

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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 fiduciary net position. As of June 30, 2013 and 2012, 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 Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

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 2013. The amounts held in hedging derivatives were not material during the year and at June 30, 2013.

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.

The following table summarizes the aggregate notional or contractual amounts for the Board's derivative financial instruments as of June 30, 2013 and 2012.

	Notional Amounts in Thousands	
	2013	2012
Futures contracts - long	4,430	6,335
Futures contracts - short	(15,500)	(55,735)
Foreign exchange forward contracts, net	403,280	283,918
Options - puts purchased	-	6,408
Options - puts sold	-	(6,408)
Swaps - credit default swap	7,870	1,060
Swaps - index swap	284	4,341
Swaps - interest rate swap	-	139
Swaps - zero coupon	-	-

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

The fair values of derivative instruments outstanding as of June 30, 2013 and 2012 are classified by type and by the changes in fair value of the derivative instrument in the following table.

Dollar Amounts in Thousands					
Derivative Type	Unrealized Gain/(Loss) as of June 30, 2013		Fair Value at June 30, 2013		Amount
	Classification	Gain/(Loss)	Classification	Amount	
Futures	Investment Income	\$ 14	Investment	\$	(87)
Options - purchased	Investment Income	6	Investment		-
Options - sold	Investment Income	141	Investment		-
Swaps - Credit Default Swap Index	Investment Income	183	Investment		76
Swaps - Interest Rate Swaps	Investment Income	21	Investment		-
Swaps - Index	Investment Income	12	Investment		29
Derivative Type	Unrealized Gain/(Loss) as of June 30, 2012		Fair Value at June 30, 2012		Amount
	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

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 6, 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.

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

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, 2013 and 2012, currency amounts in thousands.

Fiscal Year Ending 6/30/2013

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Australian Dollar	\$ 3,205	\$ (96)	\$ 3,146	\$ 390
Brazilian Real	5,734	(209)	3,617	144
British Pound Sterling	-	-	5,589	22
Canadian Dollar	275	(3)	1,917	49
Chilean Peso	825	(3)	1,639	21
Chinese Yuan Renminbi	1,164	32	1,165	(22)
Colombian Peso	1,178	(72)	-	46
Euro	3,091	(50)	39,029	(17)
Hungarian Forint	6,206	(114)	6,530	28
Indian Rupee	-	(1)	-	1
Indonesian Rupiah	-	(5)	1,646	(6)
Japanese Yen	9,836	(361)	9,876	113
Malaysian Ringgit	184	(8)	-	-
Mexican Peso	18,153	(514)	12,248	424
Romanian Leu, New	429	(7)	-	-
Taiwan Dollar, New	1,555	(5)	1,528	6
Turkish Lira, New	3,017	(42)	-	72
Peruvian Nuevo Sol	-	-	239	2
Philippine Peso	2,266	(68)	3,151	143
Polish Zloty	3,867	(44)	814	68
Russian Ruble	6,834	(114)	10,980	458
Singapore Dollar	4,299	(67)	5,035	111
South African Rand	4,155	(53)	4,259	16
South Korean Won	6,794	(74)	6,794	121
Thai Baht	-	7	1,738	(5)
US Dollar	118,483	-	80,788	-
Total	\$ 201,550	\$ (1,871)	\$ 201,728	\$ 2,185

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

Fiscal Year Ending 6/30/2012

Currency	Buy	Unrealized Gain/(Loss)	Sell	Unrealized Gain/(Loss)
Australian Dollar	\$ 318	\$ 8	\$ 10,044	\$ (291)
Brazilian Real	5,084	50	5,687	(105)
British Pound Sterling	-	-	2,085	(14)
Canadian Dollar	-	(5)	2,801	45
Chinese Yuan Renminbi	1,896	-	4,056	9
Colombian Peso	4,913	62	4,618	(46)
Egyptian Pound	-	-	-	-
Euro	6,771	36	48,440	164
Hungarian Forint	-	-	2,328	(54)
Indian Rupee	175	1	531	(1)
Indonesian Rupiah	398	5	-	-
Japanese Yen	-	-	652	3
Malaysian Ringgit	2,284	11	-	-
Mexican Peso	3,790	145	431	(14)
Taiwan Dollar, New	-	-	713	(1)
Turkish Lira, New	702	5	9,058	(72)
Peruvian Nuevo Sol	262	-	-	-
Philippine Peso	-	-	2,261	(32)
Polish Zloty	2,947	(13)	4,519	(46)
Russian Ruble	1,372	29	-	-
Singapore Dollar	2,143	20	1,993	(23)
South African Rand	1,632	53	529	(12)
South Korean Won	-	-	2,248	(51)
Thai Baht	1,718	(7)	321	-
US Dollar	95,213	-	30,630	-
Total	\$ 131,618	\$ 400	\$ 133,945	\$ (541)

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 Statement of Fiduciary Net Position. The credit risk associated with these contracts is minimal as they are traded on organized exchanges and settled daily.

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STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

During 2013, 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 \$1,800,000 as of June 30, 2013 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 \$712,002 as of June 30, 2012, were held by the Plan's broker as performance security on futures contracts.

FY 13

Summary of Outstanding Futures Contracts

	<u>No. of Contracts</u>	<u>Notional Amount</u>
Futures Contracts - Long	134	\$ 4,430,000
Futures Contracts - Short	107	\$ 15,500,000
		<u>Fair Value</u>
Margin Deposit		\$ 1,800,000

FY 12

Summary of Outstanding Futures Contracts

	<u>No. of Contracts</u>	<u>Notional Amount</u>
Futures Contracts - Long	116	\$ 6,335,000
Futures Contracts - Short	567	\$ 55,735,000
		<u>Fair Value</u>
Margin Deposit		\$ 712,002

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 2012. 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, 2012, no written or purchased options remained open. On June 30, 2012, the value of open written and purchased options was approximately \$13,284 and \$42,174, respectively. As of June 30, 2013 there were no open written or purchased options.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 7. DERIVATIVE INSTRUMENTS (CONTINUED)

Swap Contracts — Swap contracts are executed on a number of different bases. The two types employed by the Board on June 30, 2013 and June 30 2012, 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 Fund”, “Emerging Market Debt,” and “Opportunistic Credit” classifications.

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:

	2013	2012
Asset backed securities	\$18,862,108	\$29,665,212
Collateralized mortgage obligations	41,616,321	21,048,837
Commercial mortgage backed securities	76,699,558	79,898,408
Collateralized debt/loan obligations	19,149,599	40,803,326

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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 8. SECURITIES LENDING (CONTINUED)

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.

Securities lending was ended during fiscal year 2012. The Board received net securities lending income totaling \$154,837 for the fiscal year ended June 30, 2012. There were no significant violations of legal or contractual provisions nor any borrower or lending agent default losses.

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 \$695,347 and \$1,407,977 for the years ended 2013 and 2012, respectively. Capital asset activity for the years ended June 30, 2013 and 2012 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
2013:				
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	1,124,917	8,496	50,839	1,082,574
Other assets (Art in Public Places)	30,500	-	-	30,500
Integrated Retirement Information System (IRIS)	9,156,963	-	-	9,156,963
	<hr/>			<hr/>
Total	13,945,627	8,496	50,839	13,903,284
	<hr/>			<hr/>
Accumulated depreciation:				
Depreciable land improvements	5,022	699	-	5,721
Building and building improvements	1,514,134	101,891	-	1,616,025
Furniture and equipment	912,815	86,704	50,721	948,798
Integrated Retirement Information System (IRIS)	8,650,910	506,053	-	9,156,963
	<hr/>			<hr/>
Total	11,082,881	695,347	50,721	11,727,507
	<hr/>			<hr/>
Capital assets—net	\$2,862,746	\$ 686,851	\$ 118	\$ 2,175,777
	<hr/>			<hr/>

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

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	38,801	1,124,917
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	38,801	13,945,627
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	<u>\$4,201,681</u>	<u>\$ 1,336,679</u>	<u>\$ 2,256</u>	<u>\$ 2,862,746</u>

NOTE 10. 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, 2013 and 2012.

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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 10. ACCRUED COMPENSATED ABSENCES (CONTINUED)

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

	2013	2012
Balance payable—beginning of fiscal year	\$ 203,800	\$ 228,616
Additions	212,462	177,855
Deletions	(185,459)	(202,671)
Balance payable—end of fiscal year	<u>230,803</u>	<u>203,800</u>
Amount due within one year, estimated at 97%	<u>\$ 223,879</u>	<u>\$ 197,686</u>

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

NOTE 11. 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 Statement of Fiduciary Net Position. 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,	
2014	\$ 74,109
2015	72,177
2016	74,048
2017	62,220
2018	82,034
Total	<u>\$ 364,588</u>

Lease expense was \$75,876 and \$80,618 for the fiscal years ended June 30, 2013 and 2012, respectively.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 12. 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.

Funding Policy. Plan members are required to contribute 8.92% of their gross salary. The Educational Retirement Board is required to contribute 15.09% of the gross covered salary. The contribution requirements of plan members and the Educational Retirement 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, 2013, 2012, and 2011 were \$661,881, \$656,229, and \$648,196 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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 12. RETIREMENT PLANS (CONTINUED)

Funding Policy.

Member Contributions

Plan members whose annual salary is \$20,000 or less are required by statute to contribute 7.9% of their gross salary. Plan members whose annual salary is over \$20,000 are required to make the following contributions to the Plan: 9.4% of their gross salary in fiscal year 2013; 10.1% of their gross salary in fiscal year 2014; and 10.7% of their gross salary in fiscal year 2015 and thereafter.

Employer Contributions

In fiscal year 2013, the Educational Retirement Board was required to contribute 12.4% of the gross covered salary for employees whose annual salary is \$20,000 or less, and 10.9% of the gross covered salary for employees whose annual salary is more than \$20,000.

In the future, the Educational Retirement Board will contribute the following percentages of the gross covered salary of employees: 13.15% of gross covered salary in fiscal year 2014; and 13.9% of gross covered salary in fiscal year 2015.

The contribution requirements of plan members and the Educational Retirement 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, 2013, 2012, and 2011 were \$7,190, \$4,380, and \$11,792, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description: The Educational Retirement 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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

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 legislators who served at least two years; (4) 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.

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.

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 13. POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Educational Retirement Board's contributions to the RHCA for the years ending June 30, 2013, 2012 and 2011 were \$55,678, \$50,399, and \$46,063 for employer contributions and \$27,836, \$24,541, and \$23,031 in employee contributions, respectively, which equal the required contributions for each year.

NOTE 14. 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.

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 15. 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 2012, 2011 and 2010	(44,697)
Outstanding Encumbrance at end of FY 2012	(49,211)
Un-encumbered balance rebudgeted in FY 2013	<u>\$ 2,406,092</u>

Un-encumbered balance carried forward	\$ 2,406,092
Outstanding encumbrance from FY 2012 added back in	49,211
Expended in FY 2013	-
Outstanding Encumbrance at end of FY 2013	(49,211)
Un-encumbered balance not rebudgeted in FY 2014	<u>\$ 2,406,092</u>

IRIS ENHANCEMENT PROJECT

Laws of 2011, Chapter 179, Section 7, Item 3

Appropriation	\$ 3,500,000
Expended in FY 2012 and 2013	(1,690,535)
Outstanding Encumbrance at end of FY 2013	(1,420,144)
Un-encumbered balance rebudgeted in FY2014	<u>\$ 389,321</u>

Financial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 and 2012

NOTE 16. 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.

