



CRAFTING THE FUTURE



COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2005

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
OF NEW MEXICO

PENSION TRUST FUNDS
OF THE STATE OF NEW MEXICO



CRAFTING THE
FUTURE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION OF NEW MEXICO

Pension Trust Funds of the State of New Mexico

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Prepared by PERA Staff

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**Public Employees
Retirement Association**
of New Mexico





THE MISSION STATEMENT OF THE PERA BOARD

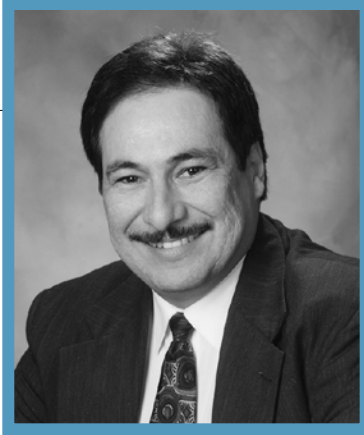
The mission of the Board of the Public Employees Retirement Association is to preserve, protect, and administer the Trust to meet its current and future obligations and provide quality services to association members.

THE VALUE STATEMENT OF THE PERA BOARD

The Board will act with integrity in meeting its fiduciary responsibilities to the Trust. The Board will make efficient, effective, prudent and visionary decisions in fulfilling its mission. Board Members will be reliable, responsible, and will utilize opportunities to receive necessary training in order to be knowledgeable fiduciaries. The Board will engage in inclusive decision making processes, which support its expectation that the Board speaks with a unified voice.



**Public Employees
Retirement Association**
of New Mexico



“PERA’s investment performance continues to place PERA in the top 27% of large public pension funds throughout the U.S.”

– David A. Baca, PERA Board Chairman, County Member

November 19, 2005

Dear PERA Members and Members of the Legislature:

It is my pleasure to report to you on the sound financial condition of our PERA fund. This Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005 provides you with information about the fund, its financial status and its membership.

For this reporting period the PERA fund had a positive investment return of 9.85%, exceeding our actuarial benchmark of 8%, and bringing the fund’s total assets to \$10.22 billion. PERA’s investment performance continues to place PERA in the top 27% of large public pension funds throughout the U.S.

While this is good news for the fund and membership, we must continue to be prudent and disciplined into the future. Your elected PERA Board continues to adhere to its fiduciary responsibilities and provide the policy guidance for PERA staff to execute.

In this year’s legislative session, the Legislature gave PERA the authority to expand the types of investments we make with an eye toward better funding your benefits. As prudent investors, the PERA Board is weighing these options carefully so that our risks are controlled as we seek to enhance the returns to your fund.

It is the Board’s responsibility and pleasure to serve the membership and we pledge our best efforts to continue the progress of the PERA fund.

Sincerely,

A handwritten signature in black ink that reads "D. Baca".

David A. Baca
PERA Board Chairman
County Member



PERA BOARD MEMBERS



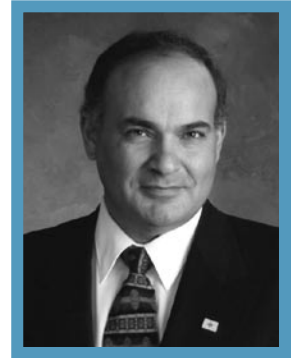
MR. DAVID A. BACA
Chair
County of Bernalillo
County Member



MR. VICTOR MONTOYA
Vice Chair
Retired Member



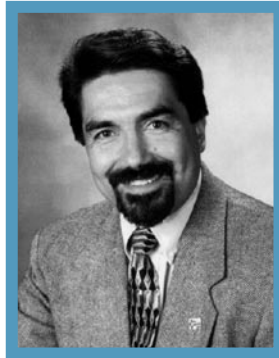
THE HONORABLE REBECCA VIGIL-GIRON
Secretary of State
Ex-Officio Member



THE HONORABLE ROBERT E. VIGIL
State Treasurer
Ex-Officio Member



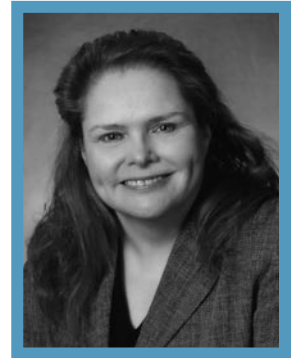
MR. JEFF RIGGS
Department of Public Safety
State Member



MR. DANNY SANDOVAL
Children, Youth & Families Department
State Member



MR. HAMISH THOMSON
Office of the Attorney General
State Member



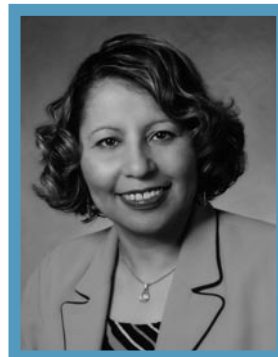
MS. NANCY HEWITT
Public Defender Department
State Member



MR. LOU HOFFMAN
City of Albuquerque
Municipal Member



MS. CYNTHIA BORREGO
City of Albuquerque
Municipal Member



MS. PATRICIA FRENCH
City of Albuquerque
Municipal Member



MS. LORETTA NARANJO-LOPEZ
Retired Member



“The fund has achieved its goal of adding value over its policy benchmark and, for the longer term, has continued to meet the actuarial target rate of an 8% annualized return.”

– Terry Slattery, CEBS, PERA Executive Director

October 31, 2005

To: Board of Trustees and Members of the New Mexico Public Employees Retirement Association

The Staff of the New Mexico Public Employees Retirement Association (PERA) is pleased to present this Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2005 (FY05). As the information in this report demonstrates, PERA continues to safeguard and strengthen your retirement benefits. This continues to be the primary goal of the staff and Board of Trustees (Board).

Management is responsible for the accuracy of the data and the presentation contained in this report. To the best of our knowledge, the report is materially accurate and presents fairly the financial position and results of operations of PERA. The report includes all retirement plans administered by PERA covering the following public employees: State, Municipal, Legislative, Judicial, Magistrate and Volunteer Firefighters. (Note: the Educational Retirement Association administers the teachers' retirement plan.)

PERA was established by statute in 1947. For further discussion of the background of PERA, see the Notes to Financial Statements at page 35.

REPORT CONTENTS AND STRUCTURE

The Report is presented in five sections.

- The Introductory Section, which contains general information regarding the operations of PERA. It includes the transmittal letter, the Board Chairman's letter and PERA's administrative organization.
- The Financial Section, which contains the financial statements, schedules and supplementary financial information regarding the funds administered by PERA, including the opinion of the independent certified public accountants and footnotes. This section also includes the Management's Discussion and Analysis at pages 30 to 32.
- The Investment Section, which contains information pertaining to the management of the investments of the pension trust funds. It includes an outline of investment policies, asset allocation and comparative returns, and a list of the largest holdings.
- The Actuarial Section, which contains information regarding the financial condition and financial position of the retirement plans administered by the system. It contains the

(continued)

independent consulting actuary's certification letter, summary of actuarial assumptions and methods, summary of plan provisions and other statistics.

- The Statistical Section, which contains general statistical information regarding system participants and finances.

Fiscal Year 2005 Highlights

SUMMARY OF FINANCIAL INFORMATION

The following schedule is a summary of the Fund's additions and deductions for the years ended June 30, 2005, and June 30, 2004.

	JUNE 30, 2005	JUNE 30, 2004
Additions	\$1,316,814,118	\$1,648,642,584
Deductions	(474,877,993)	(430,108,997)
NET CHANGE	\$841,936,125	\$1,218,533,587

Additions decreased by \$331,828,466 in spite of an increase in net investment income of \$345,800,159. Deductions increased by \$44,768,996 primarily due to a total of \$39,777,868 in benefit payouts for the year.

PLAN FINANCIAL CONDITION

The funding objective of PERA is to meet long-term benefit promises through contributions, which remain approximately level as a percent of member payroll over decades of time. Historical information relating to progress in meeting this objective is presented on page 49. During the year ended June 30, 2005, the funded ratio of PERA, which covers 80,000 participants, was 93%. Additional information regarding the financial condition of the various component funds of PERA can be found in the Actuarial Section of this report.

INVESTMENT ACTIVITY

PERA's investment portfolio produced a total return, gross of expenses, of 9.85% for the year ended June 30, 2005. The policy benchmark return for the year was 8.73%. The fund has achieved its goal of adding value over its policy benchmark and, for the longer term, has continued to meet the actuarial target rate of an 8% annualized return.

The Board receives formal reports twice monthly on the status of PERA's investments. The investments are tracked daily by the Investment Division staff. External investment managers who are underperforming can be summoned to make special appearances before the Board to account for their underperformance and to describe remedial steps the manager proposes to take. Placement on a "watch list" and contract termination are further options for underperforming investment managers.

The investment return in FY 2005 was 9.85%, allowing PERA to beat its policy target benchmark. It is also worth noting that total investment earnings over the past 10 years exceeded \$6.95 billion (based on invested assets of \$3.27 billion as of 6/30/95) and the annualized return over the 10-year period was 10.33%.

Additional information regarding the investment results for the year is included in the Investment Section of this report.

LEGISLATION ENACTED DURING THE 2005 LEGISLATIVE SESSION

Exemption from Procurement Code Requirements — This legislation releases PERA from the requirements of the State Procurement Code for investment manager and related services contracts. PERA will adopt its own procurement policy for these services. Until that process is completed, PERA's investment manager contracts will continue to follow the Procurement Code requirements.

Enactment of Uniform Prudent Investor Act (UPIA) — Until this legislation was enacted, PERA had a “legal list” of investments which spelled out what investments PERA was allowed to make. The UPIA standard allows PERA to invest in any type of investment acceptable to a prudent investor, which requires a higher standard of prudence and care than the old standard. Any new type of investment not previously authorized by the “legal list” will be added to PERA's Investment Plan only after study and upon affirmative action of the PERA Board.

Securities Lending Expansion — The list of entities authorized to provide securities lending services to PERA was expanded to include any qualified banking institution, including New Mexico's custodian bank.

Moratorium on Benefit Enhancements — By joint memorial, the Legislature declared its refusal to enact any benefit enhancements for PERA members through the end of 2006. No enhancements were passed during the 2005 legislative session, and the moratorium will also be in effect during the 2006 legislative session. By the end of 2006, PERA's actuary will have accumulated several years of experience with the revised standard allowing PERA retirees to return to work for PERA employers without suspending their pensions. The actuary will then analyze the impact of the revised standard on PERA's funding status.

Expanding the Definition of “Public Employer” — This legislation authorizes irrigation districts to affiliate with PERA.

Volunteer Firefighters Service Credit — This legislation authorizes active volunteer firefighters who have not had all their service credited to them to post or adjust up to five additional years of service credit.

Judicial and Magistrate Retirement Changes — Judges, magistrates and their employers will pay increased PERA contributions to improve the funding status of the judicial and magistrate retirement plans. Contribution rates will increase in FY06 and again in FY07.

Status of Employees of Merged PERA Employers — When new entities are created through merger or joint powers agreements of existing PERA employers, the new entity may offer its employees the highest coverage plan that had been available to employees of the parent entities.

Authorization for PERA to Acquire Land and Build New Office Building — In the event of the sale of the PERA property to the State of New Mexico, PERA is authorized to acquire land and build a new building to house the PERA offices.

Authorization for the State of New Mexico to Sell or Trade Property to PERA for New PERA Offices — The General Services Department is authorized to sell or trade property it owns in Santa Fe to PERA if PERA should select any such property for its new offices following a sale of the PERA property to the State.

Significant Long Term Project: Pension Administration System

The new pension administration system was implemented in two phases, in April, 2005 and in August, 2005. Senior management has been and will continue to be very involved and committed to this

PERA EXECUTIVE DIRECTOR'S LETTER

(continued)

project. It is essential to the efficient and accurate processing of increasing member retirements and inquiries.

ACTUARIALLY SPEAKING

The funding objective of PERA pension trust funds is to meet long-term benefit promises through contributions, which remain approximately level as a percent of member payroll over decades of time. The actuarial reports are prepared by Gabriel, Roeder, Smith & Company based on data provided by PERA. They also serve as a technical advisor to staff on actuarial issues. More detailed information for all the plans can be found in the Actuarial Section of this report.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

PERA has established and maintains a system of internal controls designed to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed, and financial statements are reliable. In addition, internal audit personnel provide a continuing review of the internal controls and operations of PERA, and the Internal Auditor regularly reports to the PERA Board's Audit & Budget Committee. The Committee reviews the audit findings and recommendations for improvements in internal control and operational efficiency and the actions of management to implement such recommendations.

INDEPENDENT AUDIT

An annual audit of PERA's Financial Statements has been performed this year by the independent accounting firm of Neff & Ricci LLP in conjunction with the New Mexico State Auditor's Office. PERA once again received an unqualified opinion. The auditors' report on the financial statements is included in the Financial Section of this report.

CAFR FOR FY04

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the New Mexico Public Employees Retirement Association for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the fifth year that PERA had applied for the GFOA award and the fifth year that we received it. 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.

CONCLUSION

I would like to acknowledge the Board's time, effort and support throughout the year, as they have provided direction and leadership to the system.

This report is a product of the combined efforts of the PERA staff and advisors functioning under the Board's guidance. It is intended to provide complete and reliable information, which will facilitate the management decision-making process, serve as a means for determining compliance with legal requirements, and allow for the evaluation of responsible stewardship of the funds of the system.

I would like to acknowledge Ms. Lee Ann Rael, PERA Comptroller, for her work in coordinating the compilation of data. I also want to thank our various consultants who worked closely with Ms. Rael and Robert Gish, PERA Director of Investments, to provide information presented in this report. Finally, my thanks to Ms. Patricia Thaxton, PERA Liaison Officer, for her work in organizing and presenting this report. There will be many challenges in the coming year. I believe we can meet the challenges and make them great opportunities.

Sincerely yours,

A handwritten signature in cursive script that reads "Terry Slattery".

Terry Slattery, CEBS
Executive Director

PERA STAFF

ADMINISTRATION

Terry Slattery, executive director
Mary Frederick, deputy director, member services
Kurt Weber, deputy director, operations
Jane Clifford, executive assistant
Michael Hansen, internal auditor
Patricia Thaxton, liaison officer
Steve Voet, planning, policy and budget

ADMINISTRATIVE SERVICES

Lee Ann Rael, comptroller
Lynn Coles, financial manager
Alex Coriz, accountant auditor
Jodi Francisco, accountant auditor
Yvonne Montoya, accountant auditor
Sharon Moya, accountant auditor
Art Trujillo, accountant auditor

CONTRIBUTION ACCOUNTING

Herb Romero, bureau chief
Renee Baros, accountant auditor
Ramona Moore, accountant auditor

DEFERRED COMPENSATION

JoAnn Garcia, manager

HUMAN RESOURCES

Arlene Coriz, human resource administrator, senior

INFORMATION SYSTEMS

Greg Portillos, information systems mgr.
Mike Gonzales, programmer analyst II
Andres Martinez, IS network specialist I
Leonard Martinez, computer systems analyst
Michael Martinez, IS network administrator I
Kevin Payne, software engineer

INVESTMENTS

Robert Gish, director of investments
Dominic Garcia, deputy director of investments
Fred Reynolds, deputy director of investments
Lorri Espinosa, investment officer
Debbie O'Dell, investment officer
Sandy Perez, investment officer

LEGAL DIVISION

Susan Pittard, general counsel
Christopher Bulman, assistant general counsel
Maryanne Reilly, assistant general counsel
Judy Olson, administrator III
Theresa Vargas, legal assistant II

RECORDS

Mark Sanchez, records/imaging administrator
Albert Martinez, clerk IV
Joy Lujan, clerk IV
Sheila Martinez, mailroom
Jude Romero, clerk specialist

MAINTENANCE

Gene Powers, property manager
Sergio Gutierrez, maintenance manager
Ronald La Pointe, lead man
John Waterman, custodial supervisor
Melissa Shelley, office manager
Miguel Archuleta, maintenance and repair
Lillian Baca, custodial worker
Becky Chavez, custodial worker
Victor M. Diaz, custodial worker
Monica Fresquez, custodial worker
Anselmo Gomez, custodial worker
Richard Kelly, custodial worker
Eric Martinez, maintenance and repair
Armando Munoz, custodial worker
Chris Quintana, maintenance and repair
Benny Vigil, custodial worker
Patrick Vigil, custodial worker
William Vigil, custodial worker
Joe Zamora, maintenance and repair

MEMBER SERVICES

Andrew Clark, bureau chief
Janice Campos, public relations specialist
Carla Romero, customer service representative

CUSTOMER SERVICES

Vacant, manager IV
Christine Carrillo, customer service representative
Linda Dominguez, customer service representative
Christina Gauthier, customer service representative
Angel Lujan, customer service representative
Jessica Maldonado, customer service representative

QUALITY CONTROL

Monica Varela, manager IV
Rose Rael, disability administrator
Angela Romero, clerk specialist

RETIREMENTS

Claudine Serna, manager IV
Vacant, financial specialist
Vacant, financial specialist
Brenda Cordova, financial specialist III
Joyce Rivera, financial specialist III

USER ADMINISTRATION

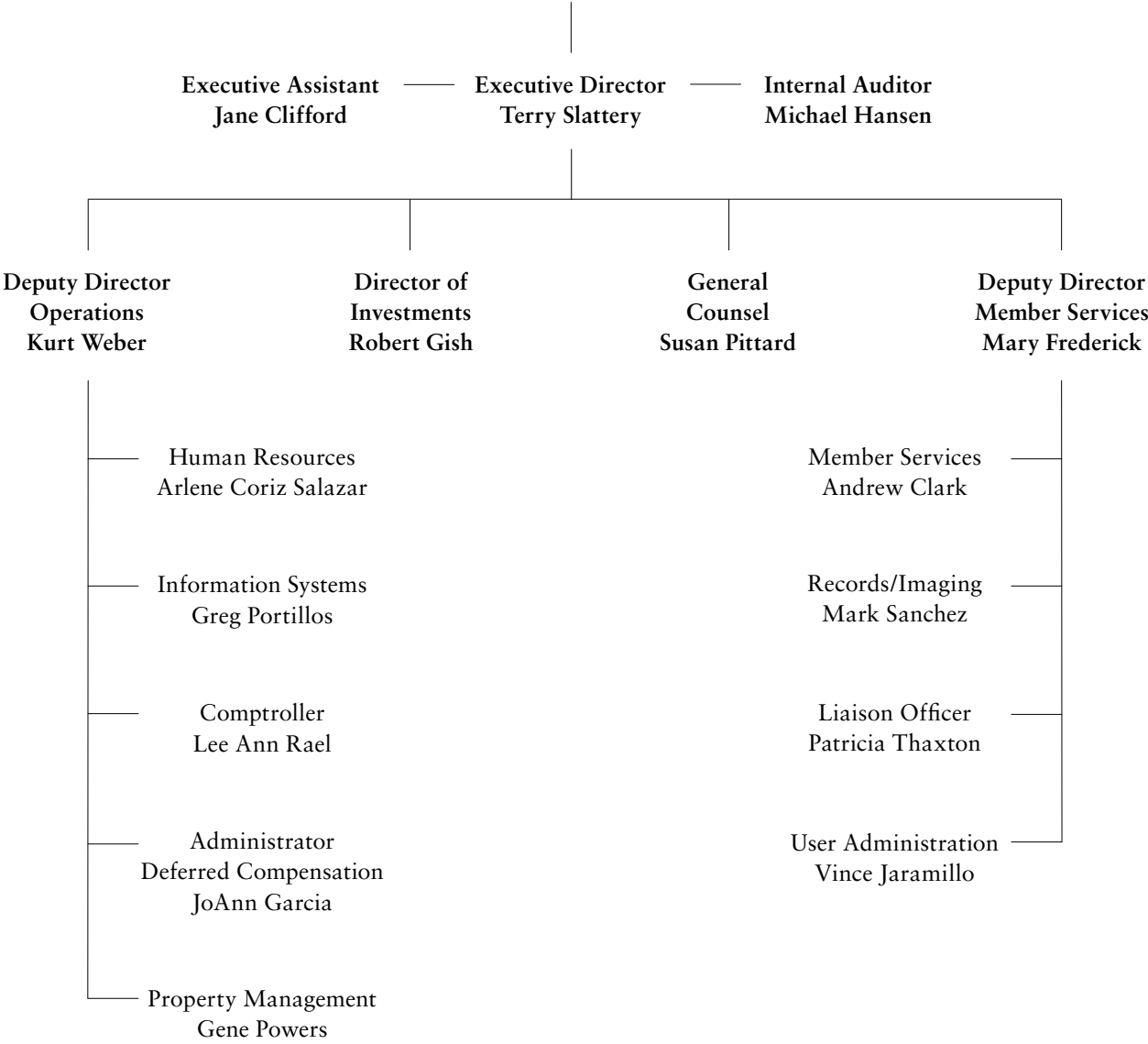
Vince Jaramillo, database administrator I
Xochitl Costales, administrative secretary
Leslie Miller, computer support specialist
Jessica Perea, management analyst
Jim Risinger, computer database administrator

ANNUITANT PAYROLL

Nora Solano, manager IV
Denise Vialpando, office clerk

PERA ORGANIZATIONAL CHART

PUBLIC EMPLOYEES
RETIREMENT ASSOCIATION BOARD



PERA AT A GLANCE

As of June 30, 2005

	JUNE 30, 2004	JUNE 30, 2005
PERA MEMBERS	50,687	66,949
State	22,038	23,969
Municipal	23,109	26,376
Judicial	104	118
Magistrate	50	51
Volunteer Firefighters	5,274	6,306
Legislative	112	129
RETIRED MEMBERS AND BENEFICIARIES	21,264	22,336
State	11,550	11,728
Municipal	9,180	10,021
Judicial	88	94
Magistrate	44	44
Volunteer Firefighters	272	311
Legislative	130	138
RETIREMENT BENEFITS	\$393,655,714	\$433,741,156
CONTRIBUTION REFUNDS	\$28,176,794	\$29,416,739
PARTICIPATING EMPLOYERS	686	689
State	119	118
Municipal	77	81
Counties	33	33
Housing Authorities	22	15
Special Districts	30	34
Hospitals / Clinics	1	2
Volunteer Fire Departments	373	373
Judicial	15	15
Magistrate	18	18
CONTRIBUTIONS:		
MEMBER CONTRIBUTIONS	\$152,171,839	\$161,354,257
EMPLOYER CONTRIBUTIONS	\$226,432,023	\$237,729,721
TOTAL PERA ASSETS	\$9,416,788,938	\$10,258,725,064

MEMBER SERVICES

Providing quality customer service to our members is one of the most important functions of PERA. The Member Services Division staff serves PERA's active members and retirees. The benefits counselors and support staff provide information over the telephone, through written correspondence, by personal counseling appointments and through group presentations. PERA staff processed over 1,230 retirement applications in FY05.

The PERA staff is responsible for preparing benefit estimates, assisting members with understanding retirement procedures, preparing military service calculations, processing refund repayment requests and assisting members with death benefit claims. Member Services also prepares adjustments to PERA retiree pension checks to reflect the yearly Cost-of-Living Adjustment (COLA).

PUBLICATIONS

Approximately 71,800 copies of the PERA newsletter, *La Voz*, are distributed each quarter to active and retired members. *La Voz* informs members about their retirement plans, legislative updates, news from our Board and other relevant subjects. Special articles were published in *La Voz* after the legislative session, explaining the changes to PERA plans and how members and retirees would be affected. PERA created two new publications to explain benefits available to members. Those publications were *How to Choose a Beneficiary* and the *Disability Retirement Kit*. All PERA publications are available on the PERA website or by contacting PERA at the numbers listed at the front of this report.

PUBLIC RELATIONS

Executive Director Terry Slattery has continued his mission of meeting with agency affiliates throughout the state. City and county managers, financial directors and governing commissions and councils were updated on the PERA fund status and legislative changes. The executive director visited the following affiliates: Los Alamos and Santa Fe counties; the North Central Regional Transit District and the Carlsbad Irrigation District as potential affiliates. He also made presentations at meetings of the Permanent Fund Investments Task Force. PERA liaison officers also visited the following affiliates: the cities and towns of Alamogordo, Albuquerque, Angel Fire, Bernalillo, Carlsbad, Deming, Farmington, Gallup, Grants, Hobbs, Las Cruces, Questa, Rio Rancho, Roswell, Ruidoso, Santa Fe, Taos, and Truth or Consequences; the counties of Bernalillo, Dona Ana, Eddy, Lea, Lincoln, Luna, Otero, San Juan, Sandoval, Santa Fe and Taos and various state agencies across the State.

BENEFITS TRAINING

This year, the PERA liaison officers in the Santa Fe and Albuquerque offices conducted over 42 seminars statewide. PERA continues to expand training sessions for members and affiliates.

ANNUAL STATEMENTS AND 1099-R FORMS

Annual statements of account for individual active members are mailed directly to each active member, providing a summary of account transactions and member contribution balances. Due to the implementation of the new pension administration system (RIO) the FY05 Annual Member Statements were mailed in December 2005. Member 1099-R forms are mailed each January to retirees as well as to members who requested refunds of their member accounts. Annual notifications of Cost-of Living Adjustments (COLAs) are mailed to retirees and beneficiaries in July.

PERA'S WEBSITE

PERA's website contains updated, valuable information concerning PERA current events, administration, investments and member services. Please visit the website at www.state.nm.us/pera.

