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PERA

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**Public Employees Retirement
Association of New Mexico (PERA)**
GASB Statement No. 67 Supplemental Report
Prepared as of June 30, 2015





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Section I - Introduction

The Governmental Accounting Standards Board issued Statement No. 67 (GASB 67), “Financial Reporting for Pension Plans,” in June 2012. GASB 67’s effective date is for plan years beginning after June 15, 2013. This report, prepared as of June 30, 2015 (the Measurement Date), presents information to assist PERA in meeting the requirements of GASB 67. Much of the material provided in this report is based on the data, assumptions and results of the annual actuarial valuation of PERA and the Legislative Division of PERA as of June 30, 2014. The June 30, 2014 liabilities were rolled-forward to produce the June 30, 2015 liabilities used in this report. The actuarial assumptions used are included in Appendix A.

GASB 67 replaces GASB 25 and represents a significant departure from the requirements of that older statement. GASB 25 was issued as a funding friendly statement that required pension plans to report items consistent with the results of the plan’s actuarial valuations, as long as those valuations met certain parameters. GASB 67 basically divorces accounting and funding, creating disclosure and reporting requirements that may or may not be consistent with the basis used for funding the Plan.

A major change in GASB 67 is the requirement to determine the Total Pension Liability (TPL) utilizing the Entry Age Normal actuarial funding method. The Net Pension Liability (NPL) is the TPL minus the Plan’s Fiduciary Net Position (FNP) (basically the market values of assets).

Among the assumptions needed for the liability calculation is a Single Equivalent Interest Rate (SEIR). To determine the SEIR, the FNP must be projected into the future for as long as there are anticipated benefits payable under the plan’s provision applicable to the membership and beneficiaries of the Plan on the Measurement Date. If the FNP is projected to not be depleted at any point in the future, which is the current result for PERA, the long term expected rate of return on plan investments expected to be used to finance the benefit payments may be used as the SEIR.

If, however, in a future year, the FNP is projected to be depleted, the SEIR is determined as the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by discounting all projected benefit payments through the date of depletion by the long term expected rate of return, and the present value determined by discounting those benefits after the date of depletion by a 20-year tax-exempt municipal bond (rating AA/Aa or higher) rate. The rate used, if necessary, for this purpose is the General Obligation 20-year Municipal Bond Index published monthly by the St. Louis Federal Reserve Bank.

To the best of our knowledge, this supplemental report is complete and accurate. It relies on much of the information contained in the annual actuarial valuations of PERA and the Legislative Division of PERA. The annual valuation reports should be distributed along with this report to



Section I - Introduction

interested parties. The actuarial calculations were performed by qualified actuaries according to generally accepted actuarial procedures and methods. Further, the calculations were prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board and, in our opinion, meet the requirements of GASB 67. The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

The sections that follow provide the results of all the necessary calculations for PERA (including the Legislative Division), presented in the order laid out in GASB 67 for note disclosure and Required Supplementary Information (RSI).

Respectfully Submitted,

A handwritten signature in blue ink that reads 'Jonathan T. Craven'.

Jonathan T. Craven, ASA, EA, MAAA, FCA
Senior Actuary

A handwritten signature in blue ink that reads 'John J. Garrett'.

John J. Garrett, ASA, MAAA, FCA
Principal and Consulting Actuary



Section II – Financial Statement Notes

The material presented herein will follow the order presented in GASB 67. Paragraph numbers are provided for ease of reference.

The information required by paragraphs 30(a)(1)-(3) are to be supplied by PERA.

The data required by paragraph 30(a)(4) regarding the Plan membership were furnished by PERA. The following table summarizes the membership of the Plan as of June 30, 2014, the Actuarial Valuation Date.

Membership

Category	Number
Inactive Members or Their Beneficiaries Currently Receiving Benefits	33,740
Inactive Members Entitled to But Not Yet Receiving Benefits	9,897
Active Members	49,414
Total	93,051

The information required by paragraphs 30(a)(5)-(6) as well as paragraphs 30(b)-(f) are to be supplied by PERA. The information required by paragraph 31(a) is provided in the following table. As stated above, the Net Pension Liability is equal to the Total Pension Liability minus the Plan's Net Position. That result as of June 30, 2015 is presented in the table below.