Financial Section

Required Supplementary Information

Financial Section

Schedule of Changes In The Employers' Net Pension Liability

**STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY**

(Unaudited)

Fiscal year ending June 30,

	<u>2013</u>
Total Pension Liability	
Service Cost	\$ 348,266,697
Interest	1,202,676,449
Benefit Changes	10,093,494
Difference between actual & expected experience	-
Assumption Changes	(5,035,689,829)
Benefit Payments	(811,665,051)
Refunds	(41,664,216)
Net Change in Total Pension Liability	<u>(4,327,982,456)</u>
Total Pension Liability - Beginning	20,796,533,408
Total Pension Liability - Ending (a)	<u><u>\$ 16,468,550,952</u></u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 299,657,530
Contributions - Member	250,529,546
Net Investment Income	1,016,865,792
Benefit Payments	(811,665,051)
Refunds	(41,664,216)
Administrative Expense	(10,985,967)
Other	-
Net Change in Plan Fiduciary Net Position	<u>702,737,634</u>
Plan Fiduciary Net Position - Beginning	9,488,961,169
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 10,191,698,803</u></u>
Net Pension Liability - Ending (a) - (b)	<u><u>\$ 6,276,852,149</u></u>

Notes to Schedule:

The change in total pension liability due to assumption changes includes the impact of the new assumptions adopted by the Board on April 26, 2013 as well as the change in the single discount rate between June 30, 2012 and June 30, 2013. The covered employee payroll is the actual payroll, imputed from the total employer contributions, for the fiscal year ending June 30, 2013.

Financial Section

Schedule of Employers' Net Pension Liability

**STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF THE EMPLOYERS' NET PENSION LIABILITY**

(Unaudited)

Fiscal year ending June 30,

	2013
Total Pension Liability	\$ 16,468,550,952
Plan Fiduciary Net Position	10,191,698,803
Net Pension Liability	<u>\$ 6,276,852,149</u>
 Plan Fiduciary Net Position as a Percentage of a Total Pension Liability	 61.89%
 Covered Employee Payroll	 \$ 2,706,170,349
 Net Pension Liability as a Percentage of Covered Employee Payroll	 231.95%

Financial Section

Schedule of the Employer Contributions

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF THE EMPLOYER CONTRIBUTIONS

(Unaudited)

<u>FY Ending June 30</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2013	\$480,700,326	\$299,657,530	\$181,042,796	\$2,706,170,349	11.07%

Notes to Schedule:

The change in total pension liability due to assumption changes includes the impact of the new assumptions adopted by the Board on April 26, 2013 as well as the change in the single discount rate between June 30, 2012 and June 30, 2013 and the impact of the implementation of GASB 67. The covered employee payroll is the actual payroll, imputed from the total employer contributions, for the fiscal year ending June 30, 2013.

Schedule of Investment Returns

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF INVESTMENT RETURNS

(Unaudited)

<u>FY Ending June 30</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2013	11.12%
2012	1.87%
2011	19.30%

Financial Section

Other Supplementary Information

Financial Section

Schedule of Revenues and Expenses—Budget and Actual (Non-GAAP Basis)

STATE OF NEW MEXICO
 EDUCATIONAL RETIREMENT BOARD
 SCHEDULE OF REVENUES AND EXPENSES
 BUDGET AND ACTUAL (NON-GAAP BASIS)
 For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Budgetary Basis	Variance— Final Budget Favorable (Unfavorable)
REVENUES:				
Other state funds	\$ 37,823,300	37,823,300	37,823,300	-
TOTAL BUDGETED REVENUE	\$ 37,823,300	37,823,300	37,823,300	-
EXPENSES:				
Personal services and employee benefits	\$ 4,888,600	4,888,600	4,366,501	522,099
Contractual services	32,097,700	32,097,700	20,622,004	11,475,696
Other costs	837,000	837,000	723,216	113,784
TOTAL EXPENSES	\$ 37,823,300	37,823,300	25,711,721	12,111,579

RECONCILIATION OF GAAP BASIS TO BUDGETARY BASIS:

Revenue GAAP basis	\$ 1,567,052,867
Net depreciation in investment value	837,193,133
Investment advisor and custody fees	(15,421,101)
Current-year revenue not needed for budgeted expenses	(2,351,001,599)
Revenue (non-GAAP) budgetary basis	<u>\$ 37,823,300</u>
Expenses GAAP basis—administrative	\$ 10,985,967
Depreciation expense	(695,347)
Investment advisor and custody fees	15,421,101
Expenses (non-GAAP) budgetary basis	<u>\$ 25,711,721</u>

Financial Section

Schedule of Cash Accounts

**STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF CASH ACCOUNTS
As of June 30, 2013 and 2012**

**Educational Employees' Retirement Fund
Pension Trust Account
Fund 605**

	<u>2013</u>	<u>2012</u>
Petty cash	\$ 100	\$ 100
Qualified Excess Benefit Arrangement Trust Checking Account at Wells Fargo Bank	23,836	21,201
Short-term investment accounts:		
Overnight repurchase agreement pool—State Treasurer	5,353,975	5,521,436
Short-Term Investment Fund—STIF	<u>746,599,116</u>	<u>317,035,595</u>
Balance per financial statements	<u>\$ 751,977,027</u>	<u>\$ 322,578,332</u>
Pledged collateral for Wells Fargo demand deposit account:		
Total amount on deposit at June 30	\$ 23,836	\$ 21,201
Less Federal Deposit Insurance Corporation coverage	<u>(23,836)</u>	<u>(21,201)</u>
Total uninsured public funds	<u>\$ -</u>	<u>\$ -</u>

Financial Section

Schedule Administrative, Consultant, And Budgeted Investment Expenses

STATE OF NEW MEXICO
EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF ADMINISTRATIVE, CONSULTANT, AND BUDGETED INVESTMENT EXPENSES
For the Year Ended June 30, 2013

	<u>2013</u>
Personal Services and Benefits	
Salaries	\$ 3,072,614
Benefits	1,293,887
Total Personal Services and Benefits	<u>4,366,501</u>
Consultant Services	
Medical Review Board Fees	18,825
Audit Fees	95,581
Legal Fees	1,362,304
Information Technology Fees	1,423,811
Other Consultant Services Fees	56,192
Total Consultant Services Expenses	<u>2,956,713</u>
Budgeted Investment Expenses	
Custodial Expenses	736,911
Investment Manager Expenses	
Domestic Equity	2,117,078
Domestic Fixed Income	8,303,233
Non-US Equity	3,778,024
Non-US Fixed Income	485,855
Investment Consulting Expenses	1,666,008
Other Investment Expenses	578,183
Total Budgeted Investment Expenses	<u>17,665,292</u>
Other Administrative Expenses	
Building and Maintenance	139,669
Dues and Subscriptions	39,219
Employee and Board Travel	100,724
Inventory and Supplies	208,375
IT Equipment	52,408
Training and Education	32,002
Telecommunication Services	108,593
Utilities	28,995
Other Miscellaneous Expenditures	13,231
Total Other Administrative Expenses	<u>723,216</u>
Total Administrative, Consultant & Budgeted Investment Expenses	<u>\$ 25,711,722</u>

Investment Section



Investment Section

Report on Investment Activity

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD REPORT ON INVESTMENT ACTIVITY JUNE 30, 2013

Members & Retirees of NMERB:

Fiscal Year 2013 marked another profitable year for the NMERB investment portfolio. The total Fund posted a return of 11.0%, for annual investment gains of \$1.0 billion. This handily exceeded the fund's actuarially required annual return assumption of 7.75%. In addition, the 11.0% portfolio return outperformed the fund's policy index return of 9.4%. The Fund's investment performance lagged many of the other funds in 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 12.0% for the year. Given the very strong equity market performance during the fiscal year, ERB's the outcome is in line with expectations. As we have noted in past years, 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 has contributed positively to our results in previous fiscal years and has contributed positively to our longer term comparative performance.

In terms of major market index returns, U.S equities produced outstanding results. The S&P 500 index returned 20.6% for the fiscal year. Foreign stocks produced more mixed results, however. The EAFE index for developed foreign equity markets gained a strong 18.6%, while the MSCI Emerging Markets Equity index was only managed to produce a return of 2.9%. In the fixed income sector, markets were also mixed. The Barclays Capital Aggregate index representing the U.S. investment grade bond market posted a negative return for the first time in several years at posting a -0.7% return due to rising interest rates. In the high yield bond space, the Merrill Lynch BB-B constrained High Yield index returned a positive 8.5%. ERB's portfolio is a combination of managers operating in markets related to those two indices. Our portfolio exceeded both benchmarks, generating a positive return of 9.5%. 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 10.7% per year exceeded its policy target return of 9.9%. 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. Most importantly, the portfolio return also exceeded the 7.75% target mentioned earlier. The three-year return ranks somewhat below the median return of 11.3% for other funds in ERB's peer group.

Investment Section

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

ERB's five-year total Fund return was 5.8% annually, outperforming its benchmark of 4.5%. While the return is below the 7.75% target, one must keep in mind the dramatic plunge in stock market values that took place in Fiscal Year 2009, with the equity markets posting significant losses. 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 24% 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 given the market conditions.

ERB's ten-year total Fund return was 7.6% which was above its policy return of 6.9% and just slightly below the actuarial rate of 7.75%. The fund ranked in the top 28% 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 2012 was 6.8%. The 2013 results show continued 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. These targets were further refined in 2010 and 2012. The details of the 2012 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 37%, from the previous allocation of 45% in 2007. 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, 2013. Performance shown for periods longer than one year has been annualized.

Sincerely,



Bob Jacksha
Chief Investment Officer

Investment Section

Investments Overview

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD INVESTMENTS OVERVIEW JUNE 30, 2013

I. Investment Objectives

Recognizing the important and permanent 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 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 domestic 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 obtained through an index portfolio based on the Wilshire REIT Index. The other stock portfolios are 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, absolute return strategies, global tactical asset allocation, risk parity and real assets in the form of infrastructure, agriculture, timber and mining and mineral assets.

II. Investment Process

While ultimately responsible for all ERB functions, 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.

Investment Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD INVESTMENTS OVERVIEW JUNE 30, 2013 (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 September 2012. 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, 2013**

<u>Asset Class:</u>	<u>Target Weight</u>	<u>Actual</u>
Cash	1%	5%
<u>Equities</u>		
Domestic Equity	22%	25%
International Equities	15%	14%
Total Equities	37%	39%
<u>Fixed Income</u>		
Investment Grade Bonds	7%	12%
Emerging Market Debt	2%	2%
Opportunistic Credit	20%	19%
Total Fixed Income	29%	33%
<u>Alternatives</u>		
Real Estate/REITs	5%	6%
Private Equity	8%	7%
Absolute Return	3%	5%
Real Assets	7%	2%
Risk Parity	5%	4%
Global Tactical Asset Allocation	5%	2%
Total Alternatives	33%	26%

Investment Section

Investments Performance Overview

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

INVESTMENT PERFORMANCE OVERVIEW

JUNE 30, 2013

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 September of 2012. 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.

During the year, ERB selected three new managers to manage the majority of the assets in the International Equity space. These managers have replaced the previous, underperforming managers.

III. ERB Portfolio Performance

The ERB investment portfolio returned a positive 11.0% for the fiscal year. This exceeded the funds most important hurdle, the 7.75% long term return target. The portfolio return also exceeded the Policy Index return of 9.4%.

Overall, fiscal year 2013 was a positive one for most, but not all investment markets. The environment was positive for equity markets, especially so in the developed markets of the world and much less so for emerging markets.

The domestic equity portfolio gained 21.4%, versus the Russell 3000 return of 21.5%. As to foreign stocks, the ERB EAFE Developed Markets Equity Portfolio returned 16.9% versus the MSCI EAFE index return of 18.6%. The Emerging Markets Equity portfolio returned 0.0%, versus the MSCI Emerging Markets Index return of 2.9%.

Fixed income produced positive returns. The ERB core fixed income portfolio produced an 0.9% return versus -0.7% for the Barclays Capital Aggregate Bond Index.

The opportunistic credit portfolio returned 16.6% versus the custom index of 50% CS Leveraged Loans/ 50% Merrill Lynch High Bond BB/B index return of 8.1%.

The REIT portfolio returned 10.1%, exceeding Wilshire REIT Index return of 8.4%. The REIT portfolio is a combination of the passively managed REIT index portfolio and one active manager.