PERA CALL CENTER

The PERA Call Center allows members and employers to speak directly to a customer service representative. PERA strives to make the latest information available to its members, retirees and affiliates. The PERA Call Center staff answered 79,559 calls in FY05.

PROFESSIONAL CONSULTANTS

ACTUARY

Gabriel, Roeder, Smith & Co.
Consultants & Actuaries
One Towne Square, Suite 800
Southfield, Michigan 48076

AUDITOR

Neff & Ricci, LLP
Consultants & Certified Public Accountants
6100 Uptown Boulevard NE, Suite 400
Albuquerque, New Mexico 87110

INVESTMENT CONSULTANT

Callan Associates, Inc.
1660 Wynkoop, Suite 950
Denver, Colorado 80202

PENSION ADMINISTRATION SYSTEM CONSULTANT

L.R. Wechsler, Ltd.
10394 Democracy Lane
Fairfax, Virginia 22030







**Public Employees
Retirement Association**
of New Mexico



Members of the Retirement Board of the
Public Employees Retirement Association of New Mexico
Santa Fe, New Mexico

We have audited the accompanying Statements of Plan Net Assets and Statements of Changes in Plan Net Assets of the Public Employees Retirement Fund, Judicial Retirement Fund, Magistrate Retirement Fund, and the Volunteer Firefighter Retirement Fund (collectively, the Funds) administered by the Public Employees Retirement Association of New Mexico (PERA) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of PERA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of PERA are intended to present the net assets and changes in net assets of only that portion of the Funds of the State of New Mexico which are attributable to the transactions of the Funds administered by PERA. They do not purport to, and do not present fairly, the financial position of the State of New Mexico as of June 30, 2005, and the changes in its financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of PERA as of June 30, 2005, and changes in its financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America. In additions, in our opinion, the individual financial statements of each Fund referred to above present fairly, in all material respects, the financial status of each of the individual funds administered by PERA as of June 30, 2005, and changes in financial status of such Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Required Supplementary Schedules of Funding Progress and of Contributions from Employers and Other Contributing Entities are not a required part of the financial statements, but are supplementary information required by the Government Accounting

Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the individual Fund financial statements that collectively comprise PERA's financial statements. The additional information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Introductory, Investments, Actuarial and Statistical Sections are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and, accordingly, we express no opinion or other form of assurance on them.

Neff + Ricci LLP

December 23, 2005

Albuquerque, New Mexico

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

This discussion and analysis of the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, and the Volunteer Firefighters Retirement Fund (collectively, the "Funds") of the Public Employees Retirement Association of New Mexico (PERA) for the year ended June 30, 2005 provides a summary of the financial position of the Funds, including highlights and comparisons. For more detailed information regarding the PERA financial activities, the reader should also review the actual financial statements, including the notes and supplementary schedules.

FINANCIAL HIGHLIGHTS

Net assets held in trust for pension benefits (net assets) for all Funds in total increased during the fiscal year by \$842 million. All individual pension funds experienced an increase in net assets.

The increase in net assets was due to a combination of contributions revenue of \$403.8 million and investment income of \$941.4 million then reduced by the cost of benefit payments, refunds, and other expenses.

Total assets increased by \$569.8 million due primarily to an increase in the investment and broker receivable amounts.

Benefit payments to retirees increased due to an increased number of retirees, and refunds of member contributions only slightly increased.

PERA HIGHLIGHTS

PERA has received appropriations totaling \$15.5 million to purchase and implement a retirement membership information system since fiscal year 2000. PERA issued a request for proposals in the fall of 2000. Proposals were received and evaluated in the spring of 2001, but the RFP was subsequently cancelled. A new request for proposals was issued in January 2002 and the proposals were received in March 2002. As a result of this procurement, a contract for software and implementation services was signed in August 2002. Implementation was done in two phases over a thirty-two month period. Phase 1 was implemented in April 2005 and Phase 2 was implemented in August 2005.

FINANCIAL STATEMENTS

The financial statements of the Funds of PERA include Statements of Plan Net Assets and Changes in Plan Net Assets for the four retirement funds administered by the Agency. The financial statements also include notes that explain the history and purpose of the funds, significant accounting policies, investment details, statutory disclosures and other required information regarding the financial position of the funds.

The Deferred Compensation Plan, available to state employees and affiliates, is administered by a contracted third party and therefore, the assets of that plan are not included in these financial statements. However the net operating account used to pay administration expenses for deferred compensation is included in the Public Employees Retirement Fund.

Also, effective July 1, 2004, PERA adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement 3* which changes the disclosure requirement for investment risks identified in the Statement.

COMPARATIVE SUMMARY STATEMENTS

The following table displays the total assets, liabilities, net assets, and changes in net assets for all four retirement funds in total:

ALL FUNDS	2005	2004
Assets	\$12,053,109,484	\$11,483,271,098
Liabilities	1,794,384,420	2,066,482,159
Net Assets	10,258,725,064	9,416,788,939
CHANGE IN NET ASSETS	841,936,125	1,218,533,587

MANAGEMENT'S DISCUSSION AND ANALYSIS

(continued)

The increase in assets from fiscal year 2004 to fiscal year 2005 is due primarily to an increase in investments. Liabilities are reduced because of a lower amount of securities lending liability. The total net assets held by PERA increased during the fiscal year ended June 30, 2005 by \$841,936,125, primarily due to investment revenue and contributions offset by benefit and refund payments. All four funds participate in an investment pool and share in investment earnings based on the Fund's equity percentage in the pool. Securities lending assets and liabilities are both lower at June 30, 2005 than at June 30, 2004 due to the transition to a new securities lending manager for FY06.

The most significant pension plan administered by PERA included the following balances at the years ended June 30, 2005 and 2004:

PERA FUND ONLY	2005	2004
Cash & equivalents	\$771,030,496	\$780,173,575
Receivables	1,063,538,718	942,145,851
Investments	10,052,742,886	9,601,605,488
Capital Assets, Net	1,326,030	1,475,560
Other	—	26,255
TOTAL ASSETS	11,888,638,130	11,325,426,729
Accounts Payable	1,767,152,493	1,425,770,335
Accrued Expenses & Other Liabilities	2,415,769	611,913,895
TOTAL LIABILITIES	1,769,568,262	2,037,684,230
NET ASSETS HELD IN TRUST	\$10,119,069,868	\$9,287,742,499

Securities lending assets and liabilities (included in accrued expenses and other liabilities) are both lower at June 30, 2005 due to a transition to a new securities lending manager in fiscal year 2006.

The following schedule shows a comparison of changes in plan net assets for the major fund during fiscal years ended June 30, 2005 and 2004:

PERA FUND ONLY	2005	2004
ADDITIONS:		
Contributions	\$399,340,178	\$378,482,858
Invest Income (less Inv Exp)	271,242,676	272,070,899
Net Appreciation of FV Invest	629,892,093	975,692,252
Other Income	76,855	257,325
TOTAL ADDITIONS	1,300,551,802	1,626,503,334
DELETIONS:		
Benefit Payments	(427,084,483)	(387,306,615)
Refunds	(29,416,645)	(28,146,201)
Administrative Expenses	(11,690,755)	(8,257,055)
TOTAL DELETIONS	(468,191,883)	(423,709,871)
NET INCREASE/(DECREASE)	\$832,359,919	\$1,202,793,463

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

(continued)

INDIVIDUAL FUND COMPARATIVE BALANCES

The individual funds increased their net assets due to the investment gains and contributions across the funds. The gains were offset by benefit and refund payments, as well as by other administrative expenses. Administrative expenses increased because of the professional services contracts to design and implement a new retirement system:

NET ASSETS	2005	2004	% INCREASE
Public Employees Retirement Fund	\$10,119,069,868	\$9,287,742,499	9.0 %
Judicial Retirement Fund	70,590,014	65,786,811	7.3 %
Magistrate Retirement Fund	32,365,257	30,201,556	7.2 %
Volunteer Firefighters Fund	36,699,925	33,058,073	11.0 %
TOTAL — ALL FUNDS	\$10,258,725,064	\$9,416,788,939	

BUDGET COMPARISONS

PERA has no general fund monies. Budgetary variances are therefore not discussed.

CAPITAL ASSETS

The PERA Building is considered an investment to the PERA fund and therefore is not accounted for as a capital asset. The building was appraised in fiscal year 2005 at \$23,500,000 and is carried at that amount in the Investment section of the assets. The other capital assets are listed for the years ended June 30, 2005 and 2004:

CARRYING VALUE	2005	2004
Property and Equipment	\$1,324,333	\$1,466,701
Computer Improvement Plan	1,697	8,859
TOTAL	\$1,326,030	\$1,475,560

LONG-TERM DEBT

There was no long-term debt activity.

INFRASTRUCTURE

PERA has no infrastructure to report.

FINANCIAL CONTACT

Any questions regarding the financial statements of PERA should be directed to the PERA Comptroller, P.O. Box 2123, Santa Fe, NM 87504-2123.

STATEMENTS OF PLAN NET ASSETS

June 30, 2005

	PUBLIC EMPLOYEES RETIREMENT FUND	JUDICIAL RETIREMENT FUND	MAGISTRATE RETIREMENT FUND	VOLUNTEER FIREFIGHTERS RETIREMENT FUND	TOTAL
ASSETS					
Cash and cash equivalents	\$771,030,496	\$5,454,740	\$2,450,126	\$2,751,923	\$781,687,285
Receivables:					
Accrued investment income	40,845,809	285,681	131,463	149,100	41,412,053
Accounts receivable – brokers	1,003,106,796	7,029,799	3,224,996	3,666,386	1,017,027,977
Contributions receivable	17,280,142	69,677	66,898	–	17,416,717
Accounts receivable – other	1,908,826	2,001	–	–	1,910,827
Due from Other Agencies	61,529	814	170	49	62,562
Interfund receivable	335,616	–	–	–	335,616
Investments, at fair value:					
U.S. Government and agency securities	2,053,166,960	14,388,649	6,600,947	7,504,388	2,081,660,944
Corporate equity securities	4,566,447,832	32,002,691	14,680,638	16,691,193	4,629,822,354
Corporate obligations	1,068,577,491	7,488,619	3,435,484	3,905,683	1,083,407,277
International securities	2,339,633,728	16,396,215	7,521,940	8,551,432	2,372,103,315
TOTAL	10,027,826,011	70,276,174	32,239,009	36,652,696	10,166,993,890
Securities lending collateral investments	1,416,875	9,915	4,570	5,167	1,436,527
Investment in building	23,500,000	–	–	–	23,500,000
TOTAL INVESTMENTS	10,052,742,886	70,286,089	32,243,579	36,657,863	10,191,930,417
Property and equipment, net	1,326,030	–	–	–	1,326,030
TOTAL ASSETS	11,888,638,130	83,128,801	38,117,232	43,225,321	12,053,109,484
LIABILITIES					
Accounts payable – brokers	1,762,833,835	12,353,986	5,667,524	6,443,211	1,787,298,556
Accounts payable – other	4,318,658	–	–	–	4,318,658
Accrued expenses and other liabilities	1,051,420	–	–	–	1,051,420
Compensated absences	223,709	–	–	–	223,709
Interfund payable	–	176,819	80,772	78,025	335,616
Securities lending liability	1,140,640	7,982	3,679	4,160	1,156,461
TOTAL LIABILITIES	1,769,568,262	12,538,787	5,751,975	6,525,396	1,794,384,420
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A Schedule of Funding Progress for each fund is presented on page 50)					
	\$10,119,069,868	\$70,590,014	\$32,365,257	\$36,699,925	\$10,258,725,064

FINANCIAL SECTION

STATEMENTS OF CHANGES IN PLAN NET ASSETS

June 30, 2005

	PUBLIC EMPLOYEES RETIREMENT FUND	JUDICIAL RETIREMENT FUND	MAGISTRATE RETIREMENT FUND	VOLUNTEER FIREFIGHTERS RETIREMENT FUND	TOTAL
ADDITIONS					
Contributions:					
Employer	\$234,231,976	\$2,734,670	\$763,075	–	\$237,729,721
Member	160,638,750	543,554	171,953	–	161,354,257
Appropriation from State of New Mexico – Fire Protection Fund	–	–	–	\$750,000	750,000
Service credits purchased	3,963,956	–	–	–	3,963,956
TOTAL CONTRIBUTIONS	398,834,682	3,278,224	935,028	750,000	403,797,934
Investment Income:					
Interest	152,764,037	1,050,848	468,689	541,892	154,825,466
Dividends	137,365,653	965,371	442,823	500,009	139,273,856
Real estate operating income, net	584,243	–	–	–	584,243
Net appreciation in fair value of investments	629,892,093	4,358,266	2,015,586	2,266,965	638,532,910
Securities lending income	8,610,478	60,279	27,969	31,220	8,729,946
	929,216,504	6,434,764	2,955,067	3,340,086	941,946,421
Less securities lending expenses	(6,635,282)	(46,431)	(21,402)	(24,197)	(6,727,312)
Less other investment expense	(21,446,453)	(156,243)	(72,005)	(78,025)	(21,752,726)
NET INVESTMENT INCOME	901,134,769	6,232,090	2,861,660	3,237,864	913,466,383
Other income	(450,199)	–	–	–	(450,199)
TOTAL ADDITIONS	1,299,519,252	9,510,314	3,796,688	3,987,864	1,316,814,118
DEDUCTIONS					
Benefit payments	427,084,483	4,686,441	1,624,220	346,012	433,741,156
Refunds to terminated employees	29,416,645	94	–	–	29,416,739
Administrative expenses	11,690,755	20,576	8,767	–	11,720,098
Transfers, net	–	–	–	–	–
TOTAL DEDUCTIONS	468,191,883	4,707,111	1,632,987	346,012	474,877,993
NET INCREASE	831,327,369	4,803,203	2,163,701	3,641,852	841,936,125
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of year	9,287,742,499	65,786,811	30,201,556	33,058,073	9,416,788,939
End of year	\$10,119,069,868	\$70,590,014	\$32,365,257	\$36,699,925	\$10,258,725,064

FINANCIAL SECTION

1. GENERAL DESCRIPTION OF THE ASSOCIATION AND RETIREMENT FUNDS

GENERAL

The Public Employees Retirement Association (“PERA”) was created by legislation enacted in 1947. Upon enactment, members were required to contribute 3.5% of their gross salary and their employers matched employee contributions with an equal amount. The maximum annuity any member could expect to receive was \$150 per month.

PERA is now the administrator of four pension plan funds, including the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, and the Volunteer Firefighters Retirement Fund (collectively, the “Funds”), offering an array of retirement benefit plans to state, county, and municipal employees, police, firefighters, judges, magistrates, and legislators. The laws governing the administration of the Funds are set forth in Chapter 10 of the New Mexico Statutes Annotated 1978 (“NMSA 1978”) and applicable Replacement Pamphlets. PERA also has limited administrative responsibilities with respect to the State of New Mexico Social Security Fund and the State of New Mexico Deferred Compensation Fund, as more fully discussed in Note 2.

PERA is directed by the Public Employees Retirement Board (the “Board”) which consists of twelve members. Ten of the Board members are elected by PERA active and retired members under state and municipal coverage plans. Two Board members, the Secretary of State and the State Treasurer, are ex-officio members.

REPORTING ENTITY

PERA is an agency of the State of New Mexico. The Funds administered by PERA are considered part of the State of New Mexico financial reporting entity and are pension trust funds of the State of New Mexico. The State of New Mexico Deferred Compensation Fund meets the criteria for exclusion from the PERA financial statements set forth in Statement No. 32 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, and, accordingly, is not presented in the financial statements. See Note 2 for information on the Deferred Compensation Fund and how to obtain financial statements of the Deferred Compensation Fund.

PERA has developed criteria to determine whether other state agencies, boards or commissions which benefit the members of PERA should be included within its financial reporting entity. The criteria include, but are not limited to, whether PERA exercises oversight responsibility on 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 PERA has determined that no other such entities should be included in its financial reporting entity.

The DFA codes for the PERA funds are as follows:

Public Employees Retirement Fund – CAS fund #606

Public Employees Retirement Fund – Maintenance – CAS fund #370*

Judicial Retirement Fund – CAS fund #603

Magistrate Retirement Fund – CAS fund #604

Volunteer Firefighters Retirement Fund – CAS fund #607

Deferred Compensation Fund – Administration – CAS fund #755*

Social Security Fund – CAS fund # 608* – transferred to DFA during FY05

*These funds are combined with fund #606 in financial statements under “Public Employees Retirement Fund”.

DESCRIPTION OF THE FUNDS

Public Employees Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Hazardous Duty, Municipal General, Municipal Police, Municipal Fire, and State Legislative Divisions, and offers 18 different coverage plans. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the Public Employees Retirement

NOTES TO FINANCIAL STATEMENTS

(continued)

Fund is set forth in Section 10-11-3 NMSA 1978. Except as provided for in the Volunteer Firefighters Retirement Act (Sections 10-11A-1 to 10-11A-7 NMSA 1978), the Judicial Retirement Act (Sections 10-12B-1 to 10-12B-19 NMSA 1978), the Magistrate Retirement Act (Sections 10-12C-1 to 10-12C-18 NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11 NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member in the Public Employees Retirement Fund, unless specifically excluded.

Benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service. Members of the State Legislative Division may retire at any age with 14 years of credited service. Generally, the amount of normal retirement pension is based on final average salary, which is defined as the average of salary for the 36 consecutive months of credited service producing the highest average; credited service; and the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 100% of the final average salary, depending on the division. Legislative members who meet retirement eligibility requirements receive annual pensions equal to \$250 or \$500 multiplied by the number of years of credited service. Benefits for duty, non-duty death and disability and for post retirement survivors' annuities are also available.

Current member contributions for all plans, except the State Legislative Division, are based upon a percentage of salary and range from 4.78% to 16.30%, depending upon the division and coverage plan. Employer contributions also vary with the different divisions and coverage plans and are based upon a percentage of salaries paid, ranging from 7% to 25.72%. Contribution rates are established by State statute for all members. Members of the State Legislative Division contribute \$100, \$200 or \$500 for each year of credited service depending on the plan; employer contributions for members of the State Legislative Division are determined annually by the actuary. The total employer contribution for the State Legislative Division for the fiscal year ended June 30, 2005, was determined by the actuary to be \$975,585.

Judicial Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. Eligibility for membership in the Judicial Retirement Fund is set forth in Section 10-12B-4 NMSA 1978. Every judge or justice becomes a member in the Judicial Retirement Fund upon election or appointment to office, unless an application for exemption has been appropriately filed or unless specifically excluded.

Benefits are available at age 64 or older to anyone having served a minimum of five years and at age 60 to anyone having served at least 15 years. The annual pension amount for those members covered prior to July 1, 1980, is determined as 75% of the salary received during the last year in office prior to retirement multiplied by the number of years of service, not to exceed 10 years divided by 10. For those individuals who became members subsequent to July 1, 1980, the annual pension amount is determined as 75% of salary received during the last year in office prior to retirement multiplied by 5% of the number of years in service, not exceeding fifteen years, plus five years. Early retirement provisions apply to members retiring between ages 50 and 60. The plan also provides for survivors' allowances and disability benefits.

Members contribute at a rate of 5% of their salaries and the member's court contributes at a rate of 9% of the member's salary. Additionally, the district court contributes \$38 for each civil case docket fee paid. Contribution rates are established by State statute.

Magistrate Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. Eligibility for membership in the Magistrate Retirement Fund is set forth in Section 10-12C-4 NMSA 1978. Every magistrate becomes a member in the Magistrate Retirement Fund upon election or appointment to office, unless an application for exemption has been appropriately filed or unless specifically excluded.

Benefits are available at age 64 or older to any member having served as a magistrate for a minimum of 5 years. Retirement is available at age 60 to any magistrate or former magistrate having served at least 15 years or at any age with 24 or more years of service credit. The annual pension amount is determined by multiplying 75% of the salary received during the last year in office prior to retirement by 5% of the number of years of service, not exceeding 15 years, plus 5 years.

Member contributions are based on 5% of salaries and the State of New Mexico, through the administrative office of the courts, contributes at a rate of 9% of the member's salary. Additionally, the magistrate or metropolitan courts contribute \$25 for each civil case docket fee paid and \$10 for each civil jury fee paid. Contribution rates are established by State statute.

Volunteer Firefighters Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan with a special funding situation. Eligibility for membership in the Volunteer Firefighters Retirement Fund is set forth in Section 10-11A-2 NMSA 1978. Any volunteer nonsalaried firefighter who is listed as an active member on the rolls of a fire department and who meets certain age and service credit requirements set forth in the statute is eligible for membership in the Volunteer Firefighters Retirement Fund, unless specifically excluded.

Benefits are available at age 55 or older to any member having served as a volunteer fire fighter for a minimum of 10 years. Benefits are \$100 per month with at least 10 but less than 25 years of service or \$200 per month with 25 or more years of service. Benefits for post retirement surviving spouse annuities are also available.

Members of the Volunteer Firefighters Retirement Fund do not make contributions. State statutes required that the State Treasurer transfer \$750,000 during the 2005 fiscal year from the Fire Protection Fund to the Volunteer Firefighters Retirement Fund.

MEMBERSHIP

At June 30, 2005, the number of participating government employers were:

PUBLIC EMPLOYEES RETIREMENT FUND	
State Agencies	118
Cities	81
Counties	33
Special Districts	34
Housing Authorities	15
Hospitals/Clinics	2
TOTAL	283
<hr/>	
Judicial Retirement Fund	15
Magistrate Retirement Fund	18
Volunteer Firefighters Retirement Fund	373

At June 30, 2005, membership was as follows:

	PUBLIC EMPLOYEES RETIREMENT FUND	JUDICIAL RETIREMENT FUND	MAGISTRATE RETIREMENT FUND	VOLUNTEER FIREFIGHTERS RETIREMENT FUND
Retirees and beneficiaries receiving benefits	21,528	89	44	298
Terminated plan members not yet receiving benefits	3,297	17	16	N/A
Active plan members	47,799	106	50	6,282

NOTES TO FINANCIAL STATEMENTS

(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

METHOD OF ACCOUNTING AND MEASUREMENT FOCUS

The financial statements of the Funds presented herein have been prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned. Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in NMSA 1978. The Pension Trust Funds are accounted for on the flow of economic resources measurement focus.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include demand deposit accounts and all short-term instruments with maturities at purchase of 90 days or less. Cash and short-term investments are stated at amortized cost, which approximates fair value.

INVESTMENTS

Allowable investments are set forth in NMSA 1978 Section 10-11-132. PERA primarily invests in obligations of the United States Treasury, obligations of federal agencies guaranteed by or for which the credit of the United States government is pledged for payment of principal and interest, corporate bonds, stocks, and international securities. Security transactions and any resulting gains or losses are accounted for on a trade date basis.

All investment securities are reported at fair value as determined by the custodial agent. The agent's determination of fair value includes, among other things, published market prices, prices obtained from pricing services, and prices quoted by independent brokers at current exchange rates. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk. The investment in building is stated at fair value based on an appraisal performed during fiscal year 2005.

There are certain market risks, credit risks, foreign exchange currency risks, or event risks which may subject the Funds' investment portfolios to economic changes occurring in certain industries, sectors, or geographies.

Net investment income includes net appreciation in the fair value of investments, interest income, dividend income, securities lending income, rental income, and investment expenses, which include investment management and custodial fees, securities lending expense, building maintenance expense, and all other significant investment related costs.

In an effort to maximize the benefits of investment diversification and investment earnings, the Judicial, Magistrate, and Volunteer Firefighters Retirement Funds participate with the Public Employees Retirement Fund in an investment pool. The fair value of PERA's investments in short-term investment pools is the same as the value of the pool shares. All investments in the short-term investment pool are either SEC registered or are exempt from SEC registration under exemption 3a3 or 4(2) of SEC regulations. Each fund's equity percentage in the pool is based on that fund's investment in the pool and will only increase or decrease by additional deposits or withdrawals. Ownership percentages (rounded to the nearest hundredth of a percent) at June 30, 2005, are as follows:

	POOL
Public Employees Retirement Fund	98.63%
Magistrate Retirement Fund	0.32
Judicial Retirement Fund	0.69
Volunteer Firefighters Retirement Fund	0.36
TOTAL	100.00%

CAPITAL ASSETS

Capital assets costing in excess of \$1,000 used in the PERA's operations consist of furniture and equipment, which are recorded at historical cost less accumulated depreciation. All such assets are depreciated over five to ten years, depending on the nature of the asset, using the straight-line method of depreciation.

ACCRUED COMPENSATED ABSENCES

Accumulated vacation and sick leave earned but not taken at June 30 is recorded as a liability and expense in the Public Employees Retirement Fund.

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between the Funds for goods provided and services rendered. These receivables and payables are expected to be repaid in the subsequent fiscal year and are not eliminated in the financial statements.

REQUIRED RESERVES

New Mexico Statutes, Annotated 1978, Subsections 10-11-123, 10-12B-3, and 10-12C-3 set forth required accounting policies for reserves to be maintained within net assets available for benefits for the Public Employees Retirement Fund, the Judicial Retirement Fund, and the Magistrate Retirement Fund, respectively. State statutes do not specifically require separate accounting for the Volunteer Firefighters Retirement Fund. The funds to be maintained are as follows:

Member Contribution Fund represents the accumulated contributions deducted from members' compensation, less refunds and transfers of contributions as provided for in the statute. Annually on June 30, the members' accounts are credited with interest on member contributions and previously earned interest at a rate determined by the Board. The rate for the 2005 fiscal year was 5.25%.