Calculation of the Net Pension Liability (NPL) as of Fiscal Year Ending June 30, 2015	
Total pension liability	\$ 18,516,054,874
Plan net position	<u>14,255,528,543</u>
Net pension liability	\$ 4,260,526,331
Ratio of plan net position to total pension liability	76.99%



Section II – Financial Statement Notes

Paragraph 31(b) requires information regarding the actuarial assumptions used to measure the TPL. The actuarial assumptions utilized in developing the TPL are those contained in Appendix A of this report. These assumptions were adopted by the Board for use in the June 30, 2014 actuarial valuation.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	21.1%	5.00%
International Equity	24.8	5.20
Private Equity	7.0	8.20
Core and Global Fixed Income	26.1	1.85
Fixed Income Plus Sectors	5.0	4.80
Real Estate	5.0	5.30
Real Assets	7.0	5.70
Absolute Return	<u>4.0</u>	4.15
Total	100.0%	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASB Statement No. 67. Therefore, the 7.75% assumed 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.



Section II – Financial Statement Notes

Paragraph 31(b)(1)(g) requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of PERA, calculated using the discount rate of 7.75 percent, as well as what PERA's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
System's net pension liability	\$6,534,375,512	\$4,260,526,331	\$2,371,407,413

June 30, 2014 is the actuarial valuation date upon which the TPL is based (paragraph 31(c)). Standard update procedures were used to roll forward the liabilities to the June 30, 2015 Measurement Date.



Section III – Required Supplementary Information

There are several tables of Required Supplementary Information (RSI) that are required to be included in PERA’s financial statements. The tables for paragraphs 32(a)-(c) are provided on the following pages. The end of year total pension liability (TPL) was determined by “rolling-forward.” This method determines the end of year amount by assuming that there were no changes in the TPL during the year due to actual experience being different than expected for that plan year. The money-weighted rates of return required for paragraph 32(d) are to be determined by PERA’s investment professionals.



Section III – Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY GASB 67 Paragraph 32(a)

	2014	2015	2016	2017	2018
Total pension liability					
Service Cost	\$ 418,995,891	\$ 389,052,473			
Interest	1,286,996,350	1,335,949,923			
Benefit changes	-	-			
Difference between expected and actual experience	-	59,112,343			
Changes of assumptions	(91,856,820)	-			
Benefit payments	(905,329,141)	(966,236,566)			
Refunds of contributions	(47,376,975)	(46,010,197)			
Net change in total pension liability	\$ 661,429,305	\$ 771,867,976			
Total pension liability - beginning	\$ 17,082,757,593	\$ 17,744,186,898			
Total pension liability - ending (a)	\$ 17,744,186,898	\$ 18,516,054,874			
Plan net position					
Contributions - employer ¹	\$ 370,766,329	\$ 317,163,961			
Contributions - member ²	174,037,205	258,919,779			
Net investment income	2,118,284,928	251,488,279			
Benefit payments	(905,329,141)	(966,236,566)			
Administrative expense	(10,336,324)	(9,885,765)			
Refunds of contributions	(47,376,975)	(46,010,197)			
Other	17,005,791	25,296,313			
Net change in plan net position	\$ 1,717,051,813	\$ (169,264,196)			
Plan net position - beginning	\$ 12,707,740,926	\$ 14,424,792,739			
Plan net position - ending (b)	\$ 14,424,792,739	\$ 14,255,528,543			
Net pension liability - ending (a) - (b)	\$ 3,319,394,159	\$ 4,260,526,331			

¹ Includes \$74,357,341 of employer paid plan member contributions for 2014 (in accordance with Question 40 in the GASB 67 Implementation Guide).

² Includes service purchases.