Investment Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD INVESTMENT PERFORMANCE OVERVIEW JUNE 30, 2013 (CONTINUED)

The private equity investment allocation also turned in a positive return at 14.1%. This outdistanced the Cambridge Associates index return of 12.8%.

Private real estate investments returned 13.7% versus the NCREIF Index return of 10.7%.

Absolute return hedge fund strategies were positive, returning 4.8% versus the benchmark of 2.1%.

Finally, global asset allocation strategies returned 0.3% versus the benchmark index return of 11.5%.

Further detailed performance figures may be found on the ERB website in the 2nd Quarter 2013 Investment Performance Report: <http://www.nmerb.org/pdfs/2Q2013Report.pdf>. The investment results basis for calculations is a time-weighted rate of return based on the market rate of return.

Investment Section

Largest Investment Holdings

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD LARGEST INVESTMENT HOLDINGS JUNE 30, 2013

Ten Largest Stock Holdings

<u>Company</u>	<u>Shares</u>	<u>Fair Value</u>
EXXON MOBIL CORP	712,480	\$ 64,372,568
APPLE INC	149,338	\$ 59,149,795
MICROSOFT CORP COM STK	1,198,747	\$ 41,392,734
GENERAL ELECTRIC CO.	1,653,507	\$ 38,658,994
JOHNSON & JOHNSON	444,543	\$ 38,168,462
GOOGLE INC	42,481	\$ 37,398,998
CHEVRON CORP	308,956	\$ 36,561,853
SAMSUNG ELECTRONICS CO	28,961	\$ 34,031,489
PROCTER & GAMBLE CO	434,418	\$ 33,445,842
BERKSHIRE HATHAWAY INC	290,007	\$ 32,457,583

Ten Largest Fixed Income Holdings

<u>Issue</u>	<u>Fair Value</u>
UNITED STATES TREAS NTS 0.375% DUE 01-15-2016	\$ 67,516,184
UNITED STATES TREAS NTS 1.375% DUE 05-31-2020	\$ 43,745,774
UNITED STATES TREAS NTS 1.875% DUE 06-30-2020	\$ 32,169,708
TBA FNMA 3.50% 30 YEARS	\$ 14,217,316
UNITED STATES OF AMERICA NOTES FIXED 1.375%	\$ 13,571,139
UNITED STATES TREASURY NOTES 0.375% DUE 06-15-2015	\$ 9,999,737
FNMA TBA 30YR TBA 03.000%	\$ 8,573,438
UNITED STATES TREASURY NOTES 1% DUE 08-31-2016	\$ 7,977,361
WACHOVIA BK COM MT 5.509% CMO DUE 04-15-2047	\$ 6,960,057
INDONESIA(REPUBLIC OF) 10.25% BONDS DUE 07-15-2022	\$ 6,934,815

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

Investment Section

Schedule of Investment Management Fees and Commissions

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF INVESTMENT MANAGEMENT FEES AND COMMISSIONS
JUNE 30, 2013**

	<u>Investment Fees</u>	<u>Commissions</u>
Domestic Equities	\$ 2,117,078	\$ 16,005
Domestic Fixed Income	8,303,233	34,181
International Equities	3,778,024	570,466
International Fixed Income	485,855	-
Total	<u>\$ 14,684,190</u>	<u>\$ 620,652</u>
Custodian Fees	\$ 736,911	N/A
Consultant Fees	1,666,008	N/A
Grand Total	<u>\$ 17,087,109</u>	<u>\$ 620,652</u>

Excludes commissions associated with commingled funds.

Investment Section

Investment Summary

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
INVESTMENT SUMMARY
JUNE 30, 2013

Investments of the Board are as follows as of June 30, 2013:

<u>Investment Description</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>
Investments: (held by the Board's agent in the Board's name)		
Cash and short-term investments	\$ 746,599,116	7.33%
U.S. government and agency securities	572,532,940	5.62%
Non-US government bonds	109,518,808	1.08%
Asset- and mortgage-backed securities	692,017,167	6.79%
Non-US asset-backed securities	22,740,459	0.22%
Domestic corporate bonds	757,378,340	7.44%
Non-US corporate bonds	245,228,240	2.41%
Domestic stocks	2,824,846,950	27.73%
International stocks	1,134,562,079	11.14%
Hedge Funds of Funds	463,853,968	4.55%
Private Equity	670,818,353	6.59%
Private Real Estate	199,274,198	1.96%
Infrastructure	116,052,810	1.14%
Natural Resources	48,890,160	0.48%
Other investments	1,581,574,828	15.53%
Total	<u>\$ 10,185,888,416</u>	<u>100.00%</u>

Actuarial Section

Actuary's Certification Letter



Gabriel Roeder Smith & Company
Consultants & Actuaries

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November 1, 2013

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 Report as of June 30, 2013

The results of the June 30, 2013 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, 2013.

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, 2013, 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, to analyze changes in ERB's condition, and to provide various summaries of the membership data.

This report no longer provides information related to Governmental Accounting Standards Board (GASB) Statement No. 25. All of the information required by GASB is now provided in a stand-alone report entitled "GASB 67 Reporting and Disclosure Information", dated October 1, 2013 for the plan year ending June 30, 2013.

The valuation report provides a "snapshot" of ERB's estimated financial condition as of the valuation date. The valuation does not predict ERB'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 ERB. Over time, ERB'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,

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and the amount earned on any assets invested toward the payment of benefits. These amounts and other variables are uncertain and unknowable at the valuation date.

To prepare the valuation report, actuarial assumptions, including those adopted with the June 30, 2012 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 sensitive to the assumptions 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 30th of each year, the last day of ERB's plan and fiscal years.

Financing Objectives

In accordance with HB 628 (2011 Regular Session) and SB 115 (2013 Regular Session), employer and member contributions are scheduled as follows.

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

<i>Fiscal Year End</i>	<i>Employer Contribution Rate</i>	<i>Member Contribution Rate</i>
2013	10.90%/12.40%	9.40%/7.90%
2014	13.15%/13.15%	10.10%/7.90%
2015 and thereafter	13.90%/13.90%	10.70%/7.90%

In addition to the above, certain higher education employers make a 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 extend beyond June 30, 2042 (30 years from June 30, 2012) in accordance with the funding policy is set by the Board of Trustees. (The amortization period, also referred to as the funding period, is the number of years expected to be required to

Actuarial Section

Board of Trustees
November 1, 2013
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completely amortize the UAAL, assuming that ERB's experience exactly follows all of the actuarial assumptions.)

Progress Towards Realization of the Financing Objectives

The funded condition of the plan, as measured by the funded ratio, declined from 2012 to 2013. The decline was due to the continued loss on the actuarial value of assets (a loss of \$207 million) which offset a net gain on the liabilities of \$107 million.

Again, the funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio as of June 30, 2012 was 60.7%. It is now 60.1% as of June 30, 2013. Five years ago this ratio stood at 71.5%, and ten years ago the ratio was 81.1%. If the ratio were calculated using the market value rather than the actuarial value of assets, it would be 62.3% as of June 30, 2013, up from 59.9% as of June 30, 2012. During the last fiscal year, the UAAL increased from \$6.2 billion to \$6.5 billion.

The plan's funding period as of the valuation date is 95.1 years. 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 (3.50% per annum) in the future. The 95.1 year period compares with an infinite funding period calculated as of the prior actuarial valuation date.

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 member and 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 (0.50% per annum).

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% of assets through early March 2009 but then rebounded off of these lows. For instance, the market value of the ERB trust was \$7.1 billion as of June 30, 2009 and is \$10.2 billion as of June 30, 2013. All of the investment losses from FYE 2009 have now been recognized with the completion of this actuarial valuation.

The annual return from 2012 to 2013 on the market value of assets was approximately 10.8% and the annual return from that same period on the actuarial value of assets was 5.6%. The return on the actuarial value of assets of less than the assumed return of 7.75% reflects the five-year "smoothing" of gains and losses at work in the asset valuation method; for instance, in 2012 not all the losses were recognized at one time in the actuarial value of assets and likewise, for this valuation, not all of the 2013 gains have been recognized in the actuarial value of assets. The net result of the losses from 2009 and 2012 and the gains from 2010, 2011, and 2013 that are recognized in this valuation is an overall loss on

Actuarial Section

Board of Trustees
November 1, 2013
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the actuarial value of assets measured from last year to this year (a return of 5.6% versus the assumed return of 7.75%).

Benefit Provisions

SB 115 was signed into law on March 29, 2013 and modified the following benefit provisions:

- All members with annual salary of more than \$20,000 will contribute 10.10% during the fiscal year ending June 30, 2014 and 10.70%, thereafter,
- Members hired after June 30, 2013 will have a minimum unreduced retirement age of 55 and their COLA will be deferred until age 67, and
- COLAs for most retirees are reduced until ERB attains a 100% funded status.

Assumptions and Methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. The Board adopted new assumptions on April 26, 2013 in conjunction with the six-year experience study period ending June 30, 2012. At that time, the Board adopted a number of assumption changes, including a decrease in the wage inflation from 4.75% to 4.25%, a decrease in the payroll growth from 3.75% to 3.50%, and changes to the mortality, retirement, and termination rates.

We believe the recommended assumptions and methods are internally consistent, are reasonably based on the actual experience of ERB, and comply with Actuarial Standards of Practice.

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, 2013 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 as of June 30, 2013 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 Changes in the Employers' Net Pension Liability and Related Ratios as well as the Schedule of Employer Contributions in the Financial Section.

Actuarial Section

Board of Trustees
November 1, 2013
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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 all of 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 in the preparation of our report.

Respectfully submitted,
Gabriel, Roeder, Smith & Company



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



Mark R. Randall, FCA, EA, MAAA
Executive Vice President

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Actuarial Section

Executive Summary

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL EXECUTIVE SUMMARY JUNE 30, 2013

Executive Summary

Valuation as of:	06/30/2013	06/30/2012
Contribution Rates for Fiscal Year Ending:	06/30/2014	06/30/2013
Membership		
• Number of		
- Active members	61,177	60,855
- Retirees and beneficiaries	40,310	37,336
- Inactive, vested	8,615	9,648
- Inactive, nonvested	<u>25,482</u>	<u>24,384</u>
- Total	135,584	132,223
• Payroll	\$ 2.5 billion	\$ 2.5 billion
Statutory contribution rates		
• Employer	13.15%	10.90%
• Member	10.10%	9.40%
Assets		
• Market value	\$ 10.2 billion	\$ 9.5 billion
• Actuarial value	\$ 9.8 billion	\$ 9.6 billion
• Return on market value	10.8%	1.6%
• Return on actuarial value	5.6%	2.2%
• Employer contributions	\$ 299.7 million	\$ 253.8 million
• External cash flow %	-3.1%	-2.8%
• Ratio of actuarial to market value	96.4%	101.2%
Actuarial Information		
• Normal cost %	13.16%	13.79%
• Unfunded actuarial accrued liability (UAAL)	\$ 6.5 billion	\$ 6.2 billion
• Funded ratio	60.1%	60.7%
• Funding period	95.1 years	Infinite
• Funding Policy Contribution	17.47%	17.59%
Gains/(losses)		
• Asset experience	\$ (207.4) million	\$ (524.0) million
• Liability experience	107.0 million	200.1 million
• COLA experience	20.8 million	0.0 million
• Benefit changes	(14.1) million	0.0 million
• Assumption/method changes	<u>81.5 million</u>	<u>0.0 million</u>
• Total	\$ (12.2) million	\$ (323.9) million

Actuarial Section

Discussion

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL REPORT DISCUSSION JUNE 30, 2013

Introduction

The results of the June 30, 2013 actuarial valuation of the Educational Retirement Board of New Mexico (ERB) are presented in this report. Table 1 of our report summarizes the key actuarial results. Table 2 analyzes changes in the unfunded actuarial accrued liability. Tables 3 and 4 show more detailed actuarial information. Tables 5a and 5b develop the Funding Policy Contribution and compare to the actual contributions received. Tables 6a, 6b, 13, 14 and 15 show statistical information about the membership, and Tables 7 through 9b, and Table 11 show information about plan assets. Tables 10a and 10b show the calculation of the actuarial gains and losses. Table 12 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 of terms.