Employers Accumulation Fund represents the accumulated contributions made by affiliated public employers. Each year following receipt of the report of the annual actuarial valuation, the excess, if any, of the reported actuarial present value of benefits to be paid over the balance in the Retirement Reserve Fund, discussed below, is transferred to the Retirement Reserve Fund from the Employers Accumulation Fund.

Retirement Reserve Fund represents the accumulated balance available to pay pension benefits to retired members and eligible survivors of deceased members or retirees and to pay residual refunds due to eligible beneficiaries and survivors as provided for in the statute.

Income Fund represents the accumulation of interest, dividends, rents, and other income of PERA, less administrative expense paid out of this fund. At least annually, the balance in this fund is transferred to other funds in a manner determined by the Board. The distribution rate of interest as determined by the Board for fiscal year 2005 was 5.25% of member account balances to the Member Contribution Fund. The remaining balance of the Income Fund was distributed to the Retirement Reserve Fund.

NOTES TO FINANCIAL STATEMENTS

(continued)

Fund Balances as of June 30, 2005 are as follows:

	PUBLIC EMPLOYEES RETIREMENT FUND	JUDICIAL RETIREMENT FUND	MAGISTRATE RETIREMENT FUND
Member Contribution Fund	\$1,649,959,542	\$5,035,241	\$2,030,058
Employers Accumulation Fund	2,014,344,101	27,178,834	16,892,913
Retirement Reserve Fund	6,454,766,225	38,375,939	13,442,286
TOTAL	\$10,119,069,868	\$70,590,014	\$32,365,257

SOCIAL SECURITY ACCOUNT

The Social Security Account was established to account for moneys collected by PERA from the State of New Mexico and its political subdivisions and instrumentalities on behalf of the Social Security Administration. As of January 1, 1987, PERA was no longer responsible for making these collections. Activity subsequent to January 1, 1987, relates primarily to adjustments, refunds, and rebates of previously collected amounts. During the year ended June 30, 2005, the Social Security Fund was transferred to the Department of Finance and Administration for further administration and tracking.

DEFERRED COMPENSATION PLAN

The State of New Mexico offers its employees a deferred compensation plan under NMSA 1978, Sections 10-7A-1 through 10-7A-12, the “Deferred Compensation Act,” in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their income until future years. Deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. PERA is the trustee of the Deferred Compensation Plan (the “Plan”); however, the Plan is administered by a third party administrator (the “Administrator”) acting under contract with PERA. The Administrator has authority to control and manage the operation of the Plan. The Administrator is delegated any and all powers as may be necessary or advisable to discharge its duties under the Plan, and has certain discretionary authority to decide all matters under the Plan. As Plan trustee, PERA’s primary responsibility is to select investment options that are safe and provide a reasonable rate of return and to ensure that all investments, amounts, property, and rights under the executed Plan-Trust are held for the exclusive benefit of Plan participants and their beneficiaries, as defined in the Plan. At June 30, 2005, PERA had \$132,244 in an operating account maintained for the sole purpose of paying administrative expenses associated with the Deferred Compensation Fund. This cash account is maintained by the State Treasurer. Accrued expenses and other liabilities associated with administrative operations of \$4,391 are reflected in the financial statements of the Public Employees Retirement Fund. The net of cash held, accrued income earned on cash deposits, and accrued expenses are reflected as liabilities in the Public Employees Retirement Fund. The Deferred Compensation Fund issues a publicly available stand-alone financial report which can be obtained by writing to the Public Employees Retirement Association of New Mexico, 1120 Paseo de Peralta, Santa Fe, New Mexico 87504, or calling (505) 827-4700.

ACTUARIAL VALUATION

The information included in the required supplementary information as listed in the foregoing table of contents is based on the actuarial valuations performed as of June 30, 2005, which is the latest available information. Significant actuarial assumptions used in the valuations are included in the notes to the required supplementary information.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from plan net assets during the reported period. Actual results could differ from those estimates. The Funds utilize various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of plan net assets.

FEDERAL INCOME TAX STATUS

The Funds are qualified plans under Section 401(a) of the Internal Revenue Code and are exempt from federal income taxes under Section 501(a).

3. CASH AND CASH EQUIVALENTS

As of June 30, 2005, cash consisted of the following:

FUND NAME	DEPOSITORY NAME	ACCOUNT TYPE	AGENCY/FUND	RECONCILED PERA BALANCE AT JUNE 30, 2005	SUBSEQUENT ITEMS PROCESSED BY DFA	DFA BALANCE AT JUNE 30, 2005
PERA Admin	State Treasurer	Checking	366/606	\$18,163,469	–	18,163,469
PERA Maint	State Treasurer	Checking	366/370	2,964,992	–	2,964,992
Judicial	State Treasurer	Checking	366/603	200,334	–	200,334
Magistrate	State Treasurer	Checking	366/604	39,611	–	39,611
Volunteer Fire	State Treasurer	Checking	366/607	11,492	–	11,492
Deferred Comp	State Treasurer	Checking	366/755	132,244	–	132,244
				\$21,512,142	–	21,512,142

4. DEPOSITS, INVESTMENTS, AND SECURITIES LENDING COLLATERAL INVESTMENTS

The following is a reconciliation of cash and investments as presented in the Statements of Plan Net Assets and deposits and investments as presented in the schedules below:

As presented in the Statements of Plan Net Assets:

Cash and cash equivalents	\$781,687,285
Investments	10,191,930,417
TOTAL	\$10,973,617,702

NOTES TO FINANCIAL STATEMENTS

(continued)

DEPOSITS

Cash balances reported in the Statements of Plan Net Assets include amounts on deposit with the State Treasurer's Office and amounts held by the investment custodian. All deposit accounts maintained at the State Treasurer's Office participate in an overnight repurchase agreement program administered by the State Treasurer. These amounts, listed below, are held in the name of the entity indicated and are fully collateralized.

ACCOUNT	BANK BALANCE	CARRYING AMOUNT
PERA Trust Administration	\$27,096,467	\$18,163,469
PERA Building Maintenance	2,966,277	2,964,992
Deferred Compensation Operating Account	132,244	132,244
Judicial Retirement Fund	283,710	200,334
Volunteer Firefighters Retirement Fund	82,147	39,611
Magistrate Retirement Fund	19,378	11,492
TOTAL DEPOSITS AT STATE TREASURER'S OFFICE	\$30,580,223	\$21,512,142

The difference between the bank balance and the carrying amount of deposits is due to reconciling items, such as outstanding warrants.

Cash held by the investment custodian is invested in commercial paper, which is included in the schedule of investments below.

INVESTMENTS

Custodial Credit Risk — For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, PERA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Mutual funds, external investment pools, and securities underlying reverse repurchase agreements are not exposed to custodial credit risk.

All of PERA's securities are held by PERA's own third-party custodian, independent of any Counterparty, therefore, there is no risk that PERA will not be able to recover the value of its investments or collateral securities held by a Counterparty.

The Custodian holds assets directly, through its agents, its sub-custodians, or designated clearing systems, assets. The Custodian is accountable for registration of those designated assets in good delivery form, collection of income generated by those assets, and any corporate action notification. The Custodian is responsible for delivery and receipt of securities of the aforementioned transactions. The Custodian is responsible for the ongoing pricing and valuation of all assets; investment managers must reconcile their values to those of the Custodian. The Custodian is to cooperate with, and provide assistance to, PERA and its investment managers in the reconciliation process. The Custodian is required to provide online records and reports, performance reporting, accounting reports and other services included in the agreement. The Board may opt to designate other duties to the Custodian as stipulated in its agreement with the State Board of Finance.

Regarding Repurchase Agreements (REPOS) the policy states, "The Board shall utilize the services of the State Treasurer for holding PERA's assets. The State Treasurer at the direction of the Board shall deposit said assets with a bank or trust company for safe keeping or servicing. In addition, for cash management, the Board may utilize the services of the State treasurer for overnight investment of short-term assets and/or, a separate or commingled short-term investment fund ("STIF") approved by the Board or administered by the Custody Bank designated by the State Treasurer or the State Board of Finance providing the STIF account only invests in those securities authorized by PERA's statutes, investment policy and investment guidelines. Investment managers shall invest all cash in PERA's approved STIF funds."

In addition the policy states, in part, "An investment manager under contract to PERA must preliminarily reconcile the differences between market values of securities as reported by the Custody Bank designated by the State

NOTES TO FINANCIAL STATEMENTS

(continued)

Treasurer for safekeeping PERA's securities and the market values as shown on the monthly report of the investment manager's records."

A summary of the PERA's investments at June 30, 2005 and their exposure to custodial credit risk are as follows.

ASSET TYPE	HELD IN THE NAME OF THE FUND BY THE FUND'S CUSTODIAN BANK	CUSTODY ARRANGEMENTS CONTRACTED BY FUND MANAGER	TITLE TO REAL ESTATE HELD IN THE NAME OF THE FUND	TOTAL
U.S. Government Bonds and agency securities	\$725,222,764	—	—	\$725,222,764
International Government Bonds and agency securities	154,216,875	—	—	154,216,875
International Municipal Bonds	4,641,847	—	—	4,641,847
U.S. Municipal Bonds	3,966,197	—	—	3,966,197
Corporate Bonds	809,968,182	—	—	809,968,182
U.S. Government MBS	1,305,002,155	—	—	1,305,002,155
Commercial MBS	75,875,731	—	—	75,875,731
Asset Backed Securities	217,725,302	—	—	217,725,302
Non-government C.M.O.	106,534,949	—	—	106,534,949
Index Linked Government Bonds	63,248,420	—	—	63,248,420
TOTAL FIXED INVESTMENTS	3,466,402,422	—	—	3,466,402,422
International Common Stock	2,044,128,196	—	—	2,044,128,196
Domestic Common Stock	4,586,532,109	—	—	4,586,532,109
International Preferred Stock	23,229,593	—	—	23,229,593
Domestic Preferred Stock	43,171,887	—	—	43,171,887
Domestic Convertible Equity	209,728	—	—	209,728
International Corporate Convertible Bonds	903,802	—	—	903,802
Domestic Corporate Convertible Bonds	2,243,563	—	—	2,243,563
Rights/Warrants	172,590	—	—	172,590
TOTAL EQUITIES	6,700,591,468			6,700,591,468
SECURITIES LENDING		1,436,527		1,436,527
INVESTMENT IN REAL ESTATE			23,500,000	23,500,000
TOTAL INVESTMENTS				\$10,191,930,417

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. PERA is required to disclose credit ratings of their investments in order to assess credit risk. U.S. obligations or investments guaranteed by the U.S. Government are excluded from this requirement.

PERA's investment policy restricts investments to specific investment ratings issues by nationally recognized statistical rating organizations as follows:

NOTES TO FINANCIAL STATEMENTS

(continued)

Credit ratings are limited to:

1. Bonds, notes or other obligations issued by a state, its municipalities or other political subdivisions, that have received an investment grade [at least Baa or BBB] bond rating, and are registered by the SEC or the Municipal Securities Rulemaking Board (MSRB).
2. Bonds, notes, commercial paper or other obligations of any corporation organized and operating within the United States; provided that the securities shall have a minimum credit rating of CCC- according to Standard and Poor's rating system or Caa3 according to Moody's investors rating system or their equivalents by a national rating agency, approved by the Board; and provided that not more than ten percent of the funds for which the retirement board is trustee shall at any one time be invested in debt obligations of corporations with a credit rating less than BBB according to the Standard and Poor's rating system or Baa according to the Moody's investors rating system or their equivalents. Investment managers may purchase securities that are not rated by a national rating agency, if stipulated in their contract, and provided that the investment manager's internal credit rating on the security is equivalent to at least CCC- according to Standard and Poor's or Caa3 according to Moody's.
3. Debt obligations of non-United States governmental or quasi-governmental entities, these may be denominated in foreign currencies; obligations, including but not limited to bonds, notes or commercial paper with an investment grade [at least Baa or BBB] rating (unless otherwise approved by the Board) of any corporation organized outside of the United States. Currency transactions, including spot or cash basis currency transactions, forward contracts and buying or selling options or futures on foreign currencies, shall be permitted for the purposes of hedging foreign currency risk.
4. Collateralized obligations, including but not limited to mortgages, held in trust that; (1) are publicly traded and are registered by the SEC or other Self Regulatory Organization (SRO) and (2) have underlying collateral that is either an obligation of the United States government or else has a credit rating above or equal to BBB according to the Standard and Poor's rating system or Baa according to the Moody's investors rating system or their equivalent by a national rating agency approved by the Board (unless otherwise approved by the Board)."

A summary of PERA's investments at June 30, 2005 and its exposure to credit risk are as follows:

		% OF BOND PORTFOLIO
Government Bonds:		
	AAA	\$573,747,921
	AA	411,552
	AA-	9,546,069
	A	1,035,672
	A+	731,561
	BBB	22,847,715
	BBB+	7,053,951
	BBB-	18,379,546
	BB	9,458,875
	BB+	4,248,251
Government Agencies:		
	AAA	215,418,462
	AA-	508,682
	A+	1,684,956
	A-	1,344,248
	Not Rated	13,022,179
Municipal Agencies:		
	AAA	3,175,755
	AA	3,059,625
	AA-	1,029,382
	A+	1,343,281
Corporate Bonds:		
	AAA	41,526,489

NOTES TO FINANCIAL STATEMENTS

(continued)

		% OF BOND PORTFOLIO
Corporate Bonds (Continued):		
	AA	29,297,740
	AA+	1,676,664
	AA-	30,271,942
	A	92,761,394
	A+	55,605,255
	A-	104,011,956
	BBB+	82,309,056
	BBB	62,221,272
	BBB-	69,127,565
	BB	63,699,093
	BB-	44,230,535
	BB+	51,160,491
	B-	19,273,993
	B	15,913,833
	B+	27,440,184
	CCC+	550,660
	D	3,836,063
	Not Rated	15,053,997
Government MBS:		
	AAA	1,305,002,155
Commercial MBS:		
	AAA	71,064,627
	AA	2,473,013
	Not Rated	2,338,091
Asset Backed Securities:		
	AAA	142,676,827
	AA	4,350,580
	A	36,073,635
	A+	6,852
	BBB	16,334,813
	BB-	354,198
	B	1,438,545
	B-	416,338
	D	328,855
	Not Rated	15,744,659
Non government backed C.M.O		
	AAA	94,995,422
	A	7,258,131
	BB	3,646,413
	Not Rated	634,983
Index Linked Government Bonds:		
	AAA	62,248,420
		\$3,466,402,422
		100.00%

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

PERA's interest rate risk is controlled by the duration guidelines provided in the Investment Guidelines for each fixed income manager. The Investment Guidelines are attached to each investment managers contract, or Professional Services Agreement (PSA), with PERA. Duration is loosely defined as the dollar weighted average time to recover

NOTES TO FINANCIAL STATEMENTS

(continued)

all of principal in a fixed-income investment. For example, a “duration” of 4 years suggests a 1% increase in corresponding interest rates could cause a 4% decline in the market value of the portfolio. PERA’s fixed-income managers are typically limited to a duration of plus or minus 1 year or 20% of the duration of the applicable portfolio benchmark. Such limitations are contained in the Investment Guidelines of all fixed income managers.

A summary of PERA’s investments and their respective maturities at June 30, 2005 and its exposure to interest rate risk are as follows:

BOND CATEGORY	DURATION ¹ IN YEARS	PERCENTAGE OF BOND PORTFOLIO
Corporate Convertible Bonds	3.73	0.50%
Government Bonds	10.63	19.66%
Government Agencies	4.63	0.07%
Municipal Bonds	14.14	0.75%
Corporate Bonds	10.31	24.35%
Government MBS	16.01	38.13%
Commercial MBS	30.28	3.19%
Asset Backed Securities	13.1	7.28%
Non-Government Backed C.M.O.s	32.01	4.06%
Index Linked Government Bonds	8.61	2.01%
		100.00%

Concentration of Credit Risks — Concentration Risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. Investments in any one issuer that represent 5% or more of all total investments including components unit investments are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. PERA’s policy over concentration of credit risks are contained in each investment managers Investment Guidelines.

PERA did not have 5% or more in any one *investment* at June 30, 2005.

Foreign Currency Risk — Foreign *currency* risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

PERA’s investment managers responsible for investing in non-U.S. equities are benchmarked to an index that is half-hedged. The benchmark is contained in each investment manager’s Investment Guidelines, which are attached to each investment managers contract or Professional Services Agreement (PSA).

A half-hedged benchmark means half of the losses attributable to a decline in the value of local (the non-U.S. currencies) versus the U.S. Dollar will be experienced by the PERA portfolio. Therefore, there is an incentive for PERA’s investment managers of non-U.S. equities to hedge their local currency positions to the extent, in their expert opinion, a decline is likely to occur in a single currency in an amount that would significantly impact the value of the portfolio versus the half-hedged benchmark.

NOTE:

¹ *Weighted Average Maturity*

NOTES TO FINANCIAL STATEMENTS

(continued)

PERA's emerging markets (non-U.S. equity) mandate for non-developed countries is less than 4% of PERA's total combined-funds' assets. Since this portfolio is broadly diversified among many countries, the likelihood of a *decline* in the market value of a single local currency (the non-U.S. currency) or of several local currencies versus the U.S. dollar such that the impact on PERA's total assets is insignificant. For example, stocks in 1 local currency out of 20 would be 4%–8% of the mandate or 0.32% (\$33 million) of PERA's total assets in a worse case scenario assuming the value of the currency would decline to zero.

Below is a summary of the PERA's investments exposed to foreign currency risk by currency, their respective values at June 30, 2005, and their percentage of total investments.

Non-U.S. dollar denominated equity investments at June 30, 2005 are as follows:

CURRENCY	MARKET VALUE
Australian Dollar	\$ 42,347,301
Brazilian Real	23,034,499
Canadian Dollar	63,417,054
Swiss Franc	140,965,865
Danish Krone	12,143,636
Euro	723,087,170
British Pound Sterling	322,931,505
Hong Kong Dollar	41,282,164
Hungarian Forint	4,930,165
Indonesian Rupiah	7,442,965
New Israeli Shekel	7,658,751
Japanese Yen	467,442,944
South Korean Won	37,746,398
Mexican Peso	21,075,908
Malaysian Ringgit	3,565,711
Norwegian Krone	11,464,503
New Zealand Dollar	463,600
Philippine Peso	3,476,084
Polish Zloty	6,118,314
Swedish Krona	32,969,737
Singapore Dollar	27,106,565
Thai Baht	10,307,464
Turkish Lira	11,009,060
New Taiwan Dollar	17,588,494
South African Rand	27,782,932
	\$ 2,067,358,789

NOTES TO FINANCIAL STATEMENTS

(continued)

Foreign denominated deposits included in the Statement of Plan Net Assets (included in cash and cash equivalents) at June 30, 2005 are as follows:

CURRENCY	MARKET VALUE
Australian Dollar	\$ 12,512
Brazilian Real	10,915
British Pound Sterling	1,618,244
Canadian Dollar	1,536,671
Czech Koruna	2,997
Danish Krone	1,832
Euro	14,631,349
Hong Kong Dollar	852,489
Hungarian Forint	38,537
Indonesian Rupiah	86,232
Japanese Yen	5,439,126
Malaysian Ringgit	16,908
Mexican Peso	495,584
New Israeli Shekel	368,312
New Taiwan Dollar	211,018
Norwegian Krone	(6,510)
Singapore Dollar	21,576
South African Rand	116,756
Swedish Krona	206,971
Swiss Franc	27,704
Thai Baht	10,112
Turkish Lira	14,053
	<u>\$ 25,713,388</u>

NOTE:

For non-U.S. dollar currencies, a positive number represents market value of currency contracts to purchase foreign currency in excess of the market value currency contracts to purchase U.S. dollars with that currency. A negative number therefore represents the market value of contracts to sell foreign currency in excess of contracts to purchase that currency with U.S. dollars. The positive number for U.S. dollars represents the amount the market value of contracts to sell U.S. dollars to purchase foreign currency exceeds the value of contracts to purchase U.S. dollars by selling foreign currency.

5. DERIVATIVES

Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. The following provides information about derivatives held in the Funds' investment portfolio.

GOVERNMENT AGENCY MORTGAGE-BACKED SECURITIES

As of June 30, 2005, the Funds' investment portfolios, excluding securities lending collateral investments, included mortgage-backed securities issued by agencies of the United States government of \$1,305,002,155, at fair value. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the Funds will receive the full amount of principal if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment, is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to prepay the existing loan and obtain new lower financing. In addition to changes in interest rates, mortgage loan prepayments depend on other factors such as loan types and geographic location of the related properties.

CORPORATE ASSET-BACKED SECURITIES

As of June 30, 2005, the Funds' investment portfolio, excluding securities lending collateral investments, included corporate asset-backed securities with a fair value of approximately \$217,725,302. These securities represent interests in various trusts consisting of pooled financial assets conveyed by the issuing parties. The Funds' ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

FORWARD CURRENCY CONTRACTS

The Funds may enter into various currency contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. At June 30, 2005, the Funds had outstanding forward exchange currency contracts to purchase foreign currencies of approximately \$237,231,813 and to sell foreign currencies of approximately \$237,231,813. The market values of these outstanding contracts at June 30, 2005, were approximately \$237,228,154 and \$233,056,025, respectively. These contracts are not reflected in the statements of plan net assets. Gains and losses on forward currency may occur to the extent that the market value of the contracts varies from the actual contract amount and are recorded as incurred.

6. SECURITIES LENDING

Section 10-11-132 NMSA 1978 and Board policies permit PERA to use the Funds' investments to enter into securities lending transactions — loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Pursuant to the governing securities lending agreement, the securities lending agent may loan United States government and agency securities, international securities, domestic equity securities, and corporate obligations owned by the Funds in exchange for cash and securities issued or guaranteed by the United States government as collateral. Collateral for these loans is held by PERA's custodial agent and must be equal to a) 102% of the market value of the loaned securities in the case of loaned securities denominated in United States dollars or whose primary trading market is located in the United States or sovereign debt issued by foreign governments, or b) 105% in the case of loaned securities not denominated in United States dollars or whose primary trading market is not located in the United States. Securities on loan at year end are presented as uncategorized in the preceding schedule in Note 3. At June 30, 2005, the Funds have no credit risk exposure to borrowers because the amounts the Funds owe the borrowers exceed the amounts the borrowers owe the Funds. PERA may invest cash collateral received in eligible securities as defined

NOTES TO FINANCIAL STATEMENTS

(continued)

in the governing securities lending agreement; such investments are also held by PERA's custodial agent. Securities received as collateral may not be pledged or sold without borrower default. There are no restrictions on the amount of loans that the securities lending agent may make. The cash collateral received, including fees and expenses, and the fair value of investments made with such collateral as of June 30, 2005, were \$1,156,461.

The lending agent has indemnified PERA by agreeing to purchase replacement securities or return cash collateral in the event that a borrower fails to return a loaned security or pay distributions thereon. As of June 30, 2005, no such failures by any borrowers have occurred. Moreover, there were no losses during the fiscal year ended June 30, 2005, resulting from borrower default. PERA and the borrowers maintain the right to terminate all securities lending transactions on demand. Because the loans are terminable at will, their duration does not generally match the investments made with cash collateral.

7. CAPITAL ASSETS

A summary of capital assets at June 30, 2005, is as follows:

	BEGINNING BALANCE	ADDITIONS	DELETIONS	ENDING BALANCE
Property and Equipment	\$2,960,720	\$83,089	\$0	\$3,043,809
Computer Improvement Plan	1,715,185	0	0	1,715,185
	4,675,905	83,089	0	4,758,994
Accum Depr – Prop & Eq	(1,494,019)	\$(225,457)	0	(1,719,476)
Accum Depr – Comp Imprv	(1,706,326)	(7,161)	0	(1,713,487)
	(3,200,345)	(232,618)	0	(3,432,963)
TOTAL	\$1,475,560	\$(149,529)	\$0	\$1,326,031

8. COMPENSATED ABSENCES

The following represents changes in long-term liabilities for the year ended June 30, 2005.

	BALANCE JUNE 30, 2004	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2005
COMPENSATED ABSENCES	\$202,393	\$223,709	(202,393)	\$223,709

Management estimates that compensated absences are due within one year. The amount of compensated absences is calculated by multiplying the vested hours by the pay rate at year-end plus applicable payroll taxes.

9. CONTINGENCIES

PERA has been named as a defendant in various lawsuits arising in the normal course of business primarily related to disability and retirement benefits. Management of PERA intends to vigorously defend the actions, and it is their opinion as well as the opinion of legal counsel that the resolution of these matters will not have a material effect on these financial statements.

10. STATUTORY DISCLOSURES

The following disclosures are required by 2 NMAC 2.2, *Requirements for Contracting and Conducting Audits of Agencies*, issued by the Office of the State Auditor.

**BUDGETS AND BUDGETARY ACCOUNTING
(PUBLIC EMPLOYEES RETIREMENT FUND ONLY)**

Formal budgetary integration is employed as a management control device over the Public Employees Retirement Fund. Administrative expenses, rental income and a small portion of interest income are budgeted while significant revenues and non-administrative expenses are not. The budget is prepared on a budgetary, non-generally accepted accounting principles (“non-GAAP”) basis which recognizes encumbrances and capital expenditures as current expenditures, does not recognize depreciation expense, and recognizes revenue on the cash basis. Beginning with the 2005 fiscal year, the State changed its budgetary basis to match GAAP. For this transition year, prior year accruals and encumbrances are still reconciling items in the budgetary basis actual expenditures. Because all funds are budgeted from the PERA trust funds, there are no reversions to the State General Fund. All unexpended funds revert to the appropriate PERA fund. Formal budgets are not provided for the Judicial, Magistrate, or Volunteer Firefighters Retirement Funds.