Section III – Required Supplementary Information

SCHEDULE OF THE NET PENSION LIABILITY GASB 67 Paragraph 32(b)

	2014	2015	2016	2017	2018
Total pension liability	\$ 17,744,186,898	\$ 18,516,054,874			
Plan net position	<u>14,424,792,739</u>	<u>14,255,528,543</u>			
Net pension liability	\$ 3,319,394,159	\$ 4,260,526,331			
Ratio of plan net position to total pension liability	81.29%	76.99%			
Covered-employee payroll	\$ 2,102,265,325	\$ 2,248,254,276			
Net pension liability as a percentage of covered-employee payroll	157.90%	189.50%			



Section IV: Notes to Required Schedules

SCHEDULE OF EMPLOYER CONTRIBUTIONS GASB 67 Paragraph 32(c)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contributions*	\$ 317,163,961	\$ 370,766,329	\$ 285,560,291	\$ 274,905,978	\$ 283,376,830	\$ 291,683,000	\$ 311,081,925	\$ 292,569,000	\$ 269,570,849	\$ 249,740,237
Actual employer contributions*	<u>317,163,961</u>	<u>370,766,329</u>	<u>285,560,291</u>	<u>274,905,978</u>	<u>283,376,830</u>	<u>291,683,000</u>	<u>311,081,925</u>	<u>292,569,000</u>	<u>269,570,849</u>	<u>249,740,237</u>
Annual contribution deficiency (excess)	0	0	0	0	0	0	0	0	0	0
Covered-employee payroll	\$2,248,254,276	\$2,102,265,325	\$2,049,737,510	\$1,994,280,107	\$1,935,013,761	\$1,993,516,921	\$2,081,259,498	\$1,965,064,160	\$1,908,519,615	\$1,774,918,446
Actual contributions as a percentage of covered-employee payroll	14.11%	17.64%	13.93%	13.78%	14.64%	14.63%	14.95%	14.89%	14.12%	14.07%

*Includes \$74,357,341 of employer paid plan member contributions for 2014 (in accordance with Question 40 in the GASB 67 Implementation Guide).



Section IV: Notes to Required Schedules

Summary of Actuarial Methods and Assumptions for Valuation

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year Smoothed Market Value
Actuarial Assumptions:	
Investment rate of return	7.75% annual rate, net of investment expense
Payroll Growth	3.50% annual rate
Projected salary increases	3.50% to 14.25% annual rate
Includes inflation at	3.00% annual rate

In addition, under paragraph 34, the following should be noted regarding the RSI:

Actuarial assumptions are contained in Appendix A of this report and are the basis used for the calculations of the TPL contained in this supplemental report. There were no changes to the actuarial assumptions or benefit terms which impact the measurements provided in this supplemental report.



Appendix A: Actuarial Assumptions

Actuarial Assumptions Used for Determining the Total Pension Liability (TPL)

(effective with June 30, 2014 Valuation)

Assumed Rate of Investment Return. 7.75% per annum net of investment expenses.

Discount Rate for Determining the TPL: 7.75%.

20-Year Municipal Bond Rate as of Measurement Date: N/A.

Administrative Expenses. 0.45% of payroll.

Price Inflation. 3.0% per annum, compounded annually.

Salary Increases. Salary increases occur in recognition of (i) individual merit and longevity, (ii) inflation-related depreciation of the purchasing power of salaries, and (iii) other factors such as productivity gains and competition from other employers for personnel. Sample rates follow:

Attributable to:	Annual Rates of Salary Increase for Sample Years of Service				
	1	5	10	15	20
General Increase in Wage Level Due to:					
Inflation	3.00%	3.00%	3.00%	3.00%	3.00%
Other Factors	0.50	0.50	0.50	0.50	0.50
Increase Due to Merit/Longevity:					
State General	7.75	1.75	0.50	0.50	0.50
State Police	10.75	6.25	1.75	1.75	1.75
State Corrections	9.75	2.75	1.75	1.75	1.75
Municipal General	2.25	1.75	0.50	0.50	0.50
Municipal Police	8.25	3.25	2.00	1.25	1.25
Municipal Fire	8.25	3.25	2.00	2.00	2.00



Appendix A: Actuarial Assumptions

In the following schedules, State Corrections includes Adult Corrections Officers, Juvenile Corrections Officers and Municipal Detention Officers.

Mortality Assumption. The mortality assumptions are based on the RP-2000 Mortality Tables (Combined table for healthy post-retirement, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.

Rates are shown for sample ages in the following schedule. Note that sex distinct mortality rates are used solely for determining the funded status and contribution rate adequacy. All benefit amounts are based on merged gender mortality rates.