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 \$18.6 billion, as shown in Table 3 of our report.
- The entry age normal actuarial cost 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 future normal costs). The actuarial accrued liability is \$16.4 billion, as shown on line 5d in Table 1 of our report.
- Under the entry age normal actuarial 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 13.16% of payroll inclusive of member contributions. This is the total (member plus employer) contribution rate needed to pay for the average member.
- Part of the normal cost is paid by the employee contributions of 10.10%, leaving 3.06% to be funded by the employers (i.e., the current year's employer normal cost is 3.06% of payroll). This is shown on line 2 in 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 \$6.5 billion as shown on line 7 in Table 1.

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL REPORT DISCUSSION (CONTINUED) JUNE 30, 2013

- Since the statutory employer contribution rate is 13.15% and the employer normal cost rate is 3.06%, the difference of 10.09% is used to amortize the UAAL. (*Next year the employer contribution rate is scheduled to be 13.90%.*) The 3.00% employer 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 3.50% payroll growth period each year. This period is currently 95.1 years. (Note, however, that this calculation does not reflect the scheduled increases in contribution rates nor the expected decrease in the normal cost rate for members hired after June 30, 2013. Further, it assumes a 7.75% return on the actuarial value of assets, not the market value. Alternate projections show that it will take approximately 32 years to amortize the UAAL reflecting the contribution rate increases scheduled to occur under current law, incorporating the expected decrease in the normal cost rate, assuming a 7.75% return on the market value of assets, and assuming membership growth of 0.50% 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 an annual 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 in Table 2, the UAAL increased by \$482.9 million for imputed interest and decreased by \$192.1 million because of payments made. This means that the UAAL was expected to increase \$290.8 million before recognizing plan experience. The UAAL as of June 30, 2012 was \$6.2 billion, and the expected UAAL as of June 30, 2013, recognizing actual contributions made, is \$6.5 billion.

The plan experienced a liability gain of \$107.0 million the vast majority of which is due to a gain from actual salary increases being less than expected. This gain represents 0.7% of the total actuarial accrued liability.

A cost-of-living adjustment (COLA) was applied as of July 1, 2013 to retirement benefits for retirees eligible to receive a COLA as defined in Section 22-11-31 of the New Mexico Statutes Annotated. A 2.00% adjustment factor was applied to all disabled retirees who had been retired for at least three years, i.e., members who began receiving a disability retirement benefit in calendar year 2009 or earlier. Since the plan's funded ratio as of June 30, 2012 is 90% or less, all non-disability retirements with 25 or more years of service credit at retirement and whose monthly annuity is less than the median monthly benefit of all non-disability retirees from the prior year (i.e., \$1,504.20 as of June 30, 2012) will receive an annual adjustment of 1.80%. All remaining non-disability retirements will receive an annual adjustment of 1.60%. Note that the adjustment is only applied to members who retired in calendar year 2012 or earlier; members who retired in 2013 are ineligible.

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL REPORT DISCUSSION (CONTINUED) JUNE 30, 2013

The plan experienced an actuarial loss on investments of \$207.4 million. The investment loss resulted from the fact that the return on the actuarial value of assets, 5.6%, was less than the 7.75% assumed investment return. This loss was the result of recognizing 20% of the losses from FYE 2009 and FYE 2012, with 20% of the gains from FYE 2010, FYE 2011 and FYE 2013. The market rate of return in FYE 2013 was 10.8%.

There were both benefit changes (approval of SB 115) and new assumption changes adopted since the last actuarial valuation. The adoption of SB 115 resulted in a net \$6.7 million decrease in UAAL while the adoption of new assumptions resulted in a \$81.5 million decrease in UAAL.

As a result of all the above experience, the UAAL increased from \$6.2 billion to \$6.5 billion.

Funding Policy

The Board of Trustees has established a funding policy where the UAAL will be fully funded by June 30, 2042 (30 years from June 30, 2012). This funding policy does not directly impact the level of funding on an annual basis since the members, the employers and the State all contribute a fixed percentage of payroll. However, the funding policy contribution amount provides the Board of Trustees with a valuable benchmark which can be used to determine whether the total contribution being received by ERB is sufficient to meet the long-term goal of eliminating the UAAL by June 30, 2042.

Table 5a of our report calculates the Funding Policy Contribution and Table 5b tracks how closely the contributions received during the past fiscal year compared to the Funding Policy Contribution.

Benefit Provisions

Appendix 1 of our report 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.

SB 115 was signed into law on March 29, 2013 and modified the following benefit provisions:

- All members with annual salary of more than \$20,000 will contribute 10.10% during the fiscal year ending June 30, 2014 and 10.70%, thereafter,
- Members hired after June 30, 2013 will have a minimum unreduced retirement age of 55 and their COLA will be deferred until age 67, and
- COLAs for most retirees are reduced until ERB attains a 100% funded status.

Increased member contributions result in greater projected Withdrawal (Refund) Benefits for certain members in the future. As a result, the increased member contribution requirements under SB 115 resulted in a \$14.1 million increase in the UAAL as of June 30, 2013. It is important to note that the UAAL generally increases when the member contributions to a retirement system are increased.

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL REPORT DISCUSSION (CONTINUED) JUNE 30, 2013

Most importantly, this relatively small increase in UAAL is far out-weighted by the increase in contributions that ERB will receive in the future (the present value of the additional contributions is approximately \$494 million for the current active members).

ERB also granted a reduced COLA on July 1, 2013 since the funded status was less than 100% which resulted in an actuarial gain of \$20.8 million. As a result, the adoption of SB 115 resulted in a net \$6.7 million decrease in UAAL as of June 30, 2013.

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. The Board of Trustees adopts the assumptions used in the valuation, taking into account the actuary's recommendations. The Board adopted new assumptions on April 26, 2013 in conjunction with the six-year experience study period ending June 30, 2012. At that time, the Board adopted a number of assumption changes, including a decrease in the wage inflation from 4.75% to 4.25%, a decrease in the payroll growth from 3.75% to 3.50%, and changes to the mortality, retirement, and termination rates.

We believe the recommended assumptions are internally consistent and are reasonably based on the actual experience of ERB. Appendix 2 of our report summarizes the current actuarial assumptions being utilized in the preparation of the actuarial valuations.

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 retirement plans, ERB uses the entry age normal actuarial cost 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 as of June 30, 2013 used in this valuation.

Table 7 of our report shows a reconciliation of the assets from the beginning of the prior year to the valuation date.

Table 8 shows 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

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL REPORT DISCUSSION (CONTINUED) JUNE 30, 2013

refunds paid. Both the actual and expected returns are computed net of investment and administrative expenses.

Note that the actuarial value is currently 96.4% of the market value. The dollar amount of the difference between the actuarial value and market value is the value of the deferred gains, and totals \$363.2 million dollars. Over any short time period, a disparity between actuarial value and market value may appear, but over the long term, we would expect the actuarial value and the market value to continue to track each other fairly closely.

Table 9a shows that the investment return rate for FYE 2013 on market value was 10.8%, while it was 5.6% on the actuarial value of assets. Table 9b shows historical return rates since the current actuarial asset method was adopted.

Finally, Table 11 shows a history of cash flows to the trust, and the net cash flow measured as a percentage of the assets. The net cash flow is slightly negative, 3.1% of market value.

Member Data

Membership data was provided in electronic files by the ERB staff. Data for active members includes gender, birthdate, 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), gender, birthdate, pension amount, form of payment, beneficiary gender 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 6a summarizes the data for all members. Table 6b is a history of key statistical information about active members, and Table 13 is a history of statistical information about retirees. Table 14 is an age/service distribution of active members and their average pay. Table 15 is a reconciliation that tracks changes in the plan population from last year to this year.

The number of active members increased 0.5% since last year, from 60,855 to 61,177.

Total payroll increased 0.9% since last year. For all comparative purposes, payroll is the amount supplied by the ERB staff (i.e., the 2012-2013 member pay). However, this figure is increased by one year's expected pay increase to determine the member's rate of pay as of July 1, 2013. Pay is assumed to change only at the beginning of a school/fiscal year.

Average pay increased 0.3% since last year. Average pay for members active in both this valuation and the last year's valuation increased 1.9%. 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.

Actuarial Section

Actuarial Exhibits

Actuarial Section

Actuarial Information

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL EXHIBITS (CONTINUED) JUNE 30, 2013

Actuarial Information

	June 30, 2013 (1)	June 30, 2012 (2)
1. Payroll		
a. Supplied by System (annualized)	\$ 2,516,874,274	\$ 2,495,275,534
b. Adjusted for one-year's pay increase	2,661,456,872	2,649,331,144
2. Normal cost rate (payable monthly)		
a. Total normal cost rate	13.16%	13.79%
b. Less: member contribution rate	<u>(10.10%)</u>	<u>(9.40%)</u>
c. Employer normal cost rate	3.06%	4.39%
3. Employer normal cost (Item 2c * Item 1b)	\$ 81,440,580	\$ 116,305,637
4. Actuarial accrued liability for active members		
a. Actuarial present value of future benefits	\$ 8,834,309,174	\$ 9,029,857,760
b. Less: actuarial present value of future normal costs	<u>(2,265,061,327)</u>	<u>(2,420,181,490)</u>
c. Actuarial accrued liability	\$ 6,569,247,847	\$ 6,609,676,270
5. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	\$ 9,285,395,005	\$ 8,338,284,890
b. Inactive members	507,636,351	889,011,370
c. Active members (Item 4c)	<u>6,569,247,847</u>	<u>6,609,676,270</u>
d. Total	\$ 16,362,279,203	\$ 15,836,972,530
6. Actuarial value of assets	\$ 9,828,547,715	\$ 9,606,304,017
7. Unfunded actuarial accrued liability (UAAL) (Item 5d - Item 6)	\$ 6,533,731,488	\$ 6,230,668,513
8. Amortization payment for next fiscal year		
a. Employer contribution rate	13.15%	10.90%
b. Less: Employer normal cost rate (Item 2c)	<u>(3.06%)</u>	<u>(4.39%)</u>
c. Amortization rate	10.09%	6.51%
d. Amortization contribution (Item 8c * Item 1b)	\$ 268,540,998	\$ 172,471,457
e. Expected ARP contribution	<u>4,848,936</u>	<u>5,137,269</u>
f. Total	\$ 273,389,934	\$ 177,608,726
9. Funding period based on current 13.15% employer contribution requirement, with payments increasing at assumed payroll growth rate	95.1 years	Infinite

Actuarial Section

Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

Analysis of Change in Unfunded Actuarial Accrued Liability (UAAL)

Basis	Year Ending	
	June 30, 2013	June 30, 2012
(1)	(2)	(3)
1. UAAL at prior valuation	\$ 6,230.7	\$ 5,650.8
2. Increases/(decreases) due to:		
a. Interest on UAAL	482.9	437.9
b. Amortization payments ¹	(192.1)	(181.9)
c. Liability experience	(107.0)	(200.1)
d. Asset experience	207.4	524.0
e. Actual COLA More/(Less) than Expected	(20.8)	0.0
f. Changes in actuarial assumptions and methods	(81.5)	0.0
g. Benefit changes	14.1	0.0
h. Total	\$ 303.0	\$ 579.9
3. Current UAAL (1+2h)	\$ 6,533.7	\$ 6,230.7