PERA follows these procedures in establishing budgetary data for the Public Employees Retirement Fund:

1. By September 1, PERA prepares a budget appropriation request by category to be presented to the next state legislature.
2. The appropriation request is submitted to the Department of Finance and Administration (“DFA”) Budget Division and to the Legislative Finance Committee (“LFC”).
3. DFA makes recommendations and adjustments to the appropriation request, which becomes part of the Governor’s proposal to the Legislature.
4. The LFC holds hearings on the appropriation request, also making recommendations and adjustments before presentation to the Legislature.
5. Both the DFA and the LFC recommended appropriation proposals are presented to the Legislature for approval of the final budget plan.
6. Budgetary control is exercised at the category level and changes are approved by DFA.

A Statement of Revenues, Appropriations, and Expenses — Budget and Actual (Non-GAAP Basis) is included as additional information in this report.

NOTES TO FINANCIAL STATEMENTS

(continued)

RECONCILIATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) TO BUDGETARY BASIS (PUBLIC EMPLOYEES RETIREMENT FUND ONLY)

The following is a reconciliation of the net increase in net assets, GAAP basis, to budgetary basis for the year ended June 30, 2005:

Net increase in net assets, GAAP basis	\$831,327,369
Non-budget revenues	(1,160,649,975)
CY accrual – revenues	(41,722,085)
PY accrual – revenues	37,319,276
Benefit payments	427,084,483
Refunds to terminated employees	29,416,645
PY encumbrances paid in the CY	2,759,199
CY accounts payable	4,542,311
PY accounts payable	(7,321,331)
Expenditures capitalized	(83,089)
Depreciation expenses	233,493
Expenses allocated to other funds	(335,616)
NET INCREASE IN NET ASSETS, BUDGETARY BASIS	\$122,570,680

SPECIAL, DEFICIENCY, AND SPECIFIC APPROPRIATIONS (PUBLIC EMPLOYEES RETIREMENT FUND ONLY)

PERA received an appropriation of \$6,000,000 to purchase and implement a retirement membership information system (Chapter 5, Laws of 2000, Section 8, Item 5). This appropriation was extended through FY02. An additional \$2,000,000 was appropriated in Chapter 64, Laws of 2001, Section 8, Item 12 to be used in FY01 and FY02 for the retirement system. PERA budgeted \$509,200 and the entire amount was expended by the end of FY03. An additional pension system appropriation of \$5,022,300 was made in Chapter 4, Laws of 2002 and PERA had encumbered \$2,753,775 and expended \$1,259,423 at the end of FY03. During FY04, \$2,441,233 was expended and \$312,542 was remaining in an encumbrance. Another pension system appropriation of \$5,000,000 was authorized by Chapter 76, Laws of 2003, and during FY04 \$1,127,898 was expended and \$3,525,379 was encumbered. During FY05, a pension system appropriation of \$4,157,500 was authorized by Laws of 2005, Chapter 33 of which \$2,448,211 was expended, \$33,863 was encumbered but then cancelled, and \$1,675,426 was unencumbered. Prior year expenditures of \$3,550,496 were made on the pension system.

An emergency deficiency appropriation of \$107,400 was made with Chapter 76, Laws of 2003, of which \$39,082 was expended and \$68,318 remained encumbered. This appropriation was for building repairs such as water main, courtyard entrances and windows. During FY05, the remainder of \$68,318 was expended.

As the monies are appropriated from the Public Employees Retirement Fund, any unspent amounts do not revert to the State of New Mexico General Fund.

11. RETIREMENT PLANS

PLAN DESCRIPTION

Substantially all of the PERA's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). PERA is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries.

FUNDING POLICY

Plan members are required to contribute 7.42% of their gross salary. PERA is required to contribute 16.59% of the gross covered salary. The contribution requirements of plan members and PERA are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. PERA's contributions

to the PERA retirement plan for the years ending June 30, 2005, 2004, and 2003 were \$533,897, \$491,628, and \$470,008, respectively, equal to the amount of the required contributions for each year.

12. POST-EMPLOYMENT BENEFITS

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or the out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers consist of institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirement Act, Public Employees Retirement Act, Volunteer Fire Fighters' Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act.

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 Retiree Health Care Act on the person's behalf, unless that person retires before the NMHCRA effective date, in which event the time period for contributions becomes the time between employee's effective date, and the date of retirement; or (2) retirees defined by the Act who retired prior to July 1, 1990 and former legislators who served at least two years.

Each participating employer makes contributions to the Fund in the amount of 1.3% of each participating employee's annual salary. Each participating employee contributes to the Fund an employee contribution equal to .65% of the employee's annual salary. Each participating retiree pays a monthly premium of seventy-two dollars and sixty-five cents (\$72.65) for the basic single plan and five dollars (\$5.00) if the eligible participant retired prior to July 1, 1990 and made no contributions to the plan.

Contributions from participating employers and employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee, and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. This report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd, NE, Suite 104, Albuquerque, NM 87107.

For the fiscal year ended June 30, 2005, the PERA remitted \$41,836 in employer contributions and \$20,918 in employee contributions.

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Funding Progress

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL) ENTRY AGE	(3) UNFUNDED (EXCESS) AAL (UAAL) (2) - (1)	(4) FUNDED RATIOS (1)/(2)	(5) ANNUAL COVERED PAYROLL	(6) UAAL AS A % OF COVERED PAYROLL (3)/(5)
PUBLIC EMPLOYEES RETIREMENT FUND¹						
June 30, 1999	\$6,494,486,731	\$6,554,553,017	\$60,066,266	99.1	\$1,200,564,605	5.0%
June 30, 2000	7,527,280,315	7,118,974,671	(408,305,644)	106.0	1,253,305,021	—
June 30, 2001	8,308,210,019	7,883,446,910	(424,763,108)	105.4	1,318,274,517	—
June 30, 2002	8,769,234,201	8,505,930,677	(263,303,524)	103.1	1,396,209,000	—
June 30, 2003	8,976,907,804	9,223,602,484	246,695,680	97.3	1,437,357,206	17.2
June 30, 2004	9,275,675,773	9,973,754,952	698,079,179	93.0	1,499,069,439	46.6
June 30, 2005	10,008,511,489	10,920,967,242	912,455,753	91.6	1,607,838,716	56.8
JUDICIAL RETIREMENT FUND						
June 30, 1999	\$47,776,452	\$58,189,239	\$10,412,787	82.1	\$6,734,534	154.6%
June 30, 2000	54,726,003	63,315,547	8,589,544	86.4	6,754,084	127.2
June 30, 2001	59,522,634	70,604,089	11,081,455	84.3	7,059,793	157.0
June 30, 2002	61,686,378	75,958,498	14,272,120	81.2	7,507,013	190.1
June 30, 2003	65,223,266	85,951,596	20,728,330	75.9	8,575,202	241.7
June 30, 2004	66,208,769	87,620,154	21,411,385	75.6	9,074,078	236.0
June 30, 2005	68,780,617	87,175,211	18,394,594	78.9	9,882,659	186.1
MAGISTRATE RETIREMENT FUND						
June 30, 1999	\$23,368,704	\$21,644,891	\$(1,723,813)	108.0	\$3,263,639	—
June 30, 2000	27,097,375	23,737,784	(3,359,591)	114.2	3,485,366	—
June 30, 2001	30,258,095	26,685,280	(3,572,815)	113.4	3,650,670	—
June 30, 2002	32,039,588	28,959,427	(3,080,161)	110.6	3,996,832	—
June 30, 2003	29,629,462	29,078,050	(551,412)	101.9	3,081,850	—
June 30, 2004	30,071,628	30,194,583	122,955	99.6	3,002,422	4.1%
June 30, 2005	31,303,435	31,384,962	81,527	99.7	3,196,052	2.6%
VOLUNTEER FIREFIGHTERS RETIREMENT FUND²						
June 30, 1999	\$20,246,292	\$16,160,748	\$(4,085,544)	125.3	N/A	N/A
June 30, 2000	24,641,415	17,303,150	(7,338,265)	142.4	N/A	N/A
June 30, 2001	27,991,582	15,806,792	(12,184,790)	177.1	N/A	N/A
June 30, 2002	29,784,088	16,127,594	(13,656,494)	184.7	N/A	N/A
June 30, 2003	31,221,546	17,058,252	(14,163,294)	183.0	N/A	N/A
June 30, 2004	33,000,250	17,778,145	(15,222,105)	185.6	N/A	N/A
June 30, 2005	35,651,070	25,151,577	(10,499,493)	141.7	N/A	N/A

FINANCIAL SECTION

NOTES:

¹ Includes the Legislative Retirement Plan Data

² Volunteer Firefighters Retirement Fund benefits are not based on salary. Accordingly, payroll information has been excluded.

REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Contributions from Employers and Other Contributing Entities
 Year Ended June 30, 2005

FISCAL YEAR ENDED	PUBLIC EMPLOYEES RETIREMENT FUND		JUDICIAL RETIREMENT FUND	
	ANNUAL REQUIRED CONTRIBUTION	% CONTRIBUTED	ANNUAL REQUIRED CONTRIBUTION	% CONTRIBUTED
June 30, 1999	\$174,324,519	100.0 %	2,374,190	86.2%
June 30, 2000	182,000,473	100.0	2,682,454	79.0
June 30, 2001	196,544,110	100.0	2,342,478	92.2
June 30, 2002	204,734,125	100.0	2,737,126	74.9
June 30, 2003	213,712,566	100.0	2,812,687	75.3
June 30, 2004	206,835,702	100.0	3,720,692	69.7
June 30, 2005	219,163,952	100.0	3,995,583	82.0

FISCAL YEAR ENDED	MAGISTRATE RETIREMENT FUND		VOLUNTEER FIREFIGHTERS RETIREMENT FUND ¹	
	ANNUAL REQUIRED CONTRIBUTION	% CONTRIBUTED	ANNUAL REQUIRED CONTRIBUTION	% CONTRIBUTED ²
June 30, 1999	803,083	134.2%	1,907,000 – 3,266,000	30.6%
June 30, 2000	750,572	125.2	1,867,000 – 3,346,000	37.4
June 30, 2001	730,852	175.5	1,788,000 – 3,385,000	29.5
June 30, 2002	778,882	147.1	51,000 – 953,000	52.5
June 30, 2003	881,229	129.7	0 – 653,000	114.9
June 30, 2004	894,349	87.1	0 – 680,000	110.3
June 30, 2005	927,233	100.8	0 – 565,000	132.7

NOTES:

¹ Contributions are appropriated from the Fire Protection Fund

² Using the high end of the range for the calculation

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 Year Ended June 30, 2005

	PUBLIC EMPLOYEES RETIREMENT FUND	JUDICIAL RETIREMENT FUND	MAGISTRATE RETIREMENT FUND	VOLUNTEER FIREFIGHTERS RETIREMENT FUND
Valuation date	June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005
Actuarial cost method	Entry age	Entry age	Entry age	Unit credit cost
Amortization method	Level percent open	Level percent open	Level percent open	Level dollar open
Amortization period	21 years	30 years	30 years	30 years ¹
Asset valuation method	Smoothed market 4 years	Smoothed market 4 years	Smoothed market 4 years	Smoothed market 4 years
Rate of return on investment of present and future assets ²	8 %	8 %	8 %	8 %
Inflation increase	4.5 %	5 %	5 %	5 %
Post retirement benefit increases	3 %	3 %	3 %	N/A ³
Projected salary increases ²	4.5 – 19 %	5 %	5 %	N/A ³

NOTES:

¹ Assets currently exceed actuarial accrued liabilities. The excess was amortized over 30 years and applied as a credit to determine the required contribution.

² Includes inflation

³ Benefits are not based on salary and are not subject to cost of living increases.

SCHEDULE OF REVENUES, APPROPRIATIONS, AND EXPENSES
 BUDGET AND ACTUAL (NON-GAAP)
 PERA FUND ONLY
 For the Year Ended June 30, 2005

	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND APPROPRIATIONS OTHER STATE FUNDS				
Interest Income	27,174,180	27,405,380	147,299,689	119,894,309
Rental Income	1,641,300	1,641,300	2,160,694	519,394
TOTAL REVENUE AND APPROPRIATIONS	28,815,480	29,046,680	149,460,383	120,413,703
EXPENDITURES				
Administration:				
Contractual services	22,182,400	22,222,700	20,666,748	1,555,952
Personal services/benefits	3,780,310	3,896,110	3,874,812	21,298
Other operating costs	1,367,670	1,286,570	1,069,817	216,753
SUBTOTAL ADMINISTRATION DIVISION EXPENSES	27,330,380	27,405,380	25,611,377	1,794,003
Maintenance Division:				
Contractual services	65,000	65,000	24,725	40,275
Personal services/benefits	644,100	650,700	648,855	1,845
Other operating costs	776,000	925,600	604,746	320,854
SUBTOTAL MAINTENANCE DIVISION EXPENSES	1,485,100	1,641,300	1,278,326	362,974
TOTAL EXPENSES	28,815,480	29,046,680	26,889,703	2,156,977
NET INCREASE IN NET ASSETS, BUDGETARY BASIS	-	-	122,570,680	122,570,680

SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES

For Year Ended June 30, 2005

INVESTMENT EXPENSES

Investment Managers	20,288,438
Custodian Fees	1,176,682
Consultant Fees	257,268

TOTAL INVESTMENT EXPENSES	21,722,388
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OTHER CONTRACTUAL SERVICES

Medical Services	35,747
Actuarial Services	90,500
Pension System Requirements – LR Wechsler	787,016
Pension System – Covansys	4,961,421
Pension System – Fermin Montoya	120,787
Audit	65,283
Legal Fees	35,183
Misc. Contractual Services	513,783
Miscellaneous Other (F/A)	
Reclass to Fixed Assets	
Allocation of Expense	(307,153)

TOTAL OTHER CONTRACTUAL SERVICES	6,302,567
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OTHER ADMINISTRATIVE SERVICES

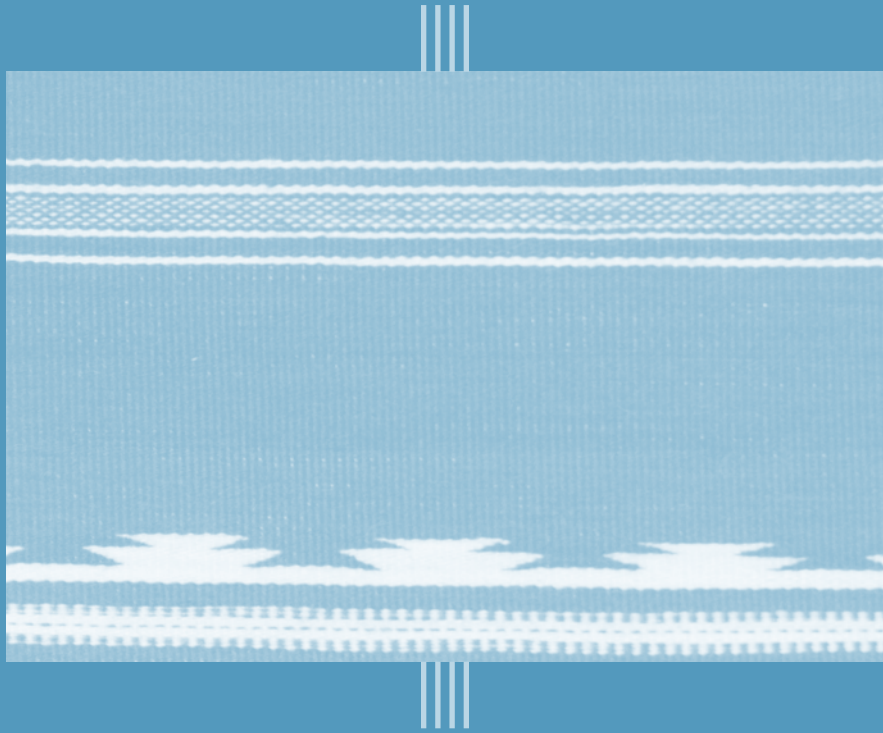
Personal services/benefits	3,880,570
Other operating costs	1,027,745
Other financial uses	–
Loss on disposal of assets	–
Depreciation	221,349

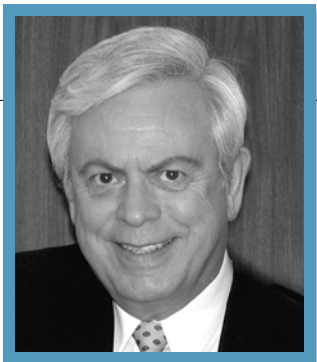
TOTAL OTHER ADMINISTRATIVE EXPENSES	5,129,664
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TOTAL ADMINISTRATIVE EXPENSES	11,432,231
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TOTAL INVESTMENT & ADMINISTRATIVE EXPENSES	33,154,619
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“Fiscal year ’05 was the second fiscal year since fiscal year ’00 that the return on the funds exceeded the 8% target...”

– Robert E. Gish, Director of Investments

October 15, 2005

Members and Retirees of NM PERA:

In spite of general expectations for the last two years for stock market returns to be reduced to low single digit levels, PERA's target benchmark returns as measured by the Russell 3000 Index were 8.05% for the year ending June 30, 2005 and 20.46% for June 30, 2004. PERA's actual U.S. stock returns were 8.9% and 21.38%, respectively, outperforming the benchmark 85 basis points and 92 basis points for each period. Including PERA's returns on non-U.S. stocks of 16.69% and 30.82% for the past two fiscal years, PERA's combined stock returns were 11.10% and 23.72%, well above consensus predictions made after the stock market decline that began in 2000 and did not end until March, 2003. Including fixed-income (bond) returns of 7.57% for fiscal year '05 and a meager 1.23% in fiscal year '04, PERA's total funds' returns were 9.85% for fiscal year '05 and 15.55% for fiscal year '04, well above the long-term actuarial assumed rate of return of 8% required to meet PERA's long-term pension obligations to members.

Fiscal year '05 was the second fiscal year since fiscal year '00 that the return on the funds exceeded the 8% target which is necessary to pay retirement benefits to members and retirees over the long-term.

PERA's total fund return of 9.85% was 112 basis points (1.12%) greater than PERA's investment policy target return of 8.73% for the fiscal year ending June 30. This placed PERA's investment performance in the 27th percentile of the Callan database of large public pension plans for the period. Callan Associates, Inc., is PERA's investment consultant. Following the worst three years of stock market performance since 1929-32, PERA's combined funds annualized returns for five-year and ten-year periods, +4.82% and +10.33%, respectively, ranked in the upper 17th and 3rd percentiles, respectively.

After reducing its allocations to stocks in fiscal year '00, PERA returned to its long-term stock allocation targets during the 2nd quarter of 2003 and participated in the rise in stock prices that occurred since that time, exceeding both its U.S. and non-U.S. stock benchmarks. Because much of the corpus of the fund was preserved during the years from 2000 through 2002, total assets reached an all-time fiscal year-end high of \$10.22 billion on June 30, 2005, almost \$2 billion, or 25% greater than assets were on June 30, 2000.

Although the recovery of the U.S. economy appears weak compared to all prior post WWII recoveries from recession, the economy and stock markets have recovered considerably from their post 9/11 lows, even in the midst of the Iraq War and the devastating hurricanes of 2005. Accordingly, PERA will continue to maintain an optimized portfolio of diversified investments to maximize return with acceptable levels of risk to achieve its long-term goals.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert E. Gish".

Robert E. Gish
Director of Investments

THE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION INVESTMENT PLAN SUMMARY

GENERAL OBJECTIVES OF THE PLAN

PERA's overall objective is to provide adequate retirement and death benefits to its beneficiaries through the investment of contributions and other PERA assets, in a manner designed to maintain adequate funding of the liabilities over time. The general investment objective is to obtain a reasonable long-term total return consistent with the degree of risk assumed.

The Board, in investing PERA assets according to the Plan, acts with the care, skill, prudence and diligence of the "prudent man" stipulation. Further, all transactions undertaken on behalf of PERA are for the sole benefit of the beneficiaries.

INVESTMENT CONSULTANT

The Board utilizes the services of an investment management consultant for the purpose of performance review, asset allocation studies, manager screening and selection, and topical studies. The comments and recommendations of the consultant are considered by the Board in conjunction with other available information for the purpose of making informed and prudent decisions.

PROFESSIONAL INVESTMENT MANAGERS

Professional investment managers are retained by PERA to assist in managing PERA's assets. Investments are sufficiently diversified to minimize the risk of large losses. Each investment manager must be a registered adviser under the Investment Advisers Act of 1940 (or appropriately exempt from registration) and functions under a formal contract that delineates the manager's responsibilities and appropriate performance expectations. A formal set of investment guidelines and administrative requirements for management of each portfolio is to be provided to each manager. Normally, the Board reviews the investment performance of these managers against their stated objectives at least quarterly. As part of the review of performance, the Board meets with managers no less than annually. The individual managers are judged according to benchmarks that reflect the objectives and characteristics of the strategic role their portfolio is to fulfill. Investment managers must act in accordance with PERA's Investment Plan and applicable State and federal statutes.

PERA's external managers are delegated responsibility for purchases and sales, investment selection and implementation of investment strategies, subject to compliance with PERA's Investment Plan and applicable State and federal statutes. Each manager operates under a set of guidelines specific to the strategic role its portfolio is to fulfill in the overall investment structure.

PROHIBITIONS

The following transactions are prohibited: purchase of non-negotiable securities, short sales, transactions on margin, straddles, options and futures (except currency futures options and forward contracts are authorized pursuant to Section 10-11-132(F), NMSA 1978, for purposes of hedging foreign currency exposure only and not for speculation or leverage.)

Transactions that involve a broker acting as a "principal" where such broker is also the investment manager who is making the transaction are prohibited.

Investments will not be made to the detriment of long term investment results regardless of the apparent rationale for social good or the immediate needs of the local, state or national economy.

No investment or action relating to an investment may be taken unless permitted by this Plan or by action of the Board.

THE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
INVESTMENT PLAN SUMMARY

(continued)

ASSET ALLOCATIONS

Asset allocation is the single largest contributor to the Plan's return and risk. Based on the factors identified in the Investment Plan, the Board has established strategic asset allocation targets and ranges for domestic equities, international equities, fixed income instruments and cash or cash equivalents on a market value basis. Ranges for each asset class are included in the Asset Allocation Plan to provide the Board with the flexibility to take advantage of market opportunities.

The Long-term Asset Allocation Plan below was adopted by the Board on October 31, 2003 in accordance with the requirements of IIB (3) of this Plan.

ASSET CLASSES	TARGET	MINIMUM	MAXIMUM
Long-Term Asset Allocation Plan:			
Domestic Equities	42%	33%	51%
International Equities	18%	13%	23%
Fixed Income	40%	35% ¹	45% ¹
Cash Equivalents	0%	0%	5% ¹
TOTAL	100%		

The allocation of assets among various asset classes is approved by the Board and is predicated on factors such as (1) the historical performance of capital markets adjusted for the perception of the future short and long term market performance, (2) the correlation of returns among the relevant asset classes, (3) the projected liability stream of benefits and the costs of funding to both covered employees and employers and (4) the relationship between the current and projected assets and the projected actuarial liability stream.

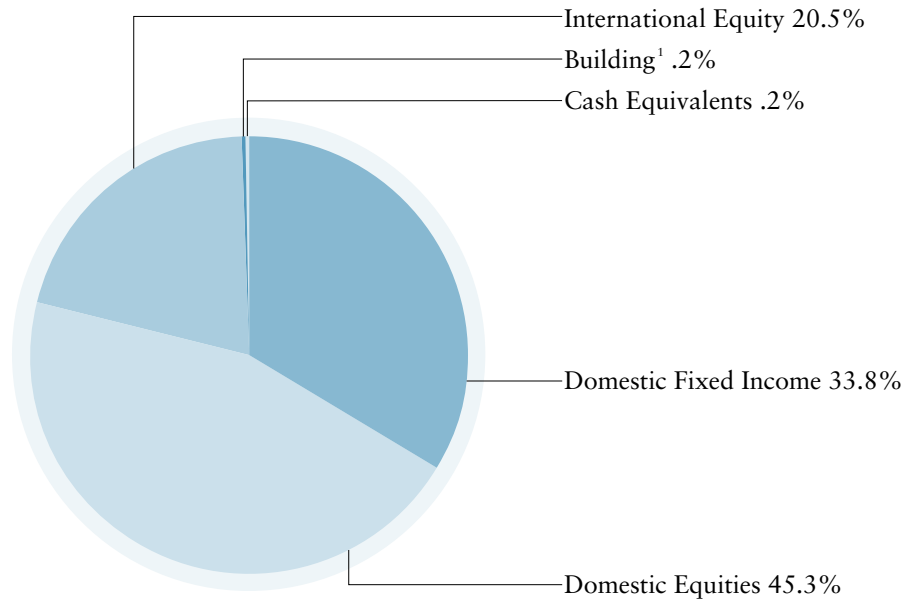
The Plan assigns the target allocation to the classes of assets PERA can utilize and the ranges within which each can fluctuate as a percent of the total portfolio. This is expected to provide diversification of assets in an effort to maximize the investment return to PERA consistent with prudent market and economic risk. PERA assets are fully invested at all times in either cash equivalents or other asset classes as designated by the Plan.

NOTE:

¹ Regardless of the allocation limits to U.S. and non-U.S. equities, allocations to Fixed-Income and Cash Equivalents combined shall not be less than 35% and allocations to Fixed-Income and Cash Equivalents combined shall not exceed 50%.