Sample Mortality Rates								
Pre-Retirement			Post-Retirement			Disabled		
Age	Male	Female	Age	Male	Female	Age	Male	Female
25	0.03%	0.02%	45	0.12%	0.08%	45	1.78%	0.56%
30	0.04	0.02	50	0.15	0.12	50	2.09	0.85
35	0.07	0.04	55	0.26	0.24	55	2.51	1.43
40	0.09	0.05	60	0.50	0.46	60	3.14	2.00
45	0.12	0.08	65	0.99	0.89	65	Uses healthy post-retirement rates upon surviving to normal retirement age.	
50	0.15	0.12	70	1.69	1.53	70		
55	0.21	0.22	75	2.94	2.43	75		
60	0.36	0.36	80	5.37	4.04	80		
65	0.59	0.53	85	9.76	6.95	85		



Appendix A: Actuarial Assumptions

Rates of Retirement.

First Eligibility Rates: These rates are used to measure the probability of members retiring in the first year eligible for retirement at the indicated ages.

Sample Percent Retiring at First Eligibility by Age								
Ages	State General		State	State	Municipal General		Municipal	Municipal
	Male	Female	Police	Corrections	Male	Female	Police	Fire
40	55%	60%	60%	60%	55%	55%	60%	45%
45	55	60	60	60	55	55	50	35
50	55	60	50	50	55	55	50	30
55	55	60	50	50	55	55	50	50
60	35	40	50	50	30	30	50	50
65	25	30	100	50	30	35	50	50
70	25	30		100	25	25	100	100
75	25	30			25	25		
80	100	100			100	100		

Subsequent Eligibility Rates: These rates are used to measure the probability of members retiring after the first year eligible for retirement at the indicated ages.

Sample Percent Retiring After First Eligibility by Age								
Ages	State General		State	State	Municipal General		Municipal	Municipal
	Male	Female	Police	Corrections	Male	Female	Police	Fire
40	40%	35%	40%	50%	35%	35%	30%	40%
45	40	35	40	50	35	35	30	35
50	40	35	50	50	40	40	30	30
55	40	35	35	50	30	25	30	30
60	30	40	35	50	30	30	30	20
65	30	35	100	40	35	35	50	50
70	25	30		100	25	25	100	100
75	25	25			25	25		
80	100	100			100	100		



Appendix A: Actuarial Assumptions

Rates of Withdrawal from Active Membership. The rates are used to measure probabilities of active members terminating for a reason other than disability or death. The rates do not apply to members who are within the retirement rate range. Assumptions for State General and Municipal General are gender distinct and both based on age and service. Assumptions for all other plans are not gender distinct and are service related only. These rates do not vary by age.

State General Males					
Rates of Active Members Terminating During Year					
	Sample Service (Yr):				
Sample Ages	2	4	6	8	10+
20	18.76%	10.86%	8.21%	7.78%	5.11%
25	17.72	11.06	8.10	7.07	4.65
30	16.45	11.27	7.97	6.18	4.13
35	15.31	10.81	7.59	5.58	3.89
40	14.30	9.97	7.08	5.40	3.86
45	13.55	9.06	6.63	5.40	3.86
50	13.26	8.45	6.49	5.40	3.86
55	13.26	8.37	6.49	5.40	3.86
60	13.26	8.37	6.49	5.40	3.86
65	13.26	8.37			
70	13.26	8.37			

State General Females					
Rates of Active Members Terminating During Year					
	Sample Service (Yr):				
Sample Ages	2	4	6	8	10+
20	18.13%	11.95%	8.22%	6.05%	4.83%
25	17.76	11.95	8.02	5.81	4.25
30	17.28	11.89	7.81	5.54	3.55
35	16.34	11.23	7.45	5.28	3.46
40	15.22	10.24	6.99	5.06	3.46
45	14.19	9.20	6.58	4.95	3.46
50	13.52	8.55	6.45	4.80	3.46
55	13.37	8.50	6.45	4.70	3.46
60	13.37	8.50	6.45	4.70	3.46
65	13.37	8.50			
70	13.37	8.50			



Appendix A: Actuarial Assumptions

Rates of Withdrawal from Active Membership (cont.)