Note : Dollar amounts in millions

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

Actuarial Section

Actuarial Present Value of Future Benefits

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

Actuarial Present Value of Future Benefits

	June 30, 2013	June 30, 2012
	(1)	(2)
1. Active members		
a. Service retirement benefits	\$ 8,094,301,763	\$ 8,127,672,598
b. Refunds and deferred termination benefits	561,924,896	721,795,120
c. Survivor benefits	79,763,813	83,460,253
d. Disability retirement benefits	98,318,702	96,929,789
e. Total	<u>\$ 8,834,309,174</u>	<u>\$ 9,029,857,760</u>
2. Retired members		
a. Service retirement	\$ 8,829,122,071	\$ 7,908,613,236
b. Disability retirement	81,930,423	75,673,134
c. Beneficiaries	374,342,511	353,998,520
d. Total	<u>\$ 9,285,395,005</u>	<u>\$ 8,338,284,890</u>
3. Inactive members		
a. Vested terminations	\$ 403,770,204	\$ 792,429,496
b. Nonvested terminations	103,866,147	96,581,874
c. Total	<u>\$ 507,636,351</u>	<u>\$ 889,011,370</u>
4. Total actuarial present value of future benefits	\$ 18,627,340,530	\$ 18,257,154,020

Actuarial Section

Analysis of Normal Cost

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

Analysis of Normal Cost

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
	(1)	(2)
1. Gross normal cost rate (payable monthly)		
a. Service retirement benefits	9.28%	9.70%
b. Refunds and deferred termination benefits	3.58%	3.77%
c. Disability retirement benefits	0.18%	0.19%
d. Survivor benefits	0.12%	0.13%
e. Total	<u>13.16%</u>	<u>13.79%</u>
2. Less: member contribution rate	<u>(10.10%)</u>	<u>(9.40%)</u>
3. Employer normal cost rate	3.06%	4.39%

Actuarial Section

Calculation of Funding Policy Contribution

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

**Calculation of Funding Policy Contribution
(For Following Fiscal Year)**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
	(1)	(2)
1. Funding period (years)	29	30
2. Amortization contribution percentage		
a. Amortization payment	\$ 388,334,633	\$ 354,862,518
b. Less: expected payment for ARP members	<u>4,848,936</u>	<u>5,137,269</u>
c. Net (a-b)	\$ 383,485,697	\$ 349,725,249
d. Expected payroll	2,661,456,872	2,649,331,144
e. Amortization contribution percentage (c/d)	14.41%	13.20%
3. Funding Policy Contribution for Employers		
a. Employer normal cost rate	3.06%	4.39%
b. Amortization percentage	<u>14.41%</u>	<u>13.20%</u>
c. Total	17.47%	17.59%
d. Statutory rate	13.15%	10.90%
e. Funding Policy Contribution (greater of (c,d))	17.47%	17.59%

The calculation of the Funding Policy Contribution complies with the requirements of Governmental Accounting Standards Board Statement No. 27 and can be used in the development of the employer's financial statements.

Actuarial Section

Funding Policy Contribution for Year Ending June 30, 2013

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

**Actual Contributions as Percentage of
Funding Policy Contribution for Year Ending June 30, 2013**

1. Actual contributions	
a. On behalf of ERB members	\$ 294,972,568
b. On behalf of ARP members	4,684,962
c. Total	\$ 299,657,530
2. Statutory employer contribution rate	10.90%
3. Imputed fiscal year payroll for ERB members (Item 1a / Item 2)	\$ 2,706,170,349
4. Funding Policy Contribution for Employers	
a. Employer's funding policy contribution for ERB members as percent of payroll	17.59%
b. Employer's funding policy contribution for ERB members (Item 4a * Item 3)	\$ 476,015,364
c. Funding policy contribution (Item 4b + Item 1b)	\$ 480,700,326
5. Percentage of Funding Policy Contribution for Prior Year (Item 1c / Item 4c)	62.3%

Actuarial Section

Membership Data

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD ACTUARIAL EXHIBITS (CONTINUED) JUNE 30, 2013

Membership Data

	June 30, 2013 (1)	June 30, 2012 (2)
1. Active members		
<u>Tier 1</u>		
a. Number	47,259	51,255
b. Total payroll supplied by System (annualized)	\$ 2,076,786,766	\$ 2,192,479,208
c. Average salary	\$ 43,945	\$ 42,776
d. Average age	49.2	48.6
e. Average service	12.4	11.7
<u>Tier 2</u>		
a. Number	13,918	9,600
b. Total payroll supplied by System (annualized)	\$ 440,087,508	\$ 302,796,326
c. Average salary	\$ 31,620	\$ 31,541
d. Average age	39.4	38.9
e. Average service	1.5	1.1
2. Vested inactive members (excluding pending refunds)		
a. Number	8,615	9,648
b. Total annual deferred benefits	\$ 61,681,408	\$ 93,351,929
c. Average annual deferred benefit	\$ 7,160	\$ 9,676
3. Nonvested inactive members and vested pending refunds		
a. Number	25,482	24,384
b. Employee assessments with interest due	\$ 103,866,147	\$ 96,581,874
c. Average refund due	\$ 4,076	\$ 3,961
4. Service retirees		
a. Number	36,614	33,741
b. Total annual benefits	\$ 804,407,328	\$ 720,860,730
c. Average annual benefit	\$ 21,970	\$ 21,365
5. Disabled retirees		
a. Number	814	786
b. Total annual benefits	\$ 8,150,908	\$ 7,683,718
c. Average annual benefit	\$ 10,013	\$ 9,776
6. Beneficiaries		
a. Number	2,882	2,809
b. Total annual benefits	\$ 42,071,195	\$ 39,596,127
c. Average annual benefit	\$ 14,598	\$ 14,096

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

Actuarial Section

Historical Summary of Active Member Data

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013

Historical Summary of Active Member Data

Year Ending June 30,	Active Members		Covered Payroll		Average Salary		Average Age	Average Service
	Number	Percent Increase	Amount in \$ Millions	Percent Increase	\$ Amount	Percent Increase		
(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
2013	61,177	0.5%	2,517	0.9%	41,141	0.3%	47.0	9.9

Actuarial Section

Reconciliation of Plan Net Assets

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

Reconciliation of Plan Net Assets

	Year Ending	
	June 30, 2013 (1)	June 30, 2012 (2)
1. Value of assets at beginning of year		
a. Value reported in prior valuation	\$ 9,488,961,169	\$ 9,588,562,941
b. Prior period adjustments	0	0
c. Revised value	\$ 9,488,961,169	\$ 9,588,562,941
2. Revenue for the year		
a. Contributions		
i. Member contributions (including redeposits and service purchases)	\$ 250,529,546	\$ 291,766,525
ii. Employer contributions	294,972,568	248,893,693
iii. Employer contributions for ARP members	4,684,962	4,951,584
iv. Total	\$ 550,187,076	\$ 545,611,802
b. Income		
i. Interest, dividends, and other income	\$ 195,093,760	\$ 173,438,306
ii. Investment expenses	(15,421,101)	(10,964,924)
iii. Net	\$ 179,672,659	\$ 162,473,382
c. Net realized and unrealized gains	\$ 837,193,133	\$ (565,488)
d. Total revenue	\$ 1,567,052,868	\$ 707,519,696
3. Expenditures for the year		
a. Refunds	\$ 41,664,216	\$ 40,580,979
b. Benefit payments	811,665,051	754,554,951
c. Administrative and miscellaneous expenses	10,985,967	11,985,538
d. Total expenditures	\$ 864,315,234	\$ 807,121,468
4. Increase in net assets (Item 2 - Item 3)	\$ 702,737,634	\$ (99,601,772)
5. Value of assets at end of year (Item 1 + Item 4)	\$ 10,191,698,803	\$ 9,488,961,169

Actuarial Section

Estimation of Yields

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

Estimation of Yields

	Year Ending	
	June 30, 2013 (1)	June 30, 2012 (2)
A. Market value yield		
1. Beginning of year market assets	\$ 9,488,961,169	\$ 9,588,562,941
2. Investment income (including realized and unrealized gains and losses)	\$ 1,005,879,825	\$ 149,922,356
3. End of year market assets	\$ 10,191,698,803	\$ 9,488,961,169
4. Estimated dollar weighted market value yield	10.8%	1.6%
B. Actuarial value yield		
1. Beginning of year actuarial assets	\$ 9,606,304,017	\$ 9,642,229,673
2. Actuarial return	\$ 525,385,889	\$ 213,598,472
3. End of year actuarial assets	\$ 9,828,547,715	\$ 9,606,304,017
4. Estimated actuarial value yield	5.6%	2.2%

Actuarial Section

History of Investment Return Rates

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

History of Investment Return Rates

<u>Plan Year Ending June 30 of</u> (1)	<u>Market</u> (2)	<u>Actuarial</u> (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%
2012	1.6%	2.2%
2013	10.8%	5.6%
Average Returns		
Last 5 years	5.3%	3.2%
Last 10 years	7.3%	4.5%
Last 15 years	5.1%	5.9%

Actuarial Section

Investment Experience Gain or Loss

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

Investment Experience Gain or Loss

Item	Year Ending	
	June 30, 2013	June 30, 2012
(1)	(2)	(3)
1. Actuarial assets, beginning of year	\$ 9,606,304,017	\$ 9,642,229,673
2. Total contributions during year	\$ 550,187,076	\$ 545,611,802
3. Benefits and refunds paid	\$ (853,329,267)	\$ (795,135,930)
4. Assumed net investment income		
a. Beginning of year assets	\$ 744,488,561	\$ 747,272,800
b. Contributions	21,319,749	21,142,457
c. Benefits and refunds paid	<u>(33,066,509)</u>	<u>(30,811,517)</u>
d. Total	\$ 732,741,801	\$ 737,603,740
5. Expected actuarial assets, end of year (Sum of items 1 through 4)	\$ 10,035,903,627	\$ 10,130,309,285
6. Actual actuarial assets, end of year	\$ 9,828,547,715	\$ 9,606,304,017
7. Asset gain (loss) for year (Item 6 - Item 5)	\$ (207,355,912)	\$ (524,005,268)

Actuarial Section

Total Experience Gain or Loss

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

Total Experience Gain or Loss

Item (1)	Year Ending	
	June 30, 2013 (2)	June 30, 2012 (3)
A. Calculation of total actuarial gain or loss		
1. Unfunded actuarial accrued liability (UAAL), previous year	\$ 6,230,668,513	\$ 5,650,842,751
2. Normal cost for the previous year	\$ 365,342,765	\$ 370,419,442
3. Less: contributions for the year	\$ (550,187,076)	\$ (545,611,802)
4. Interest at 7.75 %		
a. On UAAL	\$ 482,876,810	\$ 437,940,313
b. On normal cost	14,157,032	14,353,753
c. On contributions	(21,319,749)	(21,142,457)
d. Total	\$ 475,714,093	\$ 431,151,609
5. Expected UAAL (Sum of Items 1 - 4)	\$ 6,521,538,295	\$ 5,906,802,000
6. Actual UAAL	\$ 6,533,731,488	\$ 6,230,668,513
7. Total gain (loss) for the year (Item 5 - Item 6)	\$ (12,193,193)	\$ (323,866,513)
B. Source of gains and losses		
8. Asset gain (loss) for the year	\$ (207,355,912)	\$ (524,005,268)
9. Liability experience gain (loss) for the year	\$ 107,014,795	\$ 200,138,755
10. Actual COLA (More) Less than Expected	\$ 20,795,266	\$ 0
11. Assumption change	\$ 81,499,605	\$ 0
12. Benefit change	\$ (14,146,947)	\$ 0
13. Total	\$ (12,193,193)	\$ (323,866,513)

Actuarial Section

History of Cash Flow

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

History of Cash Flow

Year Ending June 30,	Contributions ¹	Expenditures				External Cash Flow for the Year ²	Market Value of Assets	External Cash Flow as Percent of Market Value
		Benefit Payments	Refunds	Administrative Expenses	Total			
(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%
2013	550.2	(811.7)	(41.7)	(11.0)	(864.4)	(314.2)	10,191.7	-3.1%

Amounts in \$ millions

¹ Column (2) includes employee and employer contributions, as well as employer contributions for ARP members.

² Column (7) = Column (2) + Column (6).