ASSET ALLOCATION

June 30, 2005



FISCAL YEAR ENDED JUNE 30

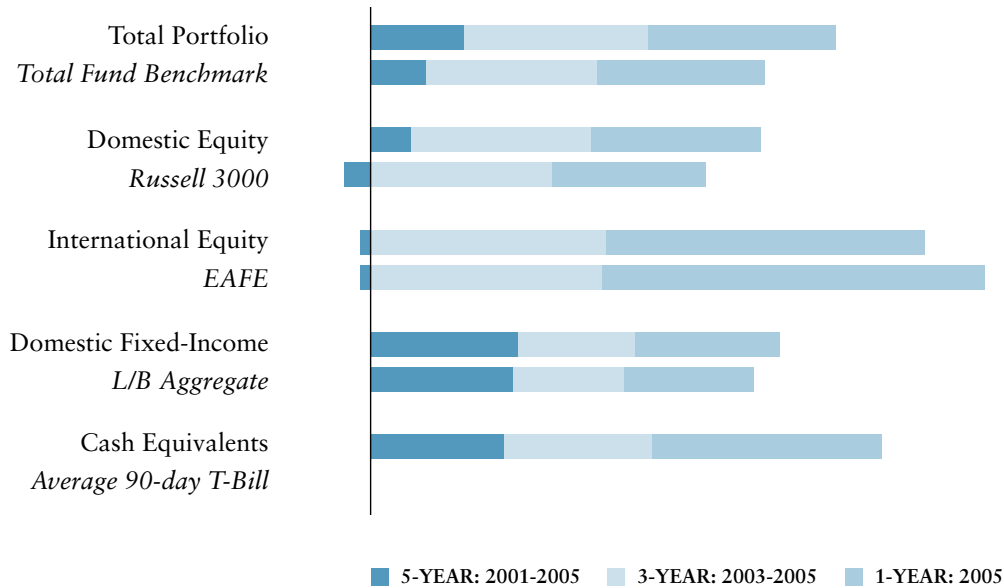
	2005	2004	2003	2002	2001	2000	1999
Domestic Fixed Income	33.75%	34.43%	35.91%	43.15%	41.27%	35.58%	35.81%
Domestic Equities	45.33%	46.48%	49.97%	36.16%	43.95%	37.18%	48.60%
International Equity	20.48%	18.21%	13.61%	15.18%	14.24%	17.86%	12.52%
Building ¹	0.23%	0.16%	0.19%	0.19%	0.19%	0.18%	0.16%
Cash Equivalents	0.21%	0.72%	0.32%	5.32%	0.35%	9.20%	2.91%
TOTAL PORTFOLIO	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

NOTE:

¹ Although PERA does not invest in real estate, the agency owns a building in Santa Fe which houses PERA offices as well as offices leased by other state agencies.

COMPARATIVE INVESTMENT RESULTS
Fiscal Year Ended June 30, 2005¹

COMPARATIVE INVESTMENT RESULTS



INVESTMENT CATEGORY <i>Benchmark</i>	1-YEAR 2005	3-YEAR 2003-2005	5-YEAR 2001-2005
Total Portfolio <i>Total Fund Benchmark</i> ²	9.85%	9.61%	4.82%
Domestic Equity <i>Russell 3000</i>	8.90%	9.38%	2.08%
International Equity <i>EAFE</i>	16.69%	12.25%	-0.54%
Domestic Fixed-Income <i>L/B Aggregate</i>	7.57%	6.12%	7.64%
Cash Equivalents <i>Average 90-day T-Bill</i>	12.03%	7.74%	6.90%
	0.00%	0.00%	0.00%

NOTES:

¹ Calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

² Total Fund Benchmark — 42% Russell 3000, 18% EAFE, 40% Lehman Aggregate

INVESTMENT SUMMARY AT FAIR VALUE

June 30, 2005

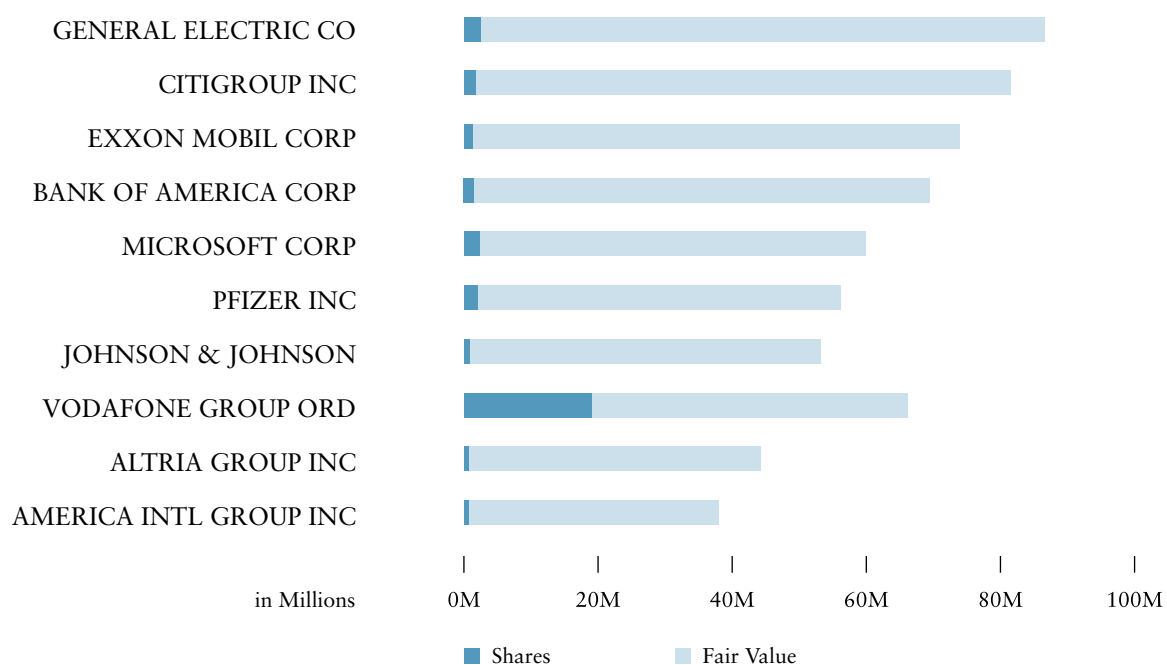
TYPE OF INVESTMENT	FAIR VALUE	% OF TOTAL FAIR VALUE
Domestic Equity:		
Large Cap	\$3,495,224,165	34.12%
Small/Mid Cap	1,147,947,502	11.21%
TOTAL DOMESTIC EQUITY	4,643,171,667	45.33%
Domestic Fixed Income	3,456,628,450	33.75%
International Equity	2,098,197,069	20.48%
Cash Equivalents	313,320	0.00%
TOTAL BEFORE OTHER INVESTMENTS	10,198,310,506	99.56%
Building	23,500,000	0.23%
Cash in State Treasury	21,512,142	0.21%
TOTAL INVESTMENTS	\$10,243,322,648¹	100.00%

NOTE:

¹ This total includes cash and equivalents, accrued investment income, broker receivables and payables, securities lending liabilities, and cash timing differences between financial statements and investment reports.

LIST OF LARGEST ASSETS HELD
June 30, 2005

TEN LARGEST STOCK HOLDINGS



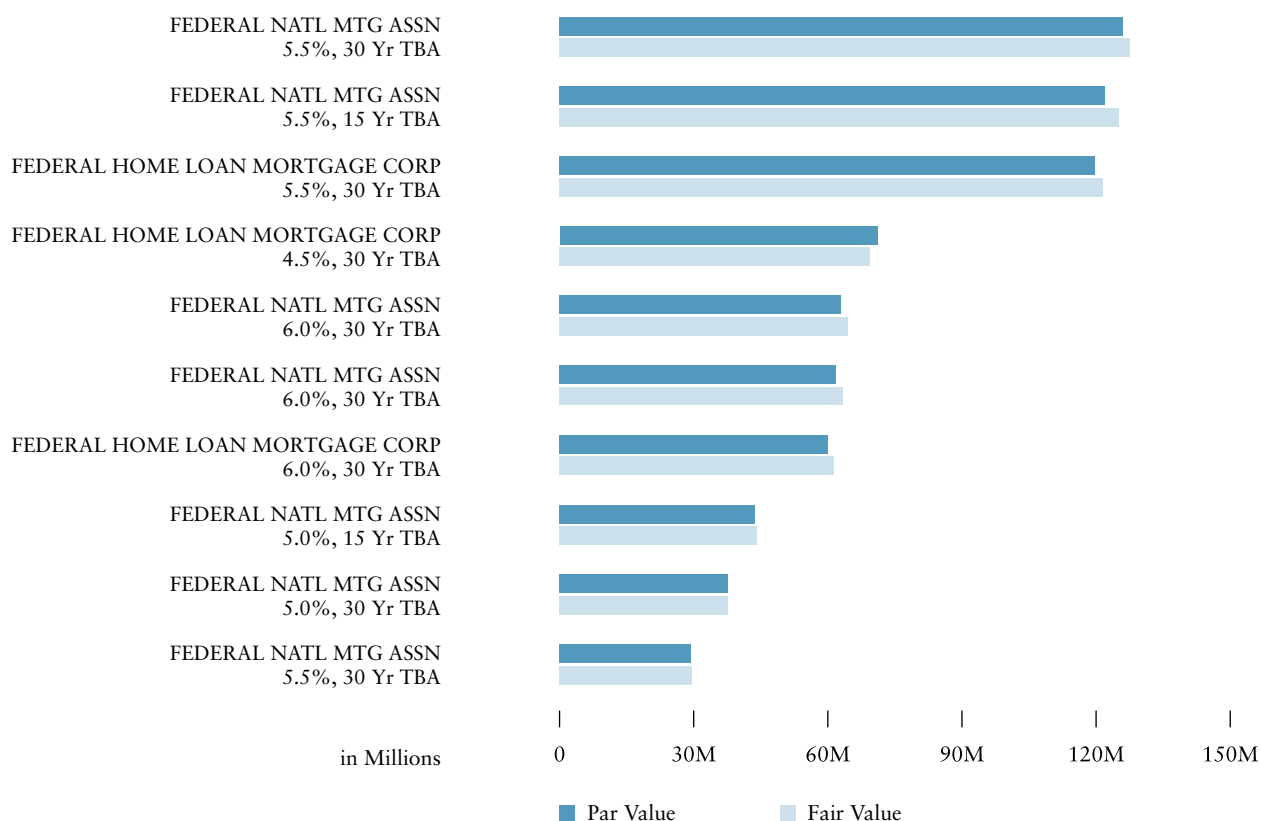
TEN LARGEST STOCK HOLDINGS	SHARES	FAIR VALUE
GENERAL ELECTRIC CO	2,417,600	84,193,868.00
CITIGROUP INC	1,728,196	79,894,501.08
EXXON MOBIL CORP	1,266,042	72,759,433.74
BANK OF AMERICA CORP	1,491,246	68,015,730.06
MICROSOFT CORP	2,318,600	57,594,024.00
PFIZER INC	1,963,990	54,166,844.20
JOHNSON & JOHNSON	807,162	52,465,530.00
VODAFONE GROUP ORD	19,029,047	47,179,384.35
ALTRIA GROUP INC	688,240	43,623,980.10
AMERICAN INTL GROUP INC	644,038	37,418,607.80

LIST OF LARGEST ASSETS HELD

June 30, 2005

(continued)

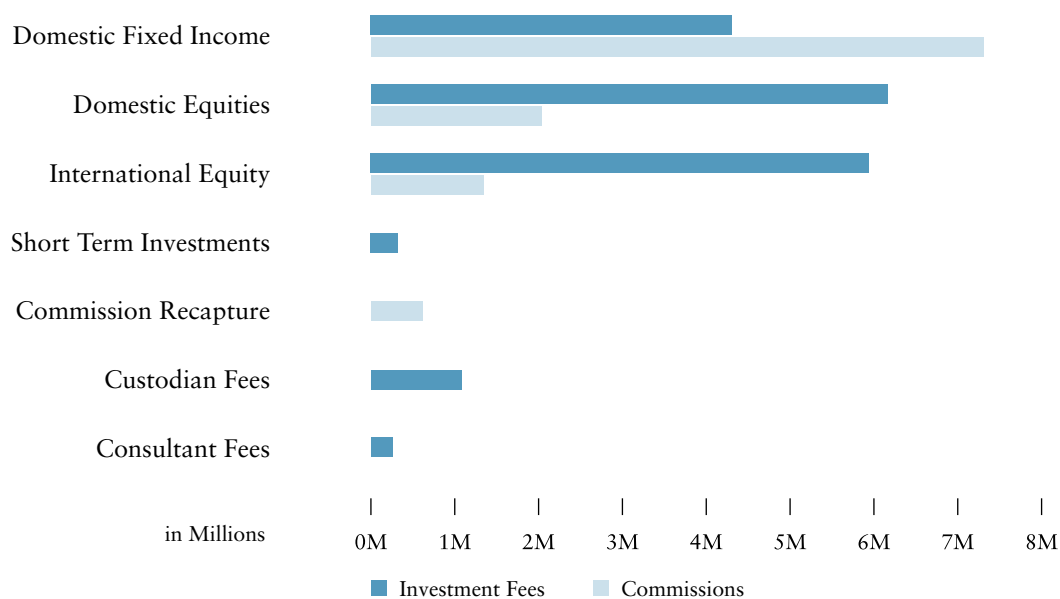
TEN LARGEST BOND HOLDINGS



TEN LARGEST BOND HOLDINGS	PAR VALUE	FAIR VALUE
FEDERAL NATL MTG ASSN, 5.5%, 30 Yr TBA	125,962,000	127,654,677.36
FEDERAL NATL MTG ASSN, 5.5%, 15 Yr TBA	122,000,000	125,050,000.00
FEDERAL HOME LOAN MORTGAGE CORP, 5.5%, 30 Yr TBA	119,800,000	121,447,250.00
FEDERAL HOME LOAN MORTGAGE CORP, 4.5%, 30 Yr TBA	71,100,000	69,456,168.00
FEDERAL NATL MTG ASSN, 6.0%, 30 Yr TBA	63,000,000	64,515,906.00
FEDERAL NATL MTG ASSN, 6.0%, 30 Yr TBA	61,798,000	63,342,950.00
FEDERAL HOME LOAN MORTGAGE CORP, 6.0%, 30 Yr TBA	60,000,000	61,462,500.00
FEDERAL NATL MTG ASSN, 5.0%, 15 Yr TBA	43,700,000	44,123,365.60
FEDERAL NATL MTG ASSN, 5.0%, 30 Yr TBA	37,600,000	37,600,000.00
FEDERAL NATL MTG ASSN, 5.5%, 30 Yr TBA	29,300,000	29,647,938.00

SCHEDULE OF INVESTMENT FEES AND COMMISSIONS
For Year Ended June 30, 2005

INVESTMENT FEES AND COMMISSIONS



	INVESTMENT FEES	COMMISSIONS
Domestic Fixed Income	\$4,307,695	7,308,192 ¹
Domestic Equities	6,160,092	2,033,000
International Equity	5,941,234	1,341,000
Short Term Investments	322,133	-
Commission Recapture		(611,905)
TOTAL	\$16,731,154	\$10,070,287
Custodian Fees	1,079,009	N/A
Consultant Fees	255,395	N/A
TOTAL	\$18,065,558	10,070,287

NOTE:

¹ Estimated



**Public Employees
Retirement Association**
of New Mexico







**Public Employees
Retirement Association**
of New Mexico



GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

One Towne Square • Suite 800 • Southfield, Michigan 48076 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

December 23, 2005

Board of Trustees
 Public Employees Retirement Association of New Mexico
 1120 Paseo De Peralta
 Santa Fe, New Mexico 87504-2123

Attention: Mr. Terry Slattery, Executive Director

Re: Actuarial Valuation as of June 30, 2005

Dear Board Members:

The basic financial objective of the Public Employees Retirement Association of New Mexico (PERA) is to establish and receive contributions which, when expressed in terms of percents of active member payroll, will remain approximately level from generation to generation. Also which, when combined with present assets and future investment return, will be sufficient to meet the present and future financial obligations of PERA.

In order to measure progress toward this fundamental objective, PERA has an actuarial valuation performed each year. The valuations (i) measure present financial position, and (ii) determine if the statutory contribution rates are sufficient to meet the Board's established funding objective of providing for the current cost and level percent of payroll amortization of unfunded actuarial accrued liability over a period not to exceed 30 years. The latest valuation, performed as of June 0, 2005, indicates that the statutory contribution rates for benefits, meet the basic financial objective for PERA, in aggregate.

The statutory employer and employee contribution rates are:

State General Division	24.01%
State Police/Corrections Division	32.40
Municipal General Division	21.41
Municipal Police Division	33.50
Municipal Fire Division	37.07

The actuarial valuation of the system benefits is based upon financial and participant data, which is prepared by the Retirement System staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, and disability among PERA members and their beneficiaries.

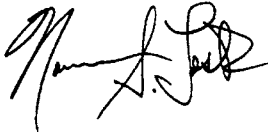
The data is reviewed by us for internal and year-to-year consistency and general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. Several inconsistencies with the data provided this year compared to prior years' data were identified. System staff is continuing to work to resolve these inconsistencies.

The assumptions were adopted by the Board of Trustees pursuant to an experience study for the four-year period ending June 30, 2004. Assets are valued according to a method that fully recognizes expected investment return and averages unanticipated market return over a four-year period. The assumptions and methods utilized in this valuations, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

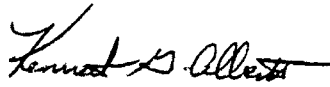
We have provided some of the information used in the schedules of Active Member Valuation Data, Retirants and Beneficiaries, Analysis of Financial Experience, the Solvency Test for System benefits that is found in the Actuarial Section, the Schedule of Funding Progress and the Schedule of Required Contributions in the Financial Section.

Based upon the results of the valuation of the system benefits, it is our opinion that the Public Employees Retirement Association of New Mexico continues to be in sound condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,



Norma S. Losk, F.S.A.
Senior Consultant



Kenneth G. Alberts
Actuarial Consultant

KGA/bd

SUMMARY OF ASSUMPTIONS AND METHODS

As of June 30, 2005

The method used for the PERA valuation is called the individual entry-age actuarial cost method, and it has the following characteristics:

- The annual normal costs for each individual active member are sufficient to accumulate the value of the member's pension at time of retirement.
- Each annual normal cost is a constant percentage of the member's year by year projected pensionable compensation.

The individual entry-age actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's pensionable compensation between the entry age of the member and the pattern of projected exit ages.

The portion of the actuarial present value allocated to the valuation year is called the normal cost. The portion of the actuarial present value not provided for by the actuarial present value of future normal costs is called the actuarial accrued liability. Deducting accrued assets from the actuarial accrued liability determines the unfunded actuarial accrued liability (UAAL). The period of time needed to finance the unfunded actuarial accrued liability with current statutory contribution rates is determined using a level percent of payroll amortization technique.

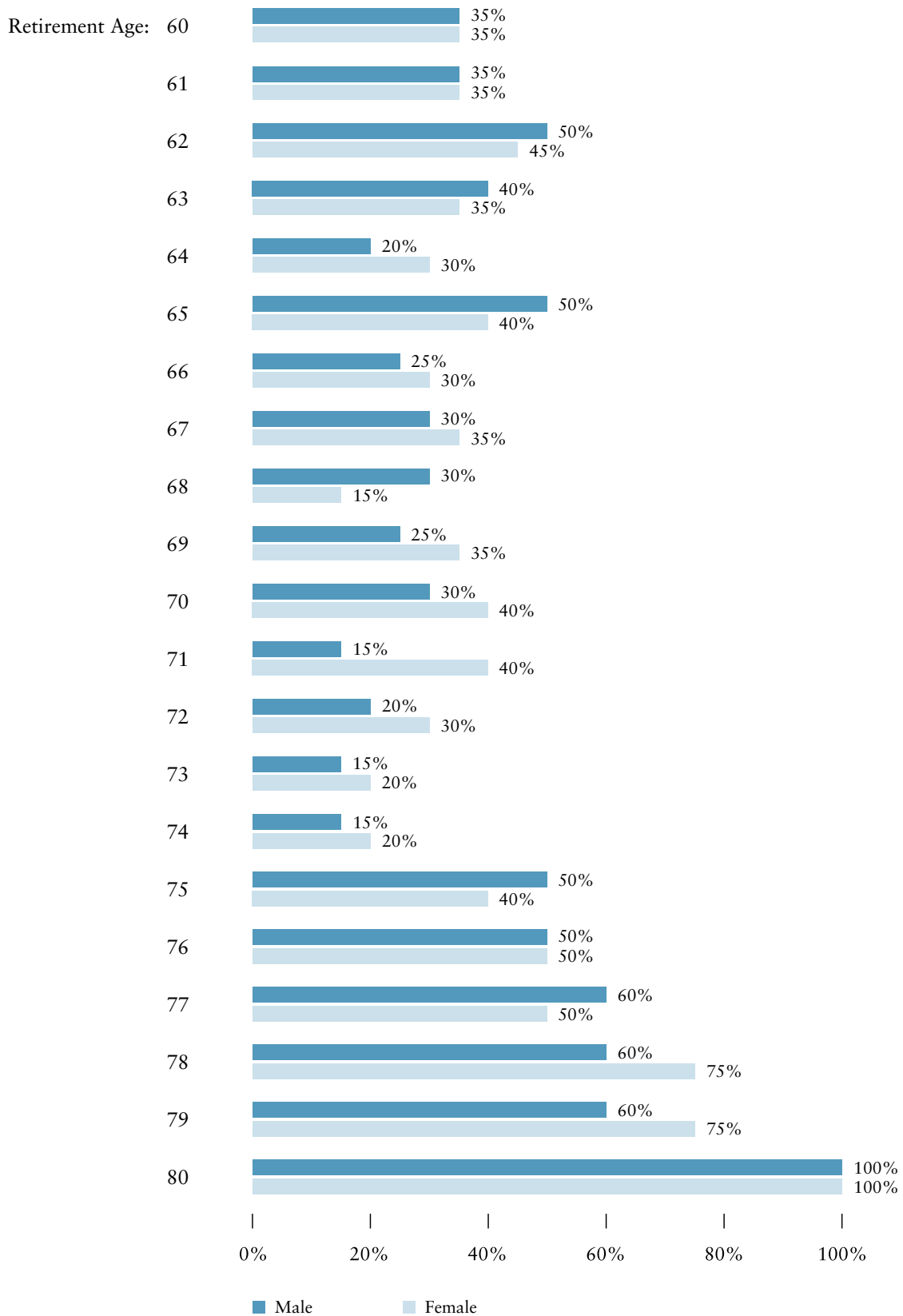
Assumptions used by the professional actuaries in valuing PERA's actuarial position were adopted by the PERA Board based on recommendations from the actuary on September 27, 2001. Plan assets are valued on a market related basis for purposes of the actuarial valuation. The 2000 Group Annuity Mortality table (1971 GAM projected), set back 2 years for healthy men and 7 years for healthy women. A special table reflects disabled person's mortality.