Municipal General Males					
Rates of Active Members Terminating During Year					
	Sample Service (Yr):				
Sample Ages	2	4	6	8	10+
20	21.70%	14.59%	11.29%	8.93%	8.54%
25	20.00	13.52	10.26	8.05	7.32
30	17.73	12.04	8.96	6.94	5.69
35	15.77	10.65	8.01	6.20	4.61
40	14.06	9.37	7.29	5.73	3.92
45	12.80	8.39	6.87	5.58	3.65
50	12.20	8.01	6.79	5.58	3.65
55	12.18	8.01	6.79	5.58	3.65
60	12.18	8.01	6.79	5.58	3.65
65	12.18	8.01			
70	12.18	8.01			

Municipal General Females					
Rates of Active Members Terminating During Year					
	Sample Service (Yr):				
Sample Ages	2	4	6	8	10+
20	24.40%	17.77%	14.41%	11.94%	7.51%
25	21.96	16.06	12.80	10.32	6.38
30	18.85	13.77	10.63	8.16	4.94
35	16.69	11.96	9.08	6.70	4.09
40	15.16	10.49	7.84	5.74	3.67
45	14.28	9.49	6.50	5.31	3.62
50	14.01	9.14	6.50	5.30	3.62
55	14.01	9.14	6.50	5.30	3.62
60	14.01	9.14	6.50	5.30	3.62
65	14.01	9.14			
70	14.01	9.14			



Appendix A: Actuarial Assumptions

Rates of Withdrawal from Active Membership (cont.)

Service Based Rates of Active Members Terminating During Year					
All Ages	Sample Service (Yr):				
	1	3	5	7	10+
State Police	8.00%	7.00%	4.00%	4.00%	4.00%
State Corrections	20.00	16.00	9.00	8.00	6.00
Municipal Detention	22.00	16.00	10.00	10.00	6.00
Municipal Police	14.00	9.50	6.80	5.15	3.80
Municipal Fire	10.00	7.50	5.00	3.30	3.00

Rates of Disability. The rates are used to measure the probabilities of active members becoming disabled. Rates for sample ages follow. For non-public safety groups, 25% disabilities are assumed to be duty related and 35% are assumed to be duty-related for public safety groups.

Rates Becoming Disabled at Indicated Ages (State Division)				
Sample Ages	State General		State	State
	Male	Female	Police	Corrections
25	0.02%	0.02%	0.05%	0.14%
30	0.04	0.03	0.09	0.16
35	0.08	0.06	0.14	0.21
40	0.13	0.12	0.35	0.27
45	0.24	0.20	0.42	0.46
50	0.41	0.39	0.69	0.90
55	0.57	0.61	1.59	1.40
60	0.74	0.73	2.31	1.88
65	0.75	0.73	2.31	1.88

Rates Becoming Disabled at Indicated Ages (Municipal Division)					
Sample Ages	Municipal General		Municipal	Municipal	Municipal
	Male	Female	Detention	Police	Fire
25	0.05%	0.04%	0.06%	0.07%	0.02%
30	0.08	0.04	0.10	0.08	0.02
35	0.12	0.04	0.15	0.12	0.02
40	0.17	0.06	0.22	0.17	0.08
45	0.25	0.14	0.32	0.26	0.08
50	0.40	0.25	0.51	0.42	0.33
55	0.65	0.39	0.85	0.73	0.33
60	0.80	0.51	1.04	1.22	1.17
65	0.82	0.59	1.07	1.22	1.17



Appendix A: Actuarial Assumptions

Miscellaneous and Technical Assumptions

Marriage Assumption:	100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Pay Increase Timing:	Beginning of plan year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
Decrement Timing:	All decrements are assumed to occur at the beginning of the plan year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Operation:	Neither disability nor withdrawal decrements operate during retirement eligibility.
Loads:	Retiree liabilities were increased by 1% to account for the pop-up provision.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report and the actual payroll payable at the time contributions are made.
Normal Form of Benefit:	A straight life payment is the assumed normal form of benefit.
Benefit Service:	Exact fractional service is used to determine the amount of benefit payable.
Data Changes:	For missing dates of birth for active members, we assumed to enter the system at the average entry age. For retiree records with a joint and survivor option and a missing beneficiary date of birth, the beneficiary was assumed to be 3 years younger if the member was male and 3 years older if the member was female.