Actuarial Section

Solvency Test

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

Solvency Test

	<u>June 30, 2013</u> (1)	<u>June 30, 2012</u> (2)
1. Actuarial accrued liability (AAL)		
a. Active member contributions	\$ 2,381,795,094	\$ 2,304,519,473
b. Retirees and beneficiaries	9,285,395,005	8,338,284,890
c. Active and inactive members (employer financed)	<u>4,695,089,104</u>	<u>5,194,168,167</u>
d. Total	\$ 16,362,279,203	\$ 15,836,972,530
2. Actuarial value of assets	\$ 9,828,547,715	\$ 9,606,304,017
3. Cumulative portion of AAL covered		
a. Active member contributions	100%	100%
b. Retirees and beneficiaries	80%	88%
c. Active and inactive members (employer financed)	0%	0%

Actuarial Section

Historical Retired Participants' Data

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013**

Historical Retired Participants' Data

<u>Year Ending June 30,</u>	<u>Number</u>	<u>Average Monthly Benefit</u>
(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
2013	40,310	1,767

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

Actuarial Section

Distribution of Active Members by Age and by Years of Service

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013

Distribution of Active Members by Age and by Years of Service
As of June 30, 2013

Attained Age	Years of Credited Service												Total	
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over		
	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	395 \$17,432	517 \$23,598	150 \$22,349	48 \$18,612	29 \$20,328	13 \$20,413	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	1,152 \$20,995
25-29	565 \$24,501	1,006 \$28,857	714 \$29,571	455 \$31,662	378 \$34,314	631 \$32,491	8 \$21,846	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	3,757 \$29,822
30-34	429 \$27,063	799 \$30,966	648 \$32,332	467 \$34,114	426 \$35,296	2,163 \$39,951	412 \$41,709	4 \$33,236	0 \$0	0 \$0	0 \$0	0 \$0	0 \$0	5,348 \$35,902
35-39	675 \$27,098	1,132 \$32,101	679 \$33,480	529 \$35,134	387 \$38,175	2,067 \$40,017	1,673 \$47,339	273 \$46,490	3 \$42,943	0 \$0	0 \$0	0 \$0	0 \$0	7,418 \$38,481
40-44	350 \$29,860	632 \$33,032	474 \$32,776	445 \$36,452	470 \$37,877	2,196 \$39,468	1,786 \$45,852	1,316 \$51,582	207 \$47,267	4 \$35,404	0 \$0	0 \$0	0 \$0	7,880 \$41,530
45-49	306 \$28,699	514 \$32,623	397 \$32,105	362 \$43,241	335 \$37,338	2,029 \$37,778	1,747 \$42,363	1,394 \$48,375	998 \$52,019	166 \$53,264	4 \$36,485	0 \$0	0 \$0	8,252 \$41,863
50-54	259 \$34,024	506 \$34,828	397 \$31,101	324 \$46,121	334 \$39,195	2,039 \$36,978	1,898 \$41,091	1,713 \$46,533	1,246 \$51,850	637 \$56,351	78 \$53,585	1 \$28,557	1 \$0	9,432 \$42,899
55-59	213 \$32,805	368 \$34,983	339 \$36,459	307 \$49,079	294 \$42,329	1,704 \$38,607	1,808 \$41,381	1,637 \$45,434	1,324 \$54,876	619 \$57,877	300 \$63,138	69 \$53,515	69 \$45,182	8,982 \$45,182
60-64	120 \$33,135	274 \$33,588	179 \$35,337	187 \$48,863	228 \$42,422	1,261 \$41,138	1,200 \$44,212	919 \$47,497	829 \$52,823	454 \$65,780	207 \$71,890	120 \$67,078	120 \$47,420	5,978 \$47,420
65 & Over	79 \$38,046	141 \$28,378	111 \$35,254	103 \$39,231	114 \$42,356	1,075 \$38,895	472 \$44,441	291 \$47,494	219 \$52,957	164 \$69,119	96 \$79,970	113 \$84,434	113 \$45,853	2,978 \$45,853
Total	3,391 \$27,321	5,889 \$31,186	4,088 \$32,137	3,227 \$38,698	2,995 \$37,969	15,178 \$38,746	11,004 \$43,556	7,547 \$47,661	4,826 \$52,730	2,044 \$59,640	685 \$66,898	303 \$70,335	303 \$41,141	61,177 \$41,141

Actuarial Section

Reconciliation of Members by Status

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
ACTUARIAL EXHIBITS (CONTINUED)
JUNE 30, 2013

Reconciliation of Members by Status for Year Ending June 30, 2013

	Active Members	Inactive, Nonretired Members		Annuitants			Grand Total
		Vested	Nonvested	Service Retirees	Disabled Retirees	Beneficiaries	
Number at beginning of year	60,855	9,648	24,384	33,741	786	2,809	132,223
Refund paid (non-death)	(872)	(409)	(1,343)				(2,624)
Refund due	(3,312)		3,312				0
Vested terminations	(1,493)	1,493					0
Retirements (nondisabled)	(1,984)	(1,537)	(44)	3,565			0
Disabled retirements	(28)	(19)			47		0
New Alternate Payee				31			31
Death before retirement - refund	(22)	(57)	(13)				(92)
Death before retirement - annuity	(12)					12	0
Death of annuitant - survivor benefit due				(197)	(3)	200	0
Death of annuitant - no further benefits due				(518)	(16)	(139)	(673)
New hires	6,719						6,719
Reemployments	1,326	(504)	(814)	(8)			0
Adjustments and corrections							0
Number at end of year	61,177	8,615	25,482	36,614	814	2,882	135,584

Actuarial Section

Summary of Actuarial Methods and Assumptions

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS JUNE 30, 2013

Summary of Actuarial Methods and Assumptions *Adopted by the Board of Trustees on April 26, 2013*

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 Individual 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 contribution is determined using the Entry Age Normal method. Under this method, a calculation is made to determine the rate of contribution which, if applied to the compensation of each individual member during the entire period of anticipated covered service, would be required to meet the cost of all benefits payable on his behalf. The salary-weighted average of these rates is the normal cost rate. This calculation reflects the plan provisions that apply to each individual member. The employer normal cost rate is equal to (i) the normal cost rate, minus (ii) the member contribution rate.

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 3.50% 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 contributions are made monthly and at the end of the month.

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED) JUNE 30, 2013

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 1.25% plus step-rate/promotional as shown:

<u>Years of Service</u>	<u>Annual Step-Rate/Promotional Component Rates of Increase</u>	<u>Total Annual Rate of Increase</u>
0	8.75%	13.00%
1	3.00%	7.25%
2	2.00%	6.25%
3	1.50%	5.75%
4	1.25%	5.50%
5	1.00%	5.25%
6	0.75%	5.00%
7	0.50%	4.75%
8	0.50%	4.75%
9	0.50%	4.75%
10 or more	0.00%	4.25%

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 of the third year following retirement.
4. Payroll growth: 3.50% per year (with no allowance for membership growth)
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.

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED) JUNE 30, 2013

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, projected to 2014
- b. Healthy females – 90% of RP-2000 Combined Mortality Table with White Collar Adjustment for females, set back one year, projected to 2014
- c. Disabled males – 1981 Disability Table
- d. Disabled females – 90% of 1981 Disability Table
- e. 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 2007 to FYE 2012. The ratio of the actual number of deaths occurring during this period to the expected number based on the selected assumptions was:
 - i. 111% for nondisabled male annuitants
 - ii. 107% for nondisabled female annuitants

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

See sample rates below:

Age	Deaths per 100 Lives			
	Healthy Males	Healthy Females	Disabled Males	Disabled Females
40	.07	.04	1.76	1.58
45	.10	.07	2.08	1.87
50	.14	.10	2.42	2.18
55	.23	.18	2.83	2.55
60	.40	.35	3.29	2.96
65	.82	.64	3.76	3.38
70	1.40	1.13	4.36	3.92
75	2.48	1.89	5.62	5.05
80	4.65	3.16	8.84	7.95
85	8.54	5.42	12.95	11.65

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED) JUNE 30, 2013

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

Age	Deaths per 100 Members	
	Males	Females
25	.10	.03
30	.10	.01
35	.08	.03
40	.08	.04
45	.11	.04
50	.15	.08
55	.23	.14
60	.31	.21
65	.46	.28

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

Age	Occurrences of Disability per 100 Members	
	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

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED) JUNE 30, 2013

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

Age	Males - Years of Service					
	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	30.00	30.00	30.00	30.00
65	0.00	40.00	35.00	30.00	30.00	30.00
70	100.00	100.00	100.00	100.00	100.00	100.00

Age	Females - Years of Service					
	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	25.00
62	0.00	0.00	40.00	30.00	30.00	35.00
65	0.00	35.00	40.00	40.00	40.00	40.00
70	100.00	100.00	100.00	100.00	100.00	100.00

Retirement Per 100 Members – Members Hired on or after July 1, 2010 and before July 1, 2013

Age	Males - Years of Service						
	0-4	5-9	10-14	15-19	20-24	25-29	30+
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	30.00	30.00	30.00	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

Age	Females - Years of Service						
	0-4	5-9	10-14	15-19	20-24	25-29	30+
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	30.00	30.00	35.00	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

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED) JUNE 30, 2013

Retirement Per 100 Members – Members Hired on or after July 1, 2013

Age	Males - Years of Service						
	0-4	5-9	10-14	15-19	20-24	25-29	30+
50	0.00	0.00	0.00	0.00	0.00	0.00	0.00
55	0.00	0.00	0.00	0.00	0.00	5.00	45.00
60	0.00	0.00	0.00	0.00	20.00	25.00	40.00
62	0.00	0.00	0.00	30.00	30.00	30.00	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

Age	Females - Years of Service						
	0-4	5-9	10-14	15-19	20-24	25-29	30+
50	0.00	0.00	0.00	0.00	0.00	0.00	0.00
55	0.00	0.00	0.00	0.00	0.00	6.00	48.00
60	0.00	0.00	0.00	0.00	15.00	30.00	45.00
62	0.00	0.00	0.00	30.00	30.00	35.00	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

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

Completed Service	Terminations per 100 Members	
	Males	Females
0	43.4	31.4
1	28.1	23.8
2	19.6	17.2
3	14.3	13.5
4	11.9	10.6
5	10.0	9.8
6	9.1	8.6
7	7.3	7.2
8	6.1	6.3
9	5.7	5.5
10	5.2	5.0
11	4.2	4.7
12	4.0	4.2
13	3.4	3.6
14	3.4	3.5
15	3.1	3.3
16	2.2	2.3
17	2.3	2.7
18	2.3	2.1
19 and over	0.0	0.0

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

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED) JUNE 30, 2013

C. Other Assumptions

1. Age difference: Males are assumed to be three years older than females. 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, gender, years of service, salary, and accumulated employee contributions (without interest). For retired members and beneficiaries, the data included date of birth, gender, beneficiary or joint annuitant date of birth (where applicable), current monthly benefit, date of retirement, and a form of payment code.

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.

Actuarial Section

Glossary of Actuarial Terms

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD GLOSSARY OF ACTUARIAL TERMS JUNE 30, 2013

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.

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.)

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD GLOSSARY OF ACTUARIAL TERMS (CONTINUED) JUNE 30, 2013

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.

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.

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD GLOSSARY OF ACTUARIAL TERMS (CONTINUED) JUNE 30, 2013

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.

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.

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.

Actuarial Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD GLOSSARY OF ACTUARIAL TERMS (CONTINUED) JUNE 30, 2013

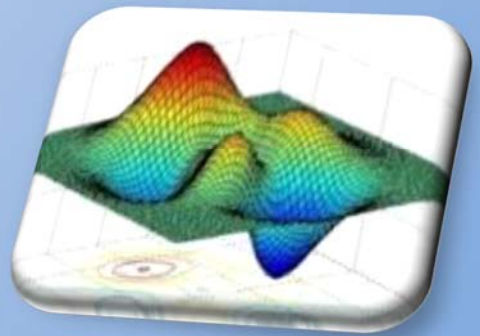
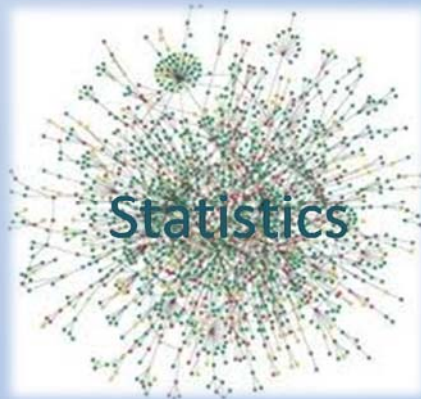
Normal Cost: That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated. Under the entry age normal cost method, the Normal Cost is intended to be the level cost (when expressed as a percentage of pay) needed to fund the benefits of a member from hire until ultimate termination, death, disability or retirement.