In addition, the following assumptions were used in calculating the actuarial liability:

- Active member payroll in the PERA fund was projected to increase 4% per year due to inflation and .5% per year due to other factors such as productivity. Other projected salary increases of up to 10% per year are attributed to seniority and merit.
- Benefit payments are increased by cost of living adjustments of 3% per year for those retirees who have been retired for two full-calendar years.
- Rate of return on the investment of present and future assets of 8% per year compounded annually, is made up of a 4.5% assumed inflation rate and a 3.5% assumed real rate of return.
- Other assumptions in the following tables and schedules (see following pages):
 - Rates of Retirement
 - Rate of Separation from Active Membership
 - Rates of Disability
 - Member and Employer Contribution Rates

RATE OF RETIREMENT

STATE GENERAL

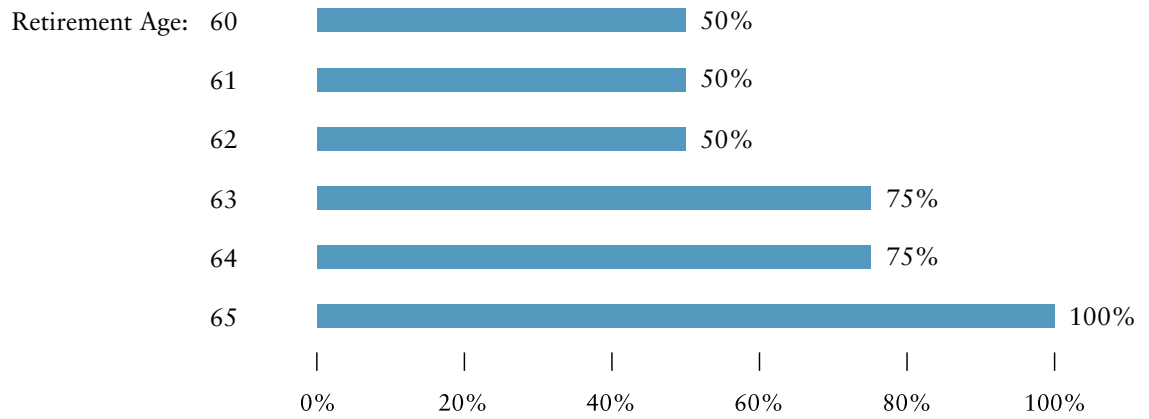


ACTUARIAL SECTION

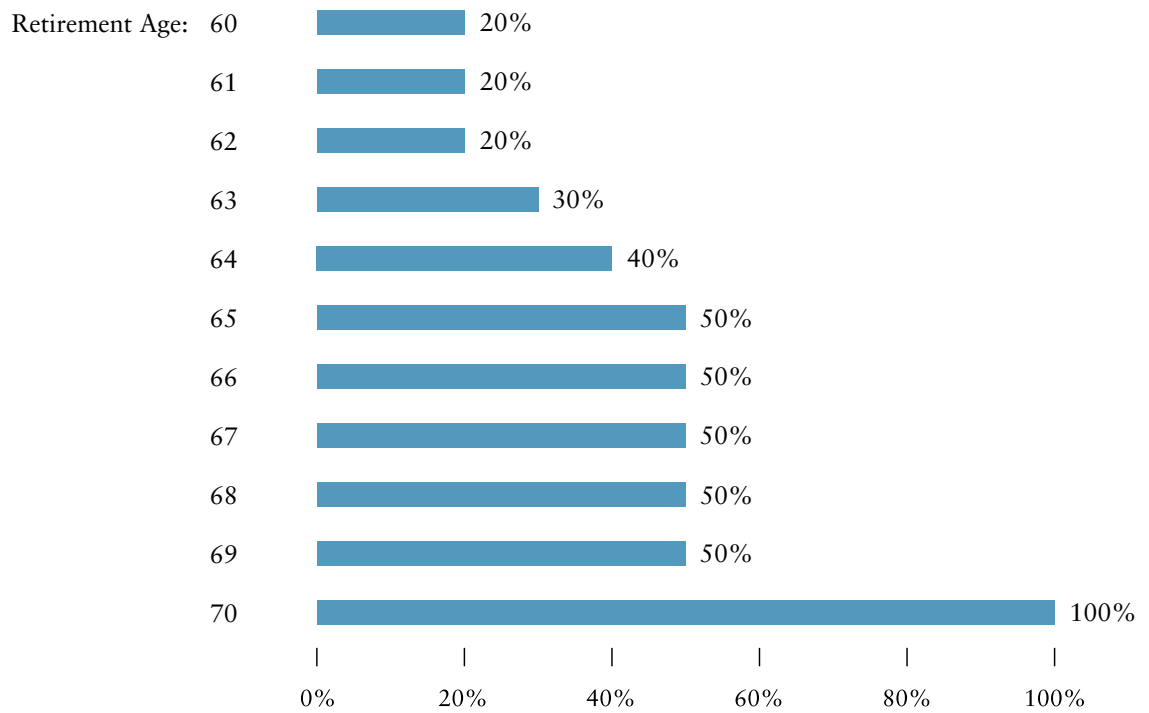
RATE OF RETIREMENT

(continued)

STATE POLICE



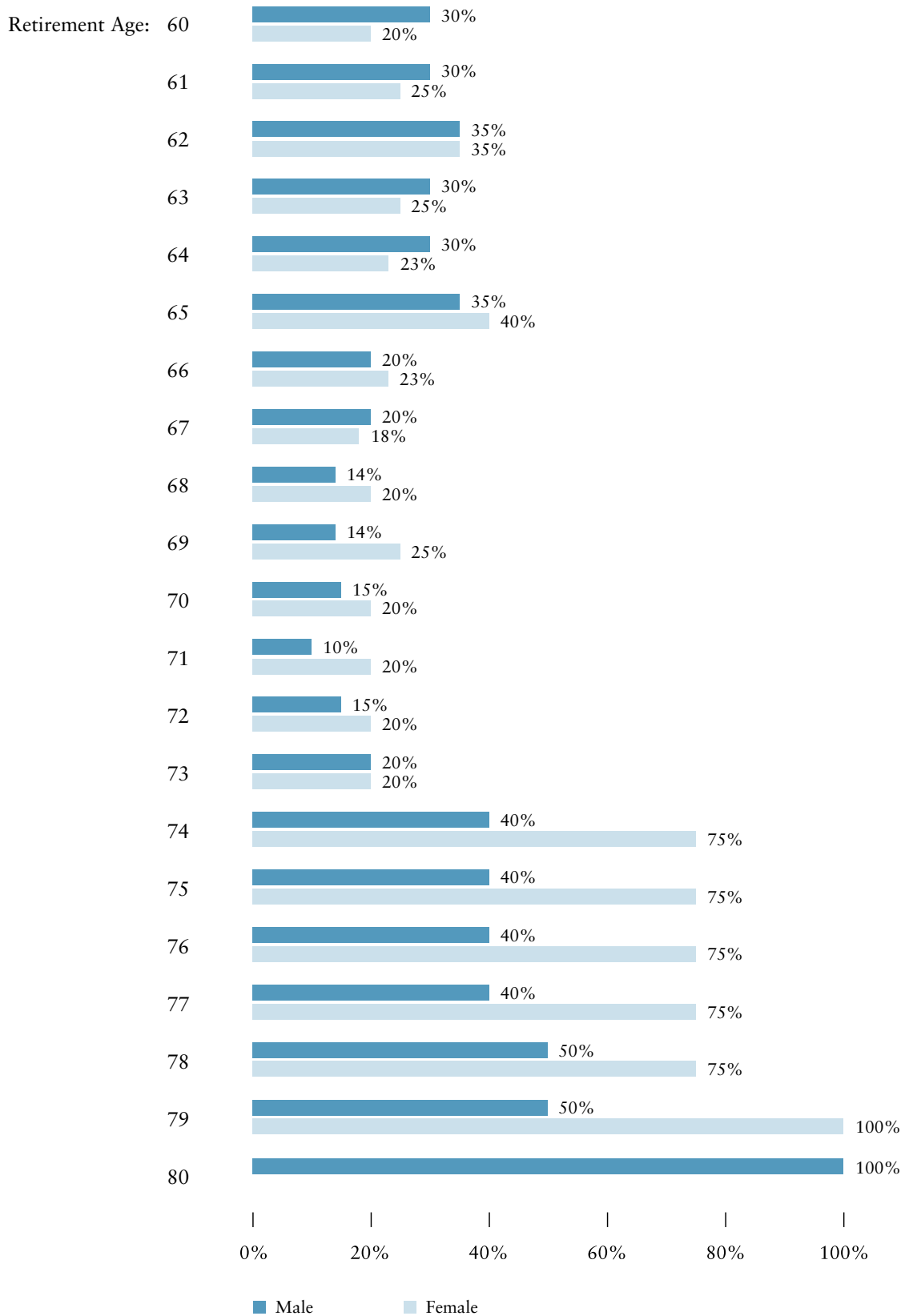
STATE CORRECTIONS



RATE OF RETIREMENT

(continued)

MUNICIPAL GENERAL

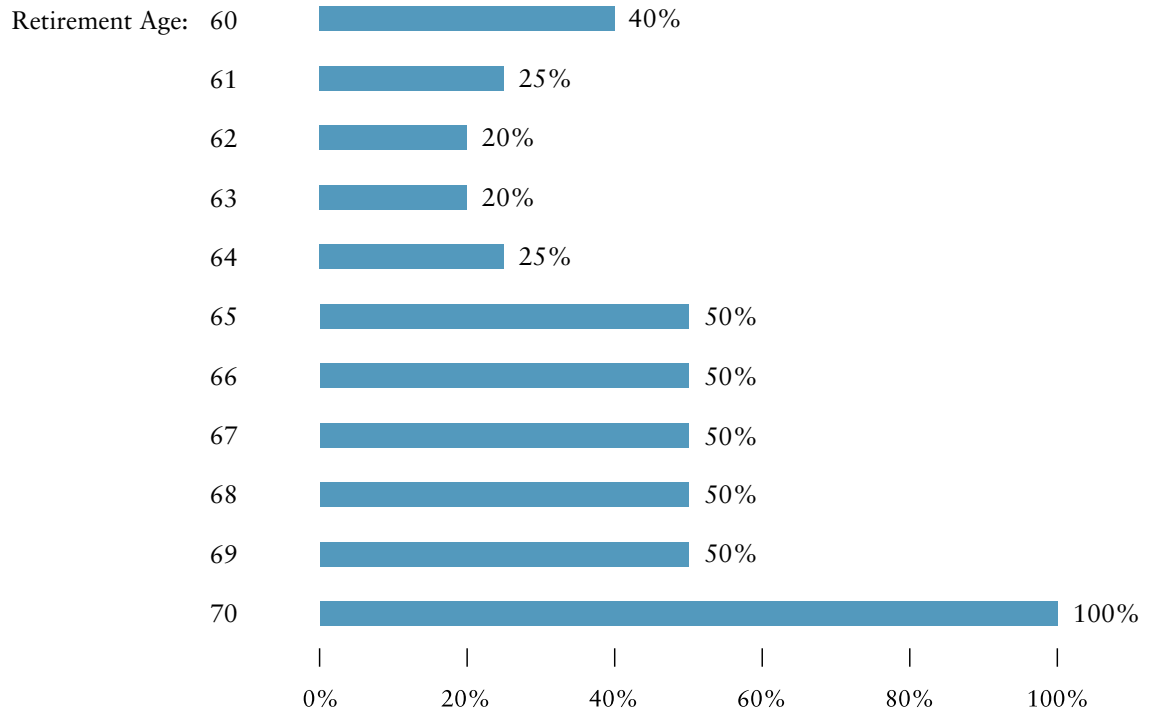


ACTUARIAL SECTION

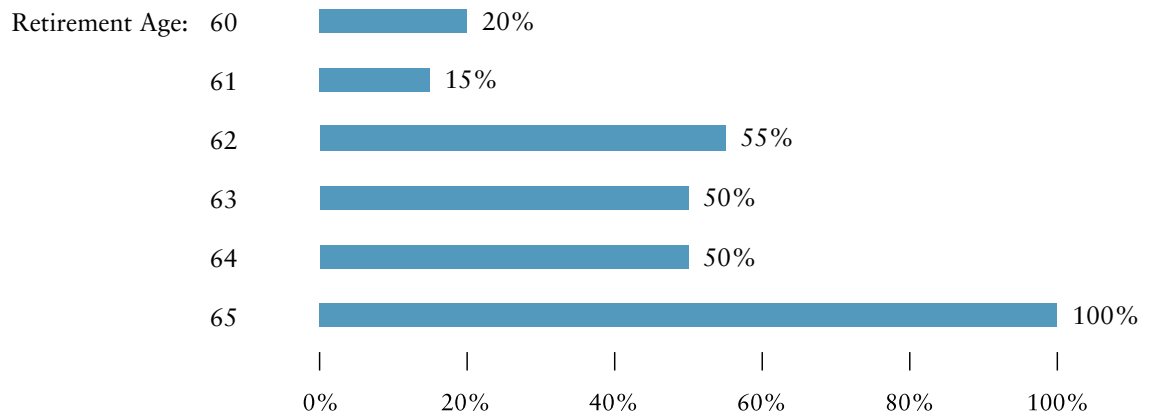
RATE OF RETIREMENT

(continued)

MUNICIPAL POLICE



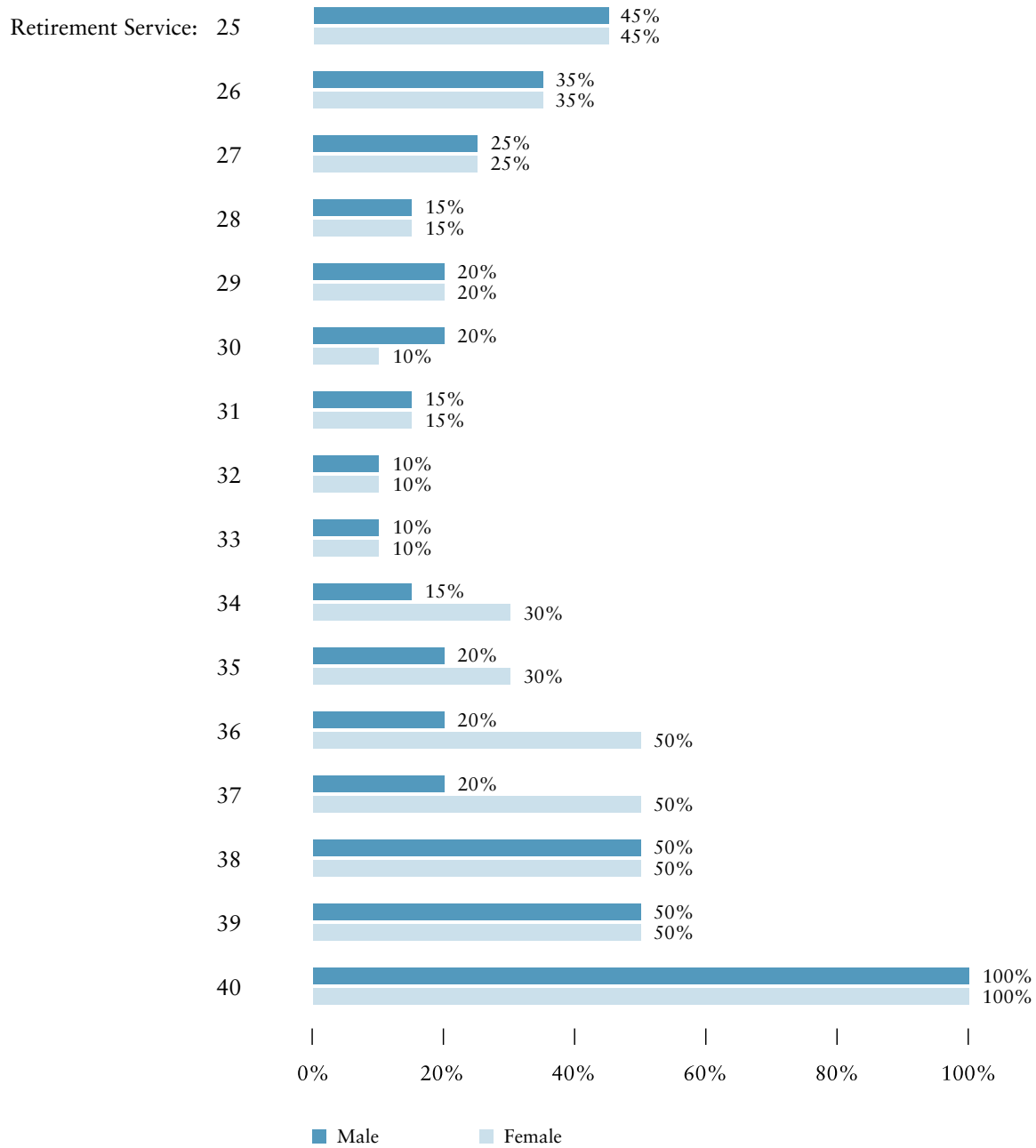
MUNICIPAL FIRE



RATE OF RETIREMENT

(continued)

STATE GENERAL

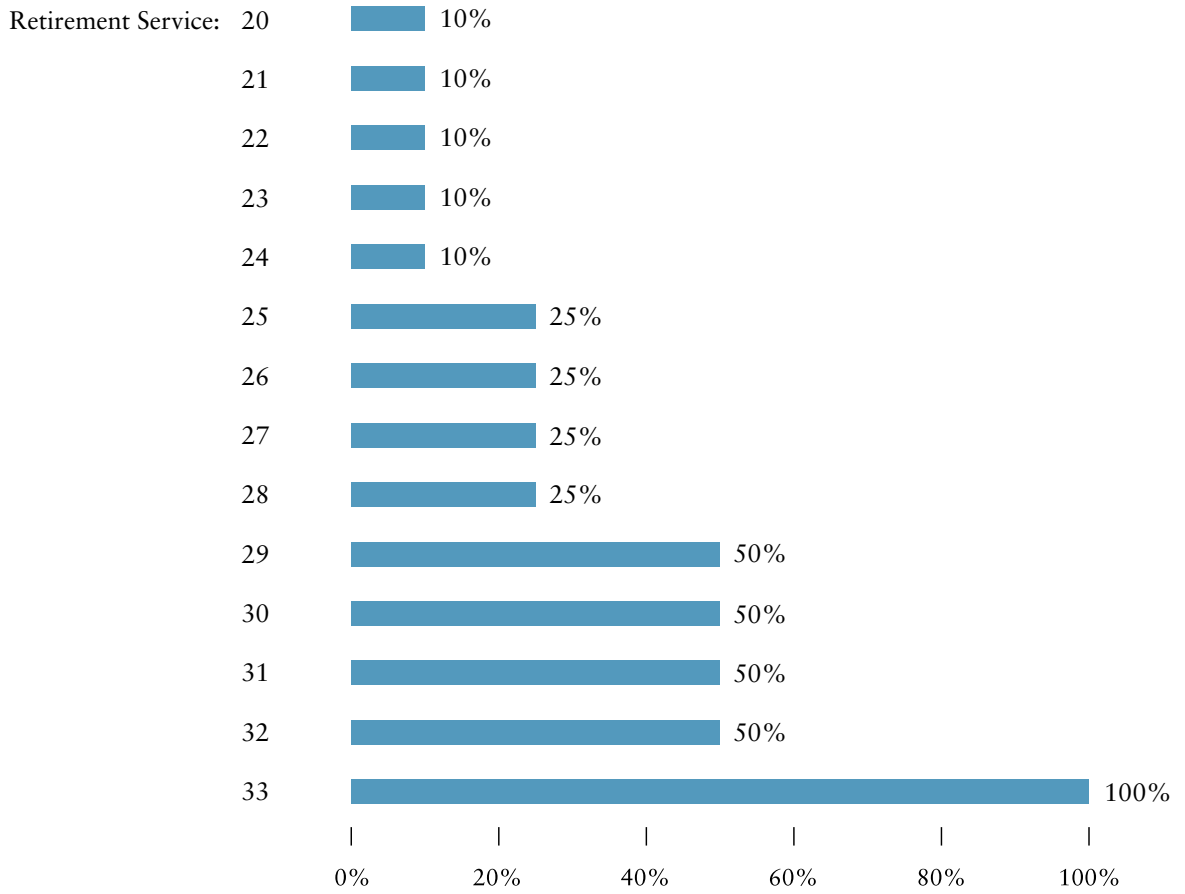


ACTUARIAL SECTION

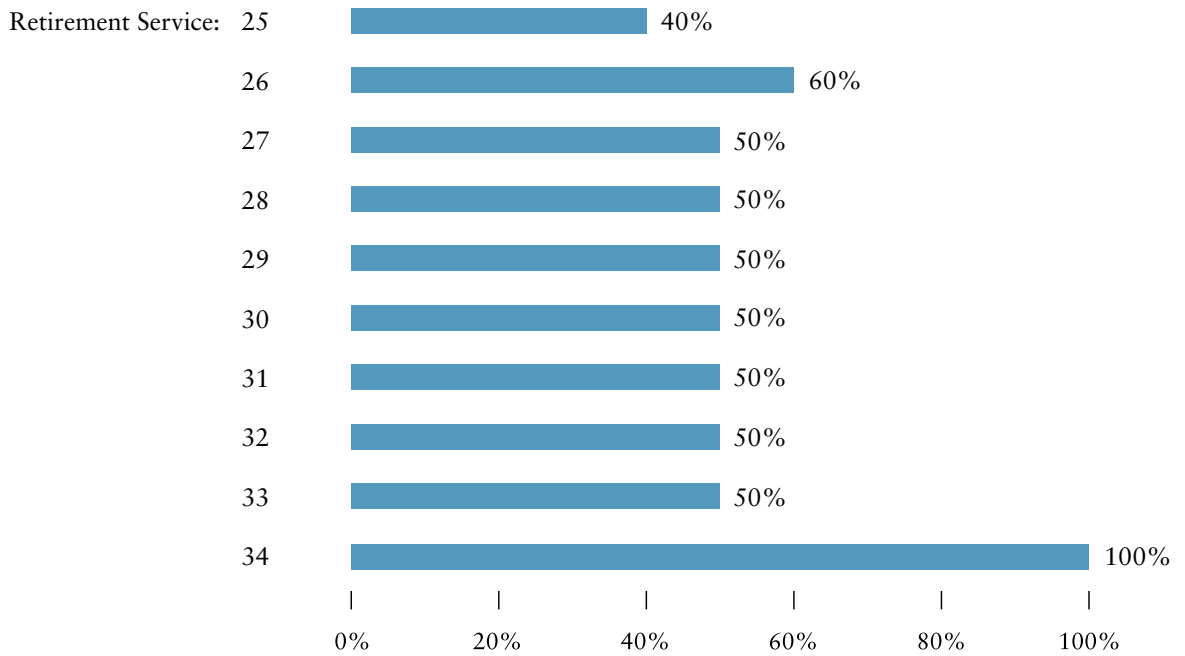
RATE OF RETIREMENT

(continued)

STATE POLICE



STATE CORRECTIONS

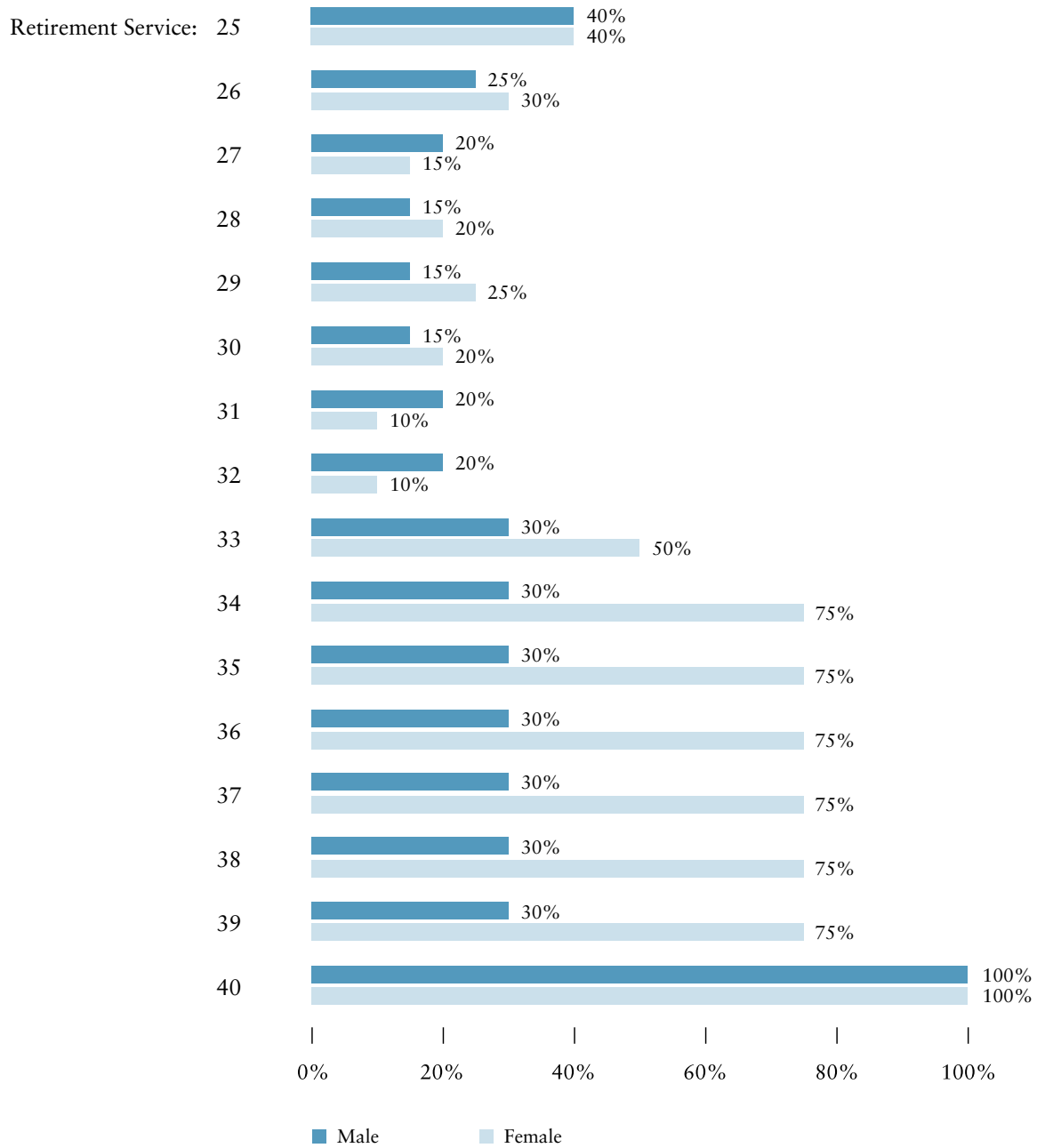


ACTUARIAL SECTION

RATE OF RETIREMENT

(continued)

MUNICIPAL GENERAL

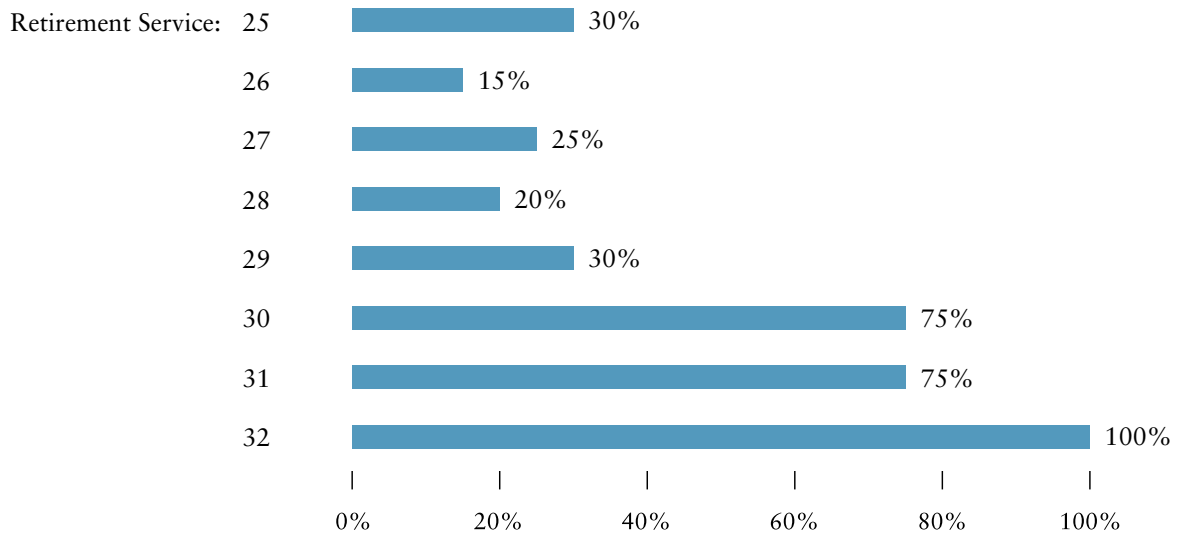


ACTUARIAL SECTION

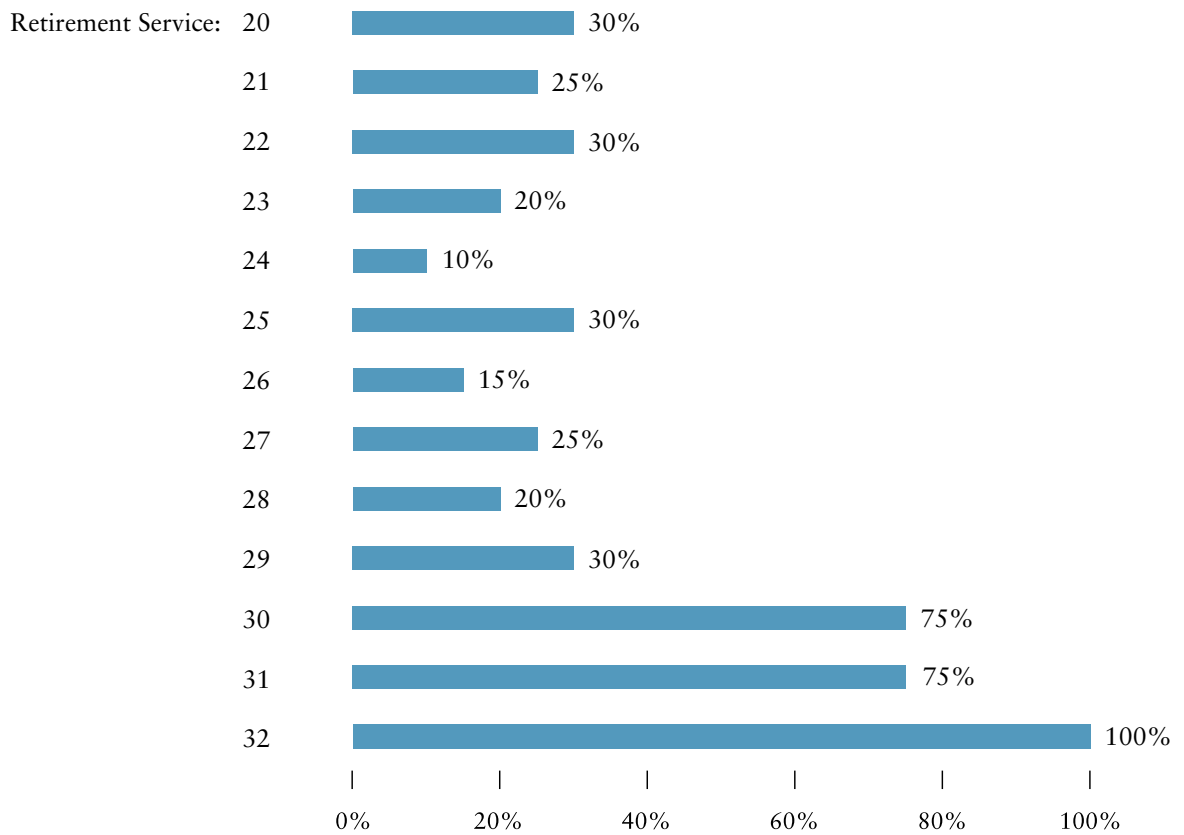
RATE OF RETIREMENT

(continued)

MUNICIPAL POLICE PLANS 1, 2



MUNICIPAL POLICE PLANS 3, 4, 5

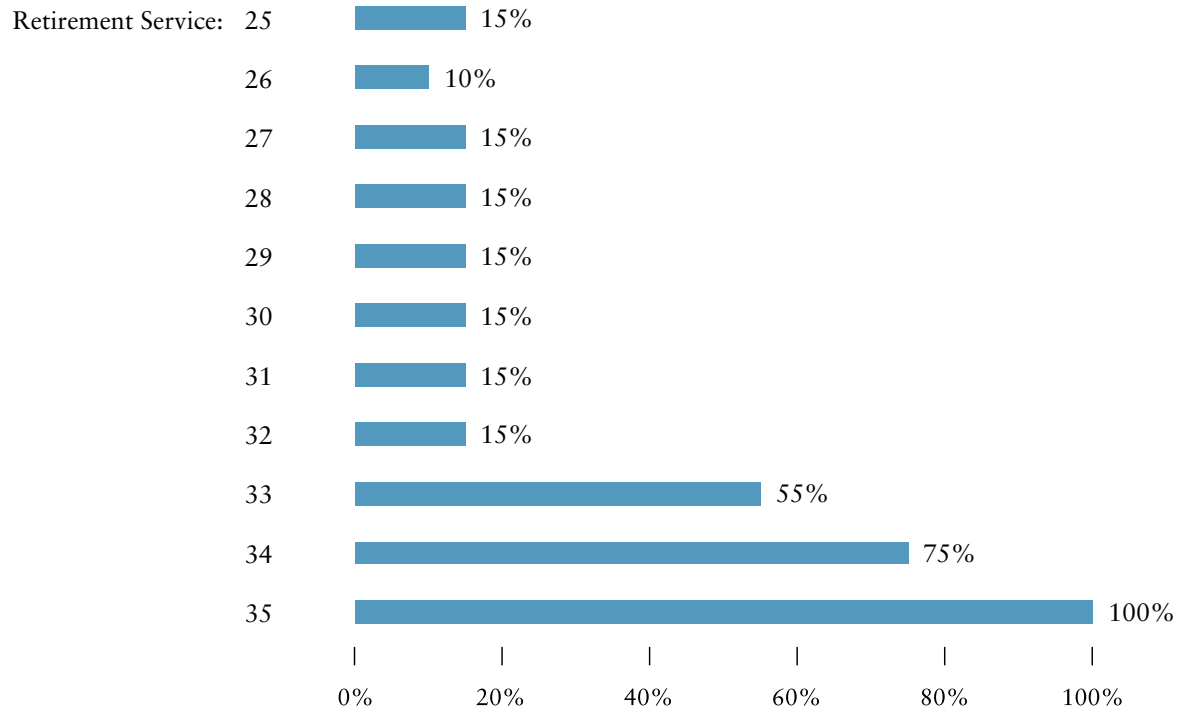


ACTUARIAL SECTION

RATE OF RETIREMENT

(continued)

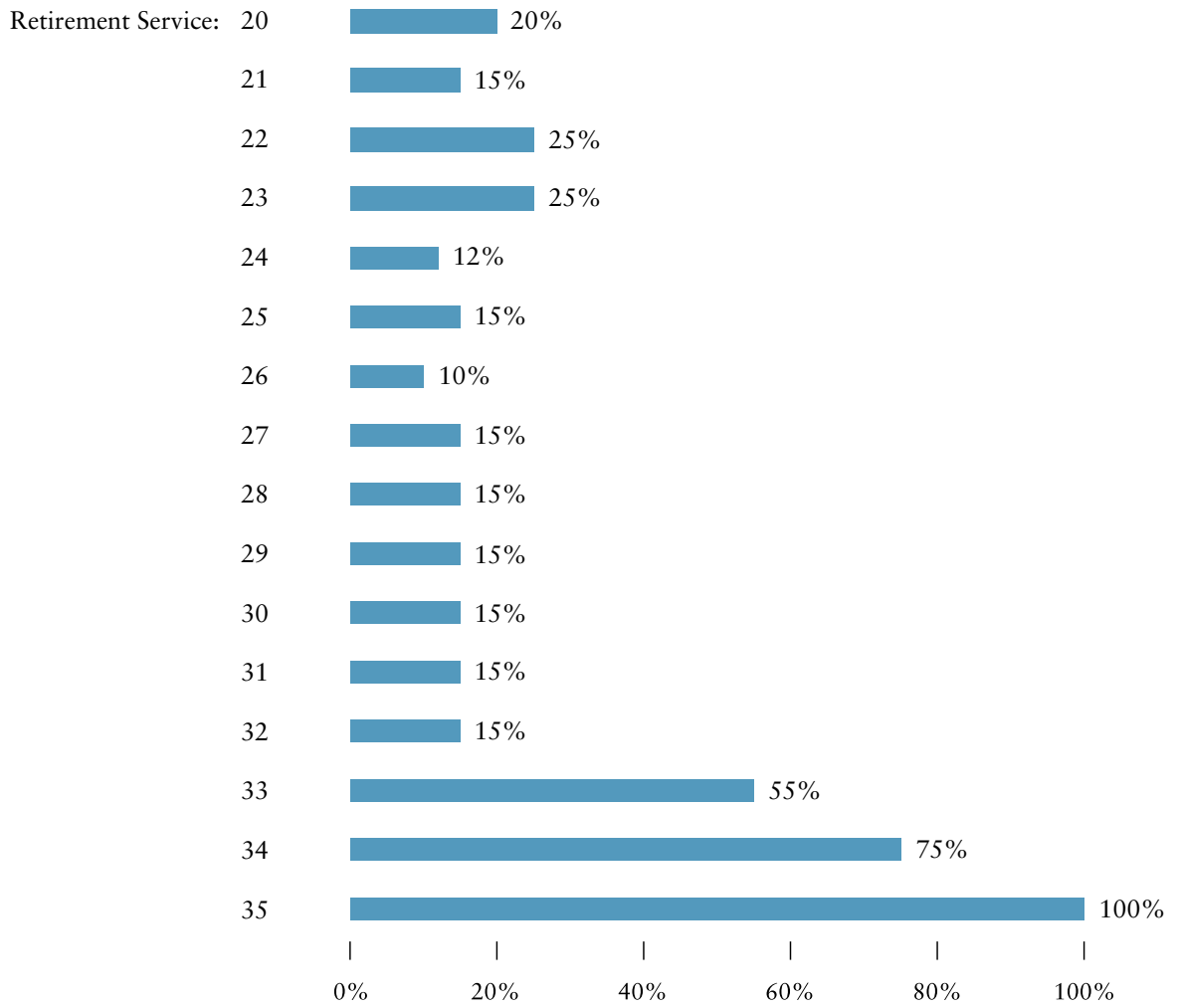
MUNICIPAL FIRE PLANS 1, 2



RATE OF RETIREMENT

(continued)

MUNICIPAL FIRE PLANS 3, 4, 5



RATES OF DISABILITY

PERCENT BECOMING DISABLED AT INDICATED AGES

SAMPLE AGES	STATE GENERAL		STATE POLICE	STATE CORRECTIONS	MUNICIPAL GENERAL		MUNICIPAL POLICE	MUNICIPAL FIRE
	MALE	FEMALE			MALE	FEMALE		
20	0.02%	0.02%	0.08%	0.06%	0.00%	0.00%	0.00%	0.04%
25	0.03%	0.02%	0.08%	0.10%	0.03%	0.02%	0.13%	0.04%
30	0.05%	0.04%	0.16%	0.15%	0.04%	0.03%	0.14%	0.04%
35	0.08%	0.07%	0.25%	0.27%	0.10%	0.07%	0.21%	0.04%
40	0.14%	0.10%	0.63%	0.38%	0.14%	0.11%	0.30%	0.14%
45	0.22%	0.21%	0.75%	0.57%	0.24%	0.17%	0.46%	0.14%
50	0.47%	0.42%	1.23%	0.91%	0.49%	0.35%	0.74%	0.60%
55	0.68%	0.57%	2.83%	1.54%	0.69%	0.49%	1.29%	0.60%
60	0.63%	0.73%	0.00%	2.21%	0.74%	0.53%	2.14%	2.15%
65	0.29%	0.50%	0.00%	1.97%	0.00%	0.00%	2.31%	0.00%

RATES OF SEPARATION FROM ACTIVE MEMBERSHIP

PERCENT OF ACTIVE MEMBERS TERMINATING DURING YEAR

SAMPLE AGES	YRS OF SERVICE	STATE GENERAL		STATE POLICE	STATE CORRECTIONS		MUNICIPAL GENERAL		MUNICIPAL POLICE		MUNICIPAL FIRE	
		MEN	WOMEN		MEN	WOMEN	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
ALL	0	40.0%	40.0%	11.5%	35.0%	25.0%	40.0%	42.0%	33.0%	35.0%	20.0%	20.0%
	1	20.0%	20.0%	7.0%	25.0%	40.0%	20.0%	20.0%	12.5%	12.0%	9.5%	30.0%
	2	12.0%	12.0%	3.0%	15.0%	11.0%	12.0%	13.0%	9.0%	10.0%	5.5%	15.0%
	3	10.0%	10.0%	6.0%	9.0%	10.0%	10.5%	11.0%	8.0%	9.0%	4.3%	7.5%
	4	7.0%	7.0%	3.0%	5.0%	13.0%	7.0%	8.0%	7.5%	6.0%	3.2%	7.0%
	5		6.0%	0.0%		13.0%	6.0%	6.5%				
	6			0.0%		13.0%						
	7					10.0%						
20		20.3%	8.0%	3.3%	9.6%	9.5%	4.4%	14.0%	3.6%	1.9%	3.5%	3.5%
25		20.3%	5.2%	3.9%	9.6%	9.5%	4.4%	9.1%	3.6%	1.9%	3.5%	3.5%
30		17.5%	3.4%	3.4%	7.5%	8.1%	4.4%	5.9%	3.6%	1.9%	3.0%	3.0%
35		13.3%	2.3%	2.6%	5.1%	6.6%	3.5%	4.0%	2.8%	1.9%	2.2%	2.2%
40		9.7%	1.8%	2.3%	3.5%	6.2%	2.5%	3.1%	2.0%	1.9%	1.7%	1.7%
45		6.7%	1.6%	2.1%	2.4%	5.8%	2.2%	2.8%	1.8%	1.9%	1.5%	1.5%
50		4.5%	1.5%	2.1%	1.9%	5.0%	2.2%	2.6%	1.8%	1.9%	1.5%	1.5%
55		2.9%	1.2%	1.3%	1.9%	0.0%	2.2%	2.2%	1.8%	1.9%	1.5%	1.5%
60		2.1%	1.2%	1.2%	1.9%	0.0%	2.2%	2.1%	1.8%	1.9%	1.5%	1.5%
65		2.0%	1.2%	1.2%	1.9%	0.0%	2.2%	2.1%	1.8%	1.9%	1.5%	1.5%

MEMBER AND EMPLOYER CONTRIBUTION RATES

YEAR	PLAN 1		PLAN 2		PLAN 3		PLAN 4		PLAN 5	
	MEMBER	EMPLOYER	MEMBER	EMPLOYER	MEMBER	EMPLOYER	MEMBER	EMPLOYER	MEMBER	EMPLOYER
STATE GENERAL										
2000	N/A	N/A	N/A	N/A	7.42%	16.59%				
2001	N/A	N/A	N/A	N/A	7.42%	16.59%				
2002	N/A	N/A	N/A	N/A	7.42%	16.59%				
2003	N/A	N/A	N/A	N/A	7.42%	16.59%				
2004	N/A	N/A	N/A	N/A	7.42%	16.59%				
2005	N/A	N/A	N/A	N/A	7.42%	16.59%				
STATE POLICE AND ADULT CORRECTIONS (PLAN 1)										
2000	7.60%	25.10%								
2001	7.60%	25.10%								
2002	7.60%	25.10%								
2003	7.60%	25.10%								
2004	7.60%	25.10%								
2005	7.60%	25.10%								
JUVENILE CORRECTIONS (PLAN 2)										
2000	N/A	N/A	4.78%	25.72%						
2001	N/A	N/A	4.78%	25.72%						
2002	N/A	N/A	4.78%	25.72%						
2003	N/A	N/A	4.78%	25.72%						
2004	N/A	N/A	4.78%	25.72%						
2005	N/A	N/A	4.78%	25.72%						
MUNICIPAL GENERAL										
2000	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
2001	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
2002	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
2003	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
2004	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
2005	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
MUNICIPAL POLICE										
2000	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
2001	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
2002	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
2003	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
2004	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
2005	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
MUNICIPAL FIRE										
2000	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
2001	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
2002	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
2003	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
2004	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
2005	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
JUDICIAL										
2000	5.00%	9.00% ¹								
2001	5.00%	9.00% ¹								
2002	5.00%	9.00% ¹								
2003	5.00%	9.00% ¹								
2004	5.00%	9.00% ¹								
2005	6.50%	10.00% ¹								
MAGISTRATE										
2000	5.00%	9.00% ¹								
2001	5.00%	9.00% ¹								
2002	5.00%	9.00% ¹								
2003	5.00%	9.00% ¹								
2004	5.00%	9.00% ¹								
2005	6.50%	10.00% ¹								

NOTES:

Legislative member contribution for the Legislative Division is \$100 or \$200 for every year of credited service

¹ Employers are also required to remit a portion of docket fees

ACTIVE MEMBER VALUATION DATA

As of June 30, 2005

YEAR	NUMBER OF PARTICIPATING EMPLOYERS	NUMBER OF ACTIVE MEMBERS	ANNUAL PAYROLL ¹	AVERAGE PAY	% INCREASE IN AVG PAY
STATE GENERAL					
1999	116	19,879	\$581,855,790	\$29,270	2.71%
2000	116	20,108	607,374,322	30,206	3.20%
2001	116	20,513	642,701,705	31,331	3.73%
2002	116	21,311	698,626,579	32,782	4.63%
2003	116	20,820	704,491,713	33,837	3.22%
2004	116	19,971 ²	693,532,722	34,727	2.63%
2005	116	20,647	728,031,257	35,261	1.54%
STATE POLICE/HAZARDOUS DUTY					
1999	3	1,393	\$41,567,067	\$29,840	9.49%
2000	3	1,294	39,215,882	30,306	1.56%
2001	3	1,286	40,399,939	31,415	3.66%
2002	3	1,356	44,346,817	32,704	4.10%
2003	3	1,804	57,130,556	31,669	-3.17%
2004	3	2,067	63,863,426	30,897	-2.44%
2005	3	2,071	65,026,576	31,399	1.62%
MUNICIPAL GENERAL					
1999	156	17,601	\$454,028,899	\$25,796	2.93%
2000	158	17,734	479,745,977	27,052	4.87%
2001	160	18,065	506,026,384	28,011	3.55%
2002	164	18,118	527,857,221	29,134	4.01%
2003	167	18,031	543,994,722	30,170	3.55%
2004	169	18,110	548,960,756	30,313	0.47%
2005	169	19,805	592,445,696	29,914	-1.32%
MUNICIPAL POLICE					
1999	95	2,334	\$80,903,851	\$34,663	2.44%
2000	97	2,257	81,903,288	36,289	4.69%
2001	98	2,245	83,409,907	37,154	2.38%
2002	98	2,109	80,091,903	37,976	2.21%
2003	98	2,131	83,789,775	39,319	3.54%
2004	98	3,324 ²	126,208,845	37,969	-3.43%
2005	98	3,400	145,849,480	42,897	12.98%
MUNICIPAL FIRE					
1999	33	1,170	\$42,208,998	\$36,076	1.36%
2000	35	1,189	45,065,551	37,902	5.06%
2001	35	1,188	45,736,582	38,499	1.57%
2002	35	1,136	45,286,480	39,865	3.55%
2003	35	1,172	47,950,440	40,913	2.63%
2004	35	1,675 ²	66,503,690	39,704	-2.96%
2005	35	1,788	76,485,708	42,777	7.74%
LEGISLATIVE					
1999	1	112	N/A	N/A	N/A
2000	1	112	N/A	N/A	N/A
2001	1	112	N/A	N/A	N/A
2002	1	111	N/A	N/A	N/A
2003	1	112	N/A	N/A	N/A
2004	1	109	N/A	N/A	N/A
2005	1	88	N/A	N/A	N/A
JUDICIAL					
1999	15	89	\$6,734,533	\$75,669	-0.92%
2000	15	86	6,754,084	78,536	3.79%
2001	15	86	7,059,793	82,091	4.53%
2002	15	86	7,507,013	87,291	6.33%
2003	15	99	8,575,202	86,618	-0.77%
2004	15	104	9,074,078	87,251	0.73%
2005	15	106	9,882,659	93,233	6.86%

ACTUARIAL SECTION

ACTIVE MEMBER VALUATION DATA

(continued)

YEAR	NUMBER OF PARTICIPATING EMPLOYERS	NUMBER OF ACTIVE MEMBERS	ANNUAL PAYROLL	AVERAGE PAY	% INCREASE IN AVG PAY
MAGISTRATE					
1999	18	59	\$3,263,642	\$55,316	0.54%
2000	18	60	3,485,366	58,089	5.01%
2001	18	61	3,650,670	59,847	3.03%
2002	18	63	3,996,832	63,442	6.01%
2003	18	52	3,081,850	59,266	-6.58%
2004	18	50	3,002,422	60,048	1.32%
2005	18	50	3,196,052	63,921	6.45%
VOLUNTEER FIREFIGHTERS					
1999	350	11,304	N/A	N/A	N/A
2000	352	12,135	N/A	N/A	N/A
2001	367	5,170 ³	N/A	N/A	N/A
2002	373	5,176	N/A	N/A	N/A
2003	373	5,362	N/A	N/A	N/A
2004	373	5,274	N/A	N/A	N/A
2005	373	6,282	N/A	N/A	N/A

NOTES:

- ¹ Actual payroll is projected to a full-year salary for actuarial calculations
- ² Data cleansing efforts during FY04 resulted in correctly accounting for members under Municipal plans that had previously been accounted for under other plans
- ³ Number of active volunteer firefighters was significantly reduced due to new criteria used by actuary. Only those firefighters with service credit earned in the last ten years are considered active members of the plan.