Open Amortization Period: An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

Valuation Date or Actuarial Valuation Date: The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.

Statistical Section



Statistical Section

Introduction to Statistical Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD INTRODUCTION TO STATISTICAL SECTION JUNE 30, 2013

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.

Also, we provide additional schedules to contribute additional history on the changes in plan assets than is presented in the basic financial statements and the 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, 2013, is given 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 shown 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, 2013 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 the following information useful.

Statistical Section

Participating Employers

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD PARTICIPATING EMPLOYERS JUNE 30, 2013

PUBLIC SCHOOLS	
ALAMOGORDO PUBLIC SCHOOLS	LAS CRUCES SCHOOL DISTRICT
ALBUQUERQUE PUBLIC SCHOOLS	LAS VEGAS CITY SCHOOLS
ANIMAS PUBLIC SCHOOLS	LAS VEGAS WEST
ARTESIA PUBLIC SCHOOLS	LOGAN MUNICIPAL SCHOOLS
AZTEC MUNICIPAL SCHOOLS	LORDSBURG MUNICIPAL SCHOOLS
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 CONSOLIDATED 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
JEMEZ VALLEY PUBLIC SCHOOLS	ZUNI PUBLIC SCHOOL DISTRICT
LAKE ARTHUR MUNICIPAL SCHOOLS	

Statistical Section

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

CHARTER SCHOOLS

ABQ INSTITUTE FOR MATH & SCIENCE AT UNM	LA ACADEMIA DE ESPERANZA	SAGE MONTESSORI CHARTER SCHOOL
ABQ TALENT DEV. SECONDARY CHARTER	LA ACADEMIA DE LENGUA Y CULTURA	SAN DIEGO RIVERSIDE CHARTER
ACE LEADERSHIP HIGH SCHOOL	LA ACADEMIA DOLORES HUERTA	SCHOOL OF DREAMS ACADEMY
ACADEMY OF TRADES & TECHNOLOGY	LA JICARITA COMMUNITY SCHOOL	SCHOOL FOR INTEGRATED ACAD & TECH
ALBUQUERQUE SCHOOL OF EXCELLENCE	LA PROMESA EARLY LEARNING CENTER	SIDNEY GUTIERREZ MIDDLE CHARTER
ALDO LEOPOLD HIGH SCHOOL	LA RESOLANA LEADERSHIP ACADEMY	SOUTH VALLEY CHARTER HIGH
ALICE KING COMMUNITY SCHOOL	LA TIERRA MONTESSORI SCHOOL	SOUTH VALLEY PREPARATOY SCHOOL
ALMA D'ARTE CHARTER	LAS MONTANAS CHARTER SCHOOL	SW AERONAUTICS MATH & SCIENCE ACADEMY
AMY BIEHL CHARTER HIGH	LEARNING COMMUNITY CHARTER	SW INTERMEDIATE LEARNING CENTER
ANANSI CHARTER SCHOOL	LINDRITH AREA HERITAGE SCHOOL	SOUTHWEST PRIMARY LEARNING CENTER
ANTHONY CHARTER	LOS PUENTES	SOUTHWEST SECONDARY LEARNING
BATAAN MILITARY ACADEMY	MC CURDY CHARTER SCHOOL	TAOS ACADEMY CHARTER SCHOOL
CARINOS DE LOS NINOS	MEDIA ARTS COLLABORATIVE CHARTER	TAOS INTEGRATED SCHOOL OF THE ARTS
CESAR CHAVEZ COMMUNITY SCHOOL	MIDDLE COLLEGE HIGH SCHOOL	TAOS MUNICIPAL CHARTER SCHOOL
CHRISTINE DUNCAN COMMUNITY SCHOOL	MISSION ACHIEVEMENT & SUCCESS CHARTER	THE ACADEMY FOR TECHN & THE CLASSICS
CIEN AGUAS INTERNATIONAL SCHOOL	MONTE DEL SOL CHARTER SCHOOL	THE ALBUQUERQUE SIGN LANGUAGE ACADEMY
CORAL COMMUNITY CHARTER SCHOOL	MONTESSORI ELEMENTARY	THE ASK ACADEMY
CORRALES INTERNATIONAL SCHOOL	MONTESSORI OF THE RIO GRANDE	THE GREAT ACADEMY
COTTONWOOD CLASSICAL PREP SCHOOL	MORENO VALLEY HIGH SCHOOL	THE NEW AMERICA SCHOOL
COTTONWOOD VALLEY CHARTER	MOSAIC ACADEMY CHARTER	THE INTERNATIONAL SCHOOL AT MESA DEL SOL
CREATIVE ED PREP #1	MOUNTAIN MAHOGONY COMMUNITY	THE MASTERS PROGRAM
DEMING CESAR CHAVEZ	NATIVE AMERICAN COMMUNITY ACADEMY	THE MONTESSORI ELEMENTARY SCHOOL
DIGITAL ARTS AND TECH. ACADEMY	NEW AMERICA SCHOOL - LAS CRUCES	THE NEW MEXICO INTERNATIONAL SCHOOL
EAST MOUNTAIN HIGH SCHOOL	NEW MEXICO SCHOOL FOR THE ARTS	TIERRA ADENTRO OF NEW MEXICO
EL CAMINO REAL ACADEMY	NEW MEXICO VIRTUAL ACADEMY	TIERRA ENCANTADA CHARTER HIGH
ESTANCIA VALLEY CLASSICAL ACADEMY	NORTH VALLEY ACADEMY	TURQUOISE TRAIL CHARTER SCHOOL
GILBERT L SENA CHARTER HIGH SCHOOL	NUESTROS VALEROS CHARTER SCHOOL	TWENTY-FIRST CENTURY CHARTER
GORDON BERNELL CHARTER SCHOOL	PUBLIC ACADEMY FOR PERFORMING ARTS	UPLIFT COMMUNITY SCHOOL
HEALTH LEADERSHIP HIGH SCHOOL	RALPH J. BUNCHE ACADEMY	VILLAGE ACADEMY
HORIZON ACADEMY WEST	RED RIVER VALLEY CHARTER	VISTA GRANDE HIGH SCHOOL
J. PAUL TAYLOR ACADEMY	ROBERT F KENNEDY CHARTER	WALATOWA
JEFFERSON MONTESSORI ACADEMY	ROOTS AND WINGS COMMUNITY	WILLIAM W & JOSEPHINE DORN CHARTER COMMUNITY SCHOOL

Statistical Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD PARTICIPATING EMPLOYERS JUNE 30, 2013 (CONTINUED)

UNIVERSITIES and COLLEGES

CENTRAL NEW MEXICO COMMUNITY COLLEGE

CLOVIS COMMUNITY COLLEGE

EASTERN NEW MEXICO UNIVERSITY

EASTERN NEW MEXICO UNIVERSITY-ROSWELL

LUNA COMMUNITY COLLEGE

MESALANDS COMMUNITY COLLEGE

NEW MEXICO HIGHLANDS UNIVERSITY

NEW MEXICO JUNIOR COLLEGE

NEW MEXICO STATE UNIVERSITY

NEW MEXICO INSTITUTE OF MINING & TECHNOLOGY

NORTHERN NM COMMUNITY 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

NW REGIONAL EDUCATION COOP #2

PECOS VALLEY REGIONAL EDUCATION COOP #8

REGIONAL EDUCATION COOP #6

REGION IX EDUCATIONAL COOP #9

SOUTHWEST REC #10

SPECIAL SCHOOLS

NEW MEXICO MILITARY INSTITUTE

NEW MEXICO SCHOOL FOR THE DEAF

NM SCHOOL FOR VISUALLY HANDICAP

UNIVERSITY HOSPITAL

Educational Employees at the following additional agencies are covered by ERB

NM DEPARTMENT OF CORRECTIONS

NM PUBLIC EDUCATION DEPARTMENT

NM DEPARTMENT OF HEALTH

NM DEPARTMENT OF VOCATIONAL REHABILITATION

NM EDUCATIONAL RETIREMENT BOARD

NM CHILDREN YOUTH AND FAMILIES DEPARTMENT

on

Participating Employers

**MICO EDUCATIONAL RETIREMENT BOARD
PARTICIPATING EMPLOYERS**

Ten Largest Employers with Employee Count
Fiscal Years Ending June 30, 2007 to June 30, 2013

EMPLOYEE COUNT 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	EMPLOYEE COUNT June 30, 2013
2,535 20%	12,706 20%	12,824 20%	13,090 21%	12,801 20%	11,685 19%	11,756 19%
1,513 12%	7,807 12%	7,270 11%	7,261 11%	7,240 11%	6,501 11%	6,624 11%
1,779 8%	4,622 7%	4,486 7%	4,439 7%	4,312 7%	4,365 7%	4,343 7%
1,978 6%	3,530 6%	3,514 6%	3,543 6%	3,538 6%	2,955 5%	3,026 5%
1,197 4%	2,148 3%	2,165 3%	2,175 3%	2,163 3%	1,910 3%	1,851 3%
1,774 3%	1,877 3%	1,911 3%	2,125 3%	2,122 3%	1,998 3%	2,022 3%
1,010 3%	2,116 3%	2,104 3%	2,015 3%	1,943 3%	1,837 3%	1,835 3%
1,904 3%	1,758 3%	1,816 3%	1,871 3%	1,863 3%	1,861 3%	1,953 3%
1,728 3%	1,719 3%	1,704 3%	1,697 3%	1,667 3%	1,499 2%	1,498 2%
1,286 2%	1,264 2%	1,298 2%	1,322 2%	1,260 2%	1,182 2%	1,182 2%
2,983 36%	24,151 38%	24,730 39%	23,759 38%	24,388 39%	25,062 41%	25,083 41%
1,687	63,698	63,822	63,297	63,297	60,855	61,173

Statistical Section

Financial Schedules

on

Assets—Last Ten Fiscal Years

BOARD
- LAST TEN FISCAL YEARS

	2005	2006	2007	2008	2009	2010	2011	2012	2013
24,788	\$ 197,872,532	\$ 226,479,332	\$ 255,853,194	\$ 290,846,065	\$ 323,685,497	\$ 313,276,296	\$ 308,367,952	\$ 253,845,277	\$ 299,657,530
8,792	169,099,212	178,220,782	189,391,152	201,916,230	212,014,023	250,666,650	247,407,988	289,852,094	248,785,187
28,365	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	1,016,711,875
00,818	4,032,754	3,866,927	4,331,489	3,662,453	3,696,085	3,108,550	4,033,431	3,061,710	1,898,276
72,763	1,027,113,965	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	1,567,052,868
52,335	449,036,895	487,912,505	533,923,520	572,191,714	610,664,369	648,962,031	694,153,334	746,493,523	803,253,000
56,031	5,946,557	6,184,110	6,220,203	6,583,897	7,040,669	7,270,639	7,618,258	8,061,428	8,412,051
59,555	23,444,332	24,062,559	23,335,088	23,729,865	24,051,878	24,573,831	29,286,820	34,520,423	35,882,999
25,458	3,770,343	4,243,297	4,190,043	5,745,306	5,634,632	4,205,824	5,799,986	6,060,556	5,781,217
33,048	5,320,667	5,230,633	5,625,343	6,088,509	8,671,992	11,487,923	11,407,033	11,985,538	10,985,967
36,427	487,518,794	527,633,104	573,294,197	614,339,291	656,063,540	696,500,248	748,265,431	807,121,468	864,315,234
36,336	539,595,171	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)	702,737,634
58,784	6,911,545,120	7,451,140,291	8,219,291,979	9,455,797,858	8,770,046,044	7,113,653,705	8,232,525,439	9,588,562,941	9,488,961,169
15,120	\$ 7,451,140,291	\$ 8,219,291,979	\$ 9,455,797,858	\$ 8,770,046,044	\$ 7,113,653,705	\$ 8,232,525,439	\$ 9,588,564,946	\$ 9,488,961,169	\$ 10,191,698,803

Statistical Section

Schedule of Actuarial Value of Assets, Accrued Liabilities, and UAAL

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
SCHEDULE OF ACTUARIAL VALUE OF ASSETS, ACCRUED LIABILITIES, AND UAAL
JUNE 30, 2013**

Year ended June 30	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liability (UAAL)
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
2012	\$ 9,606,304,017	\$ 15,836,972,530	\$ 6,230,668,513
2013	\$ 9,828,547,715	\$ 16,362,279,203	\$ 6,533,731,488

Statistical Section

History of Contribution Rates

**STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
HISTORY OF CONTRIBUTION RATES
JUNE 30, 2013**

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%
2013 FTE earnings >= \$20,000	9.400%	10.900%	20.300%
2013 FTE earnings < \$20,000	7.900%	12.400%	20.300%

Statistical Section

Average Monthly Benefit Payments by Benefit Amount

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD AVERAGE MONTHLY BENEFIT PAYMENTS BY BENEFIT AMOUNT JUNE 30, 2013

REGULAR RETIREMENTS			
Range of Monthly Pension Amount	Number of Members	Average Years of Service	Average Monthly Benefit
\$0 to \$499	5,170	9.95	\$ 296.57
\$500 to \$999	6,784	16.78	\$ 740.14
\$1,000 to \$1,499	6,264	20.36	\$1,244.45
\$1,500 to \$1,999	6,111	23.57	\$1,749.32
\$2,000 to \$2,499	4,955	25.78	\$2,237.79
\$2,500 to \$2,999	3,362	27.58	\$2,726.57
\$3,000 to \$3,499	2,045	28.99	\$3,231.35
\$3,500 to \$3,999	1,165	30.21	\$3,725.75
\$4,000 to \$4,499	730	31.09	\$4,225.52
\$4,500 to \$4,999	431	32.02	\$4,728.65
\$5,000 to \$5,499	277	32.24	\$5,229.74
\$5,500 to \$5,999	160	32.41	\$5,743.19
\$6,000 to \$6,499	97	30.99	\$6,240.68
\$6,500 to \$6,999	74	31.64	\$6,742.10
\$7,000 to \$7,499	46	32.98	\$7,250.30
over \$7,500	162	32.38	\$9,627.04
Total	37,833	21.53	\$1,763.83

DISABILITY RETIREMENTS			
Range of Monthly Pension Amount	Number of Members	Average Years of Service	Average Monthly Benefit
\$0 to \$499	247	12.96	\$356.82
\$500 to \$999	379	14.51	\$737.84
\$1,000 to \$1,499	192	15.54	\$1,199.02
\$1,500 to \$1,999	44	17.40	\$1,699.99
over \$2,000	11	18.82	\$2,719.68
Total	873	14.49	\$804.93

QUALIFIED DOMESTIC RELATIONS ORDER RETIREMENTS			
Range of Monthly Pension Amount	Number of Members	Average Years of Service	Average Monthly Benefit
\$0 to \$499	122	21.45	\$304.95
\$500 to \$999	144	25.92	\$728.14
\$1,000 to \$1,499	77	28.35	\$1,225.13
\$1,500 to \$1,999	22	29.95	\$2,233.98
\$2,000 to \$2,499	7	30.32	\$2,685.52
\$2,500 to \$2,999	4	30.81	\$3,206.40
\$3,000 to \$3,499	3	23.00	\$3,231.35
over \$3,499	3	32.83	\$5,773.67
Total	382	25.38	\$858.04

Statistical Section

Average Monthly Benefit Payments by Years of Service

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD AVERAGE MONTHLY BENEFIT PAYMENTS BY YEARS OF SERVICE JUNE 30, 2013

REGULAR RETIREMENTS			
<u>Years of Service</u>	<u>Number of Members</u>	<u>Average Monthly Benefit</u>	<u>Average Final Average Salary</u>
0 to 9.99	3,909	\$415.68	\$35,905.76
10 to 14.99	4,433	\$810.89	\$38,170.83
15 to 19.99	6,272	\$1,200.38	\$43,025.13
20 to 24.99	6,098	\$1,647.14	\$47,313.53
25 to 29.99	11,372	\$2,235.95	\$53,016.65
30 to 34.99	4,253	\$3,007.69	\$58,322.53
35 to 39.99	1,290	\$3,697.71	\$65,385.22
40 to 44.99	189	\$4,621.92	\$78,682.27
45 to 49.99	16	\$4,151.10	\$57,295.98
over 49.99	1	\$9,312.45	\$91,316.01
Total	37,833	\$1,763.83	

DISABILITY RETIREMENTS			
<u>Years of Service</u>	<u>Number of Members</u>	<u>Average Monthly Benefit</u>	<u>Average Final Average Salary</u>
*10 to 14.99	542	\$724.40	\$32,973.10
15 to 19.99	241	\$850.49	\$32,195.60
20 to 24.99	83	\$1,194.50	\$33,517.69
over 24.99	8	\$852.50	Before July 1, 2006
Total	874	\$804.93	

QUALIFIED DOMESTIC RELATIONS ORDER RETIREMENTS			
<u>Years of Service</u>	<u>Number of Members</u>	<u>Average Monthly Benefit</u>	<u>Average Final Average Salary</u>
*10 to 14.99	8	\$303.53	Not Applicable
15 to 19.99	15	\$655.48	Not Applicable
20 to 24.99	49	\$540.84	Not Applicable
25 to 29.99	54	\$611.51	Not Applicable
30 to 34.99	171	\$888.26	Not Applicable
35 to 39.99	58	\$1,046.58	Not Applicable
40 to 44.99	21	\$1,633.21	Not Applicable
over 44.99	6	\$1,515.94	Not Applicable
Total	382	\$804.93	

* Ten years service credit required for disability retirement.

NOTE: The average of the final average salary data is available from July 1, 2006 forward.

Statistical Section

Schedule of Accountability in Government Act—Performance Measures

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SCHEDULE OF ACCOUNTABILITY IN GOVERNMENT ACT— PERFORMANCE MEASURES As of June 30, 2013 (Unaudited)			
Type	Description	Target	Actual
Outcome	Average number of days to process refund requests	15	7
Outcome	Percentage of member satisfaction with seminars and trainings	95%	98%
Outcome	Average rate of return over a cumulative five-year period	7.75%	5.80%
Output	Number of benefit estimates and purchase of service requests computed annually	7,500	6,009
Output	Number of member workshops conducted	30	26
Outcome	Funding period of UAAL in years	≤ 30	92

Statistical Section

Summary of Plan Provisions

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF PLAN PROVISIONS JUNE 30, 2013

1. Effective Date: July 1, 1957.
2. Plan Year/Fiscal Year: Twelve-month period ending June 30th.
3. Administration: The Educational Retirement Board of New Mexico (ERB) is responsible for administration of the plan and investment of plan assets.
4. Type of Plan: ERB 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 ERB. 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.
7. Member Contributions: Members must contribute a percentage of their salary to ERB. “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.

<u>Fiscal Year Ended</u>	<u>Member Contribution Rate</u>
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%
FYE 2012*	11.150%
FYE 2013*	9.400%
FYE 2014*	10.100%
FYE 2015 and later*	10.700%

Statistical Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF PLAN PROVISIONS (CONTINUED) JUNE 30, 2013

- * For members whose annual salary is greater than \$20,000. Members with annual salary of \$20,000 or less will continue to contribute 7.90%.

8. Employer Contributions: The school district or other local administrative unit which employs a member contributes a percentage of the member's salary to ERB. "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.

<u>Fiscal Year Ended</u>	<u>Employer Contribution Rate</u>
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 ERB'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, members who join between July 1, 2010 and June 30, 2013 are in Tier 2, and members who join on or after July 1, 2013 are in Tier 3. If a member terminates, takes a refund, later rejoins ERB, and does not pay back the refund to ERB to restore the prior service, that member will be in the tier applicable to their reemployment date.
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.

Statistical Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF PLAN PROVISIONS (CONTINUED) JUNE 30, 2013

11. Normal Retirement

a. Eligibility:

- Tier 1 members 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 and Tier 3 members 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. Tier 3 members who retire with 30 years of service and prior to attaining age 55 shall have their benefits reduced to an amount equal to the actuarial equivalent of the benefit the member would receive if the member had retired at age 55.

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 members may take early retirement once the sum of his/her age and service equals or exceeds 75, while Tier 2 and Tier 3 members may take early retirement once the sum of his/her age and service equals or exceeds 80.

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

Statistical Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF PLAN PROVISIONS (CONTINUED) JUNE 30, 2013

c. Early Retirement Factors:

Tier 1		Tier 2 and Tier 3	
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

The reduction for Tier 1 members is from age 60 and the reduction for Tier 2 and Tier 3 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 Tier 3), and 7.2% for any additional years before the indicated age.

c. 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 of Trustees.
- 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.

Statistical Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF PLAN PROVISIONS (CONTINUED) JUNE 30, 2013

14. Vested Termination Benefit

- a. Eligibility: A member with at least five (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. Alternatively, 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 five (5) years of service for a reason other than the member's death. Alternatively, 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 (5) 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.

Statistical Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF PLAN PROVISIONS (CONTINUED) JUNE 30, 2013

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. The “pop-up” feature is subsidized by ERB.
 - b. Option C - A Joint and 50% Survivor annuity with a “pop-up” feature. The regular life annuity amount 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. The “pop-up” feature is subsidized by ERB.
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 later of: (i) the year a member retires, or (ii) the year in which a member attains age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

If the plan’s funded ratio for the next preceding fiscal year is 100%, or greater, Section 22-11-31(C)(1) of the New Mexico Statutes Annotated defines the adjustment factor as $\frac{1}{2}$ of the percentage increase of the consumer price index between the next preceding calendar year and the preceding calendar year. The adjustment factor cannot 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.

If the plan’s funded ratio for the next preceding fiscal year is greater than 90%, but less than 100%, Section 22-11-31(C)(2) indicates that the adjustment factor for all non-disability retirements will be 95% of the adjustment factor defined in Section 22-11-31(C)(1) if the member had 25 or more years of service credit at retirement and whose annuity is less than or equal to the median adjusted annuity for the fiscal year next preceding the adjustment date. For all other retirees eligible for an adjustment, the adjustment factor will be 90% of the adjustment factor defined in Section 22-11-31(C)(1).

Statistical Section

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD SUMMARY OF PLAN PROVISIONS (CONTINUED) JUNE 30, 2013

If the plan's funded ratio for the next preceding fiscal year is 90%, or less, Section 22-11-31(C)(3) indicates that the adjustment factor for all non-disability retirements will be 90% of the adjustment factor defined in Section 22-11-31(C)(1) if the member had 25 or more years of service credit at retirement and whose annuity is less than or equal to the median adjusted annuity for the fiscal year next preceding the adjustment date. For all other retirees eligible for an adjustment, the adjustment factor will be 80% of the adjustment factor defined in Section 22-11-31(C)(1).

Finally, annuities shall not be decreased in the event that there is a decrease in the consumer price index between the next preceding calendar year and the preceding calendar year.

19. Alternative Retirement Plan (ARP): Beginning July 1, 1991, new faculty members employed by higher education may elect participation in the ARP rather than in ERB. If this election is not made, the employee remains a member of ERB 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 member makes a contribution of 3.00% of the member's salary to ERB.

Statistical Section

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