SCHEDULE OF RETIREES AND BENEFICIARIES

At June 30, 2005

YEAR	NUMBER ADDED	NUMBER REMOVED	TOTAL RETIRANTS & BENEFICIARIES	ANNUAL ALLOWANCES	INCREASE IN ANNUAL ALLOWANCES	AVERAGE ANNUAL ALLOWANCES
STATE GENERAL						
1999	681	198	10,841	\$129,510,162	11.98%	\$11,946
2000	868	2,429	9,280	142,714,724	10.20%	15,379
2001	664	253	9,691	157,439,620	10.32%	16,246
2002	597	323	9,965	169,971,950	7.96%	17,057
2003	729	308	10,386	186,081,438	9.48%	17,917
2004	766	293	10,859	205,195,034	10.27%	18,896
2005	564	582	10,841	213,908,780	4.25%	19,731
STATE POLICE/HAZARDOUS DUTY						
1999	19	8	512	\$10,767,064	5.56%	\$21,029
2000	44	-	556	11,952,426	11.01%	21,497
2001	36	16	576	12,834,396	7.38%	22,282
2002	43	9	610	13,959,650	8.77%	22,885
2003	42	6	646	15,205,851	8.93%	23,538
2004	56	11	691	16,880,297	11.01%	24,429
2005	44	2	733	17,821,343	5.57%	24,313
MUNICIPAL GENERAL						
1999	439	148	5,056	\$67,032,879	13.79%	\$13,258
2000	520	249	5,327	74,697,748	11.43%	14,022
2001	438	150	5,615	82,241,093	10.10%	14,647
2002	406	160	5,861	90,621,858	10.19%	15,462
2003	470	180	6,151	100,245,897	10.62%	16,297
2004	566	164	6,553	112,941,045	12.66%	17,235
2005	490	148	6,895	122,239,269	8.23%	17,729
MUNICIPAL POLICE						
1999	95	12	1,080	\$26,002,015	12.55%	\$24,076
2000	118	42	1,156	28,866,576	11.02%	24,971
2001	122	17	1,261	32,652,121	13.11%	25,894
2002	121	21	1,361	36,696,595	12.39%	26,963
2003	133	28	1,466	41,322,216	12.61%	28,187
2004	133	7	1,592	46,675,260	12.95%	29,319
2005	195	10	1,777	50,548,837	8.30%	28,446
MUNICIPAL FIRE						
1999	69	7	824	\$20,602,515	12.81%	\$25,003
2000	82	44	862	22,264,126	8.07%	25,828
2001	42	10	894	23,923,231	7.45%	26,760
2002	50	17	927	25,793,500	7.82%	27,825
2003	65	11	981	28,242,218	9.49%	28,789
2004	67	13	1,035	30,823,461	9.41%	29,781
2005	125	10	1,150	32,619,986	5.83%	28,365
LEGISLATIVE						
1999	9	1	82	\$240,012	13.40%	\$2,927
2000	4	2	84	254,384	5.99%	3,028
2001	6	1	89	277,024	8.90%	3,113
2002	5	1	93	295,881	6.81%	3,182
2003	6	1	98	319,946	8.13%	3,265
2004	33	3	128	726,460	127.06% ¹	5,675
2005	19	15	132	816,710	12.42%	6,187
JUDICIAL						
1999	5	5	74	\$3,053,711	5.61%	\$41,266
2000	6	2	78	3,427,474	12.24%	43,942
2001	2	2	78	3,558,140	3.81%	45,617
2002	3	2	79	3,687,587	3.64%	46,678
2003	10	2	87	4,417,272	19.79%	50,773
2004	4	3	88	4,589,006	3.89%	52,148
2005	5	4	89	4,714,551	2.74%	52,972

ACTUARIAL SECTION

SCHEDULE OF RETIREES AND BENEFICIARIES

(continued)

YEAR	NUMBER ADDED	NUMBER REMOVED	TOTAL RETIRANTS & BENEFICIARIES	ANNUAL ALLOWANCES	INCREASE IN ANNUAL ALLOWANCES	AVERAGE ANNUAL ALLOWANCES
MAGISTRATE						
1999	8	–	35	\$1,079,080	42.06%	\$30,831
2000	–	–	35	1,113,919	3.23%	31,826
2001	1	–	36	1,149,365	3.18%	31,927
2002	1	–	37	1,234,244	7.38%	33,358
2003	9	–	46	1,594,404	29.18%	34,661
2004	–	2	44	1,647,239	3.31%	37,437
2005	1	1	44	1,657,108	0.60%	37,662
VOLUNTEER FIREFIGHTERS						
1999	27	–	157	\$188,000	20.82%	\$1,197
2000	30	3	184	220,000	17.02%	1,196
2001	19	3	200	235,192	6.91%	1,176
2002	20	4	216	256,768	9.17%	1,189
2003	19	1	234	277,960	8.25%	1,188
2004	40	2	272	326,752	17.55%	1,201
2005	28	2	298	369,544	13.10%	1,240

NOTE:

¹ New legislative plans implemented with larger benefits

SOLVENCY TEST

AGGREGATE ACCRUED LIABILITIES

DATE	ACTIVE MEMBER CONTRIBUTIONS (1)	RETIREES & BENEFICIARIES (2)	ACTIVE MEMBERS (EMPLOYER PORTION) (3)	TOTAL (4)
STATE GENERAL				
6/30/1999	\$375,802,477	\$1,601,679,038	\$1,167,841,617	\$3,145,323,132
6/30/2000	406,838,352	1,781,807,027	1,221,302,125	3,409,947,504
6/30/2001	437,155,361	2,084,302,740	1,310,078,031	3,831,536,132
6/30/2002	476,552,721	2,243,623,595	1,441,607,100	4,161,783,416
6/30/2003	512,272,905	2,448,673,878	1,502,411,000	4,463,357,783
6/30/2004	549,227,388	2,698,298,630	1,415,737,376	4,663,263,394
6/30/2005	583,146,453	2,766,461,744	1,649,982,371	4,999,982,568
STATE POLICE/HAZARDOUS DUTY				
6/30/1999	\$31,198,438	\$145,142,802	\$138,635,100	\$314,976,340
6/30/2000	32,659,443	160,531,044	132,599,251	325,789,738
6/30/2001	35,046,826	182,225,515	141,456,984	358,729,325
6/30/2002	37,658,994	197,684,474	148,785,082	384,128,550
6/30/2003	40,444,420	213,324,522	198,112,321	451,881,263
6/30/2004	43,223,992	236,364,990	213,573,411	493,162,393
6/30/2005	46,274,613	253,559,215	203,504,075	503,337,903
MUNICIPAL GENERAL				
6/30/1999	\$429,559,335	\$852,279,589	\$632,361,833	\$1,914,200,757
6/30/2000	470,696,205	950,795,636	681,289,470	2,102,781,311
6/30/2001	517,836,633	1,100,388,240	681,341,446	2,299,566,319
6/30/2002	566,969,660	1,211,873,457	706,093,035	2,484,936,152
6/30/2003	612,857,678	1,337,083,714	755,733,653	2,705,675,045
6/30/2004	662,011,140	1,510,127,026	748,105,929	2,920,244,095
6/30/2005	695,969,808	1,631,538,147	942,017,218	3,269,525,173
MUNICIPAL POLICE				
6/30/1999	\$132,949,956	\$377,728,892	\$201,403,829	\$712,082,677
6/30/2000	145,031,446	418,751,588	208,145,591	771,928,625
6/30/2001	154,355,667	497,975,415	191,335,956	843,667,038
6/30/2002	164,455,165	559,859,958	176,175,068	900,490,191
6/30/2003	174,101,971	628,847,417	178,832,138	981,781,526
6/30/2004	185,219,198	709,882,406	279,184,904	1,174,286,508
6/30/2005	192,945,781	780,263,875	377,248,454	1,350,458,110
MUNICIPAL FIRE				
6/30/1999	\$67,969,431	\$298,159,951	\$95,390,581	\$461,519,963
6/30/2000	70,339,968	321,416,741	110,175,775	501,932,484
6/30/2001	77,923,592	362,623,800	102,528,688	543,076,080
6/30/2002	86,410,010	388,190,768	92,812,594	567,413,372
6/30/2003	93,862,473	421,561,947	97,825,447	613,249,867
6/30/2004	102,326,449	458,520,345	138,421,112	699,267,906
6/30/2005	108,757,669	484,973,626	186,125,726	779,857,021
LEGISLATIVE				
6/30/1999	\$94,763	\$2,452,309	3,903,075	\$6,450,147
6/30/2000	101,494	2,529,277	3,964,238	6,595,009
6/30/2001	102,842	2,955,000	3,814,158	6,872,000
6/30/2002	108,638	3,144,000	3,926,362	7,179,000
6/30/2003	124,517	3,312,823	4,219,838	7,657,178
6/30/2004	710,612	7,583,534	15,236,510	23,530,656
6/30/2005	576,795	7,584,395	10,037,277	18,198,467
JUDICIAL				
6/30/1999	\$3,226,872	\$32,460,600	\$22,501,767	\$58,189,239
6/30/2000	3,494,452	36,606,808	23,214,287	63,315,547
6/30/2001	3,911,336	40,366,909	26,325,844	70,604,089
6/30/2002	4,387,293	41,576,215	29,994,990	75,958,498
6/30/2003	4,108,598	50,680,275	31,162,723	85,951,596
6/30/2004	4,634,853	51,938,705	31,046,596	87,620,154
6/30/2005	5,035,241	52,838,347	29,301,623	87,175,211
MAGISTRATE				
6/30/1999	\$972,568	\$12,209,396	\$8,462,927	\$21,644,891
6/30/2000	1,177,625	12,776,549	9,783,610	23,737,784
6/30/2001	1,397,474	13,659,061	11,628,745	26,685,280
6/30/2002	1,613,881	14,056,788	13,288,758	28,959,427
6/30/2003	1,650,781	18,728,541	8,698,728	29,078,050
6/30/2004	1,850,875	19,465,866	9,033,596	30,350,337
6/30/2005	2,030,058	19,498,351	9,856,553	31,384,962
VOLUNTEER FIREFIGHTERS				
6/30/1999	N/A	\$1,981,904	14,178,844	\$16,160,748
6/30/2000	N/A	2,300,937	15,002,213	17,303,150
6/30/2001	N/A	2,679,840	13,126,952	15,806,792
6/30/2002	N/A	2,777,192	13,350,402	16,127,594
6/30/2003	N/A	2,974,933	14,083,319	17,058,252
6/30/2004	N/A	3,465,970	14,312,175	17,778,145
6/30/2005	N/A	3,719,977	21,431,600	25,151,577

ACTUARIAL SECTION

SOLVENCY TEST

(continued)

REPORTED ASSETS	PORTION OF ACCRUED LIABILITIES COVERED BY REPORTED ASSETS			
	(1)	(2)	(3)	(4)
\$2,798,466,633	100%	100%	70%	89%
3,227,314,750	100%	100%	85%	95%
3,548,110,976	100%	100%	78%	93%
3,727,073,225	100%	100%	70%	90%
3,796,352,279	100%	100%	56%	85%
3,899,517,518	100%	100%	46%	84%
4,182,402,262	100%	100%	50%	84%
\$450,626,548	100%	100%	100%	143%
523,105,280	100%	100%	100%	161%
578,649,166	100%	100%	100%	161%
613,483,181	100%	100%	100%	160%
631,739,543	100%	100%	100%	140%
656,821,978	100%	100%	100%	133%
712,970,765	100%	100%	100%	142%
\$1,996,556,855	100%	100%	100%	104%
2,327,759,530	100%	100%	100%	111%
2,583,878,504	100%	100%	100%	112%
2,743,565,146	100%	100%	100%	110%
2,824,747,052	100%	100%	100%	104%
2,935,512,684	100%	100%	100%	101%
3,187,083,937	100%	100%	91%	97%
\$819,924,713	100%	100%	100%	115%
954,928,130	100%	100%	100%	124%
1,056,049,368	100%	100%	100%	125%
1,116,959,306	100%	100%	100%	124%
1,145,661,536	100%	100%	100%	117%
1,186,512,980	100%	100%	100%	101%
1,281,973,844	100%	100%	82%	95%
\$427,720,478	100%	100%	65%	93%
489,240,300	100%	100%	88%	97%
536,131,819	100%	100%	93%	99%
562,362,823	100%	100%	95%	99%
572,580,393	100%	100%	58%	93%
588,902,910	100%	100%	20%	84%
633,053,802	100%	100%	21%	81%
\$4,191,524	100%	100%	42%	65%
4,932,308	100%	100%	58%	75%
5,390,000	100%	100%	61%	78%
5,791,000	100%	100%	65%	81%
5,826,618	100%	100%	57%	76%
8,407,702	100%	100%	1%	36%
11,026,880	100%	100%	29%	61%
\$47,776,452	100%	100%	54%	82%
54,726,003	100%	100%	63%	86%
59,522,634	100%	100%	58%	84%
61,686,378	100%	100%	52%	81%
65,223,266	100%	100%	33%	76%
66,208,769	100%	100%	31%	76%
68,780,617	100%	100%	37%	79%
\$23,368,704	100%	100%	100%	108%
27,097,375	100%	100%	100%	114%
30,258,095	100%	100%	100%	113%
32,039,588	100%	100%	100%	111%
29,629,462	100%	100%	100%	102%
30,071,628	100%	100%	97%	99%
31,303,435	100%	100%	99%	100%
\$20,246,292	N/A	100%	100%	125%
24,641,415	N/A	100%	100%	142%
27,991,582	N/A	100%	100%	177%
29,784,088	N/A	100%	100%	185%
31,221,546	N/A	100%	100%	183%
33,000,250	N/A	100%	100%	186%
35,651,070	N/A	100%	100%	142%

ACTUARIAL SECTION

ANALYSIS OF FINANCIAL EXPERIENCE

PERA FUND	EXPERIENCE GAIN (OR LOSS) FOR YEAR (IN THOUSANDS)					
	2005	2004	2003	2002	2001	2000
UAAL at Beginning of Year	\$682,956	\$244,865	\$(264,692)	\$(426,245)	\$(409,245)	\$57,807
Normal Cost for Year	316,767	294,026	282,233	262,248	247,027	235,860
Contributions (Net of Refunds)	(367,322)	(347,742)	(337,298)	(322,530)	(306,535)	(282,813)
Interest Accrual	52,615	17,439	(23,378)	(36,512)	(35,486)	2,824
Expected UAAL before Non-Recurring Adjust	685,016	208,588	(343,135)	(523,039)	(504,963)	13,678
Effect of Assumption Changes	262,861	-	-	-	249,464	-
Effect of New Employers, Benefit Changes & Plan Coverage Shifts	-	-	42,295	-	-	-
Effect of Asset Method Restart	(12,056)					
Non-Recurring Audit Adjustment	-	-	-	-	-	(2,599)
Expected UAAL after Audit Adjustment	935,821	208,588	(300,840)	(523,039)	(255,499)	11,079
Actual UAAL	905,283	682,956	244,865	(264,692)	(426,245)	(409,969)
GAIN (LOSS)	\$30,538	\$(474,368)	\$(545,705)	\$(258,347)	\$170,746	\$421,048

ANALYSIS OF FINANCIAL EXPERIENCE

(continued)

JUDICIAL FUND	EXPERIENCE GAIN (OR LOSS) FOR YEAR (IN THOUSANDS)					
	2005	2004	2003	2002	2001	2000
UAAL at Beginning of Year	\$21,411,385	\$20,728,330	\$14,272,120	\$11,081,455	\$8,589,544	\$10,412,787
Normal Cost for Year	3,441,427	3,085,658	2,649,262	2,489,954	2,231,077	2,226,740
Contributions (Net of Refunds)	(3,278,223)	(3,129,038)	(2,490,122)	(2,429,583)	(2,518,036)	(2,475,549)
Interest Accrual	1,719,439	1,656,531	1,148,135	888,931	685,985	838,673
Expected UAAL before Non-Recurring Adjust	23,294,028	22,341,481	15,579,395	12,030,757	8,988,570	11,002,651
Transfer of Judges from Magistrate Ret Fund	-	-	245,658	-	-	-
Effect of Assumption Changes ¹	-	-	-	-	4,278,629	-
Expected UAAL after Adjustments	23,294,028	22,341,481	15,825,053	12,030,757	13,267,199	11,002,651
Actual UAAL	18,394,594	21,411,385	20,728,330	14,272,120	11,081,455	8,589,544
GAIN (LOSS)	\$4,899,434	\$930,096	\$(4,903,277)	\$(2,241,363)	\$2,185,744	\$2,413,107

NOTE:

¹ Based on Experience Study completed in 2001

ANALYSIS OF FINANCIAL EXPERIENCE

(continued)

MAGISTRATE FUND	EXPERIENCE GAIN (OR LOSS) FOR YEAR (IN THOUSANDS)					
	2005	2004	2003	2002	2001	2000
UAAL at Beginning of Year	\$122,955	\$(551,412)	\$(3,080,161)	\$(3,572,815)	\$(3,359,991)	\$(1,723,813)
Normal Cost for Year	1,056,102	1,084,041	1,267,815	1,144,211	1,039,336	967,734
Contributions (Net of Refunds)	(935,027)	(928,011)	(1,347,811)	(1,339,240)	(1,477,130)	(1,120,748)
Interest Accrual	14,679	(37,872)	(249,613)	(293,626)	(286,279)	(144,026)
Expected UAAL before Non-Recurring Adjust	258,709	(433,254)	(3,409,770)	(4,061,470)	(4,083,664)	(2,020,853)
Transfer of Judges to Judicial Retire Fund	-	-	61,246	-	-	-
Effect of Assumption Changes ¹	-	-	-	-	1,350,572	-
Expected UAAL after Audit Adjustment	258,709	(433,254)	(3,348,524)	(4,061,470)	(2,733,092)	(2,020,853)
Actual UAAL	81,527	122,955	(551,412)	(3,080,161)	(3,572,815)	(3,359,591)
GAIN (LOSS)	\$177,182	\$(556,209)	\$(2,797,112)	\$(981,309)	\$839,723	\$1,338,738

NOTE:

¹ Based on Experience Study completed in 2001

ANALYSIS OF FINANCIAL EXPERIENCE

(continued)

VOLUNTEER FIREFIGHTERS FUND	EXPERIENCE GAIN (OR LOSS) FOR YEAR (IN THOUSANDS)					
	2005	2004	2003	2002	2001	2000
UAAL at Beginning of Year	\$(15,222,105)	\$(14,163,294)	\$(13,656,494)	\$(12,184,790)	*	*
Normal Cost for Year	1,865,323	1,890,280	1,819,655	1,813,230	*	*
Contributions (Net of Refunds)	(750,000)	(750,000)	(750,000)	(500,000)	*	*
Interest Accrual	(1,173,155)	(1,087,452)	(1,049,733)	(922,254)	*	*
Expected UAAL before Non-Recurring Adjust	(15,279,937)	(14,110,466)	(13,636,572)	(11,793,814)	*	*
Effect of Assumption Changes	-	-	-	-	*	*
Expected UAAL after Audit Adjustment	(15,279,937)	(14,110,466)	(13,636,572)	(11,793,814)	*	*
Actual UAAL	(10,499,493)	(15,222,105)	(14,163,294)	(13,656,494)	*	*
GAIN (LOSS)	\$(4,780,444)	\$1,111,639	\$526,722	\$1,862,680	*	*

NOTE:

* Information not available for years prior to 2002

SUMMARY OF PERA PLAN PROVISIONS¹

Membership Eligibility — The Public Employees Retirement Association of New Mexico includes employees of the State of New Mexico and employees of affiliated public employers. Employees excluded from PERA membership include: seasonal employees; student employees; part-time employees who work less than 20 hours per week; independent contractors; and retirees of the Educational, Judicial, or Magistrate Retirement Systems. Elected officials become members unless they submit a written application for exemption from membership.

Vesting — Retirement benefits become vested upon the member’s completion of five years of qualifying service with accumulated member contributions remaining on deposit with the Association.

RETIREMENT ELIGIBILITY

AGE	YEARS OF OF CREDITED SERVICE
Any	25 or more
60+	20 or more
61+	17 or more
62+	14 or more
63+	11 or more
64+	8 or more
65+	5 or more

The municipal police and fire coverage plans 3, 4 and 5 require any age with 20 or more years of credited service.

The service credit for members of State Police and Adult Correctional Officer Member Coverage Plan 1 shall be increased by 20% for service credit earned while under the plan. To qualify for retirement under the plan, adult correctional officers were required to contribute 18 months under the plan beginning July 1, 2004 and ending December 31, 2005 for those first eligible to retire under this plan.

The service credit for members of Municipal Detention Officer Member Coverage Plan 1 shall be increased by 20% for service credit earned while under the plan. To qualify for retirement under the plan, municipal detention officers are required to contribute 18 months under the plan. Members employed by municipalities which adopted the plan effective July 1, 2004 were first eligible to retire under this plan after December 31, 2005.

Service Benefit Formula — Final average salary (calculated with highest 36 consecutive months salary) multiplied by years of service multiplied by the applicable plan pension factor, up to the maximum allowable pension.

Cost of Living Adjustment — Pensions are increased each July 1 by 3% if the retirement has been in effect for at least two full calendar years. If retired because of disability or if at least age 65, the two-calendar-year waiting period is reduced to one full calendar year.

Death Benefits — PERA death benefits depend on whether or not the death occurred in the line of duty:

Death in the Line-Of-Duty — A survivor pension is paid to the eligible spouse and children if the member has not designated a different survivor beneficiary under the “designated survivor pension beneficiary” provision. A spouse is eligible to receive a pension if married to the member at the time of death. The pension payable for life to an eligible beneficiary is the greater of: 1) the amount as calculated under the applicable coverage plan as though the deceased member had retired the day preceding death under form of payment B using the actual amount of service credit attributable to the deceased member at the time of death; or 2) 50% of final average salary. Each eligible child is allowed an equal share of either: 1) 50% of final average salary if an eligible surviving spouse is not paid a pension; or 2) 25% of final average salary if an eligible surviving spouse is paid a pension.

Death NOT in the Line-Of-Duty — Requires five years of credited service for eligibility. A survivor pension is paid to the eligible spouse or children if the member has not designated a different survivor beneficiary under the “designated survivor pension beneficiary” provision. A spouse is eligible to receive a pension if married to the member at the time of death. The pension payable for life to an eligible beneficiary is the greater of: 1) the amount as calculated under the applicable coverage plan as though the deceased member had retired the day preceding

death under form of payment B using the actual amount of service credit attributable to the deceased member at the time of death; or 2) 30% of final average salary. If there is no surviving eligible beneficiary or spouse, each eligible child is allowed an equal share of the greater of: 1) the amount as calculated under the applicable coverage plan as though the deceased member had retired the day preceding death under form of payment B with the oldest eligible surviving child as the survivor beneficiary using the actual amount of service credit attributable to the deceased member at the time of death; or 2) 30% of final average salary.

Refunds — A terminated member is eligible for a 100% refund of member contributions plus interest after being unemployed by an affiliated public employer for 30 days or more. There is a 30 to 45 day refund processing period after the completed application is received by PERA.

Purchase of Service Credit — A PERA member or current contributing member of ERA, JRA, or MRA may purchase previously refunded service credit by paying a lump sum amount plus interest.

Contribution Rates — Applicable member contribution rates are dependent on the plan adopted by the affiliated public employer.

Interest — 5.25% on member contributions.

SUMMARY OF JUDICIAL PLAN PROVISIONS

Membership Eligibility — The Judicial Retirement Plan of New Mexico includes all justices of the Supreme Court and judges of district courts, metropolitan courts and the Court of Appeals.

Retirement Eligibility — A judge or justice may retire at: 1) Age 64 with five or more years of service; or 2) Age 60 with 15 or more years of service.

Service Benefit Formula — Final average salary (calculated using the last 12 months of salary received in office prior to retirement) multiplied by a minimum of 37.5% up to a maximum of 75%, depending on years of service.

Early Retirement Pension — Applicable to judges or justices between the ages of 50 and 60 with 18 or more years of service. The pension is 70% of final average salary (received during the last year in office prior to retirement) plus 0.5% of final average salary multiplied by the number of complete years the age at retirement exceeds age 50.

Cost of Living Adjustment — Pensions are increased each July 1 by 3% if the retirement has been in effect for at least two full calendar years. If retired because of disability or if at least age 65, the two-calendar-year waiting period is reduced to one full calendar year.

Death Benefits — The surviving beneficiary of an active or retired member would receive 75% of the member's vested pension until death. The pension is payable to the deceased member's minor and dependent children if there is no eligible surviving spouse or designated survivor beneficiary.

Refunds — A terminated member is eligible for a 100% refund of member contributions plus interest. There is a 30 to 45 day refund processing period after the completed application is received by PERA.

Purchase of Service Credit — A JRA, PERA or MRA member or current contributing member of ERA may purchase previously refunded service credit by paying a lump sum amount plus interest.

Contribution Rates — The contribution rate for judges and justices prior to July 1, 2005 is 5.5% of salary, and from July 1, 2005 to June 30, 2006 the contribution rate for judges and justices is 6.5% of salary. Prior to July 1, 2005 the employer contributes 9% of salary and from July 1, 2005 to June 30, 2006 the employer contributes 10.5%, plus \$38 from each civil case docket fee paid in the district court, \$25 from each civil case docket fee paid in metropolitan court and \$10 from each jury fee paid in metropolitan court.

Interest — 5.25% on member contributions.

PERA COMPREHENSIVE ANNUAL FINANCIAL REPORT

(continued)

SUMMARY OF MAGISTRATE PLAN PROVISIONS

Membership Eligibility — The Magistrate Retirement Plan of New Mexico includes all magistrate court judges.

Retirement Eligibility — A member may retire at: 1) Age 64 with five or more years of service; 2) Age 60 with 15 or more years of service; or 3) Any age with 24 or more years of service.

Service Benefit Formula — Final average salary (calculated by using the last 12 months of salary received in office prior to retirement) multiplied by a minimum of 37.5% up to a maximum of 75%, depending on years of service.

Cost of Living Adjustment — Pensions are increased each July 1 by 3% if the retirement has been in effect for at least two full calendar years. If retired because of disability or if at least age 65, the two-calendar-year waiting period is reduced to one full calendar year.

Death Benefits — The surviving beneficiary of an active or retired member would receive 75% of the member's vested pension until death. The pension is payable to the deceased member's minor and dependent children if there is no eligible surviving spouse or designated survivor beneficiary.

Refunds — A terminated member is eligible for a 100% refund of member contributions plus interest. There is a 30 to 45 day refund processing period after the completed application is received by PERA.

Purchase of Service Credit — An MRA, PERA or JRA member or contributing member of ERA may purchase previously refunded service credit by paying a lump sum amount plus interest.

Contribution Rates — The contribution rate of members prior to July 1, 2005 is 5.5% of salary, and from July 1, 2005 to June 30, 2006 the contribution rate of members is 6.5% of salary. Prior to July 1, 2005 the employer contributes 9% of salary and from July 1, 2005 to June 30, 2006 the employer contributes 10% of salary, plus \$25 from each civil case docket fee and \$10 from each jury fee paid in the magistrate or metropolitan court.

Interest — 5.25% on member contributions.

SUMMARY OF VOLUNTEER FIREFIGHTERS PLAN PROVISIONS

Membership Eligibility — The Volunteer Firefighters Retirement Plan of New Mexico includes any active volunteer unsalaried firefighter whose first year of service credit was earned during or after the year he or she attained age 16.

Retirement Eligibility — A member may retire with a full retirement annuity at age 55 with 25 or more years of service credit or with a reduced retirement annuity at age 55 with at least 10 but less than 25 years of service credit.

Service Credit — A year of service credit may be granted upon required certification for each year the member: 1) attended 75% of all scheduled fire drills; 2) attended 75% of all scheduled business meetings; and 3) participated in at least 50% of all emergency response calls which the fire department held him or her responsible to attend.

Adjusted Service Credit — For service credit that was earned, but not credited, prior to January 1, 2005, a member may post or adjust one to five years of additional service credit by filing the correction with PERA no later than December 31, 2005.

Service Benefit Formula — The full retirement annuity is \$200 per month with 25 or more years of service credit. The reduced retirement annuity is \$100 per month with 10 but less than 25 years of service credit.

Cost of Living Adjustment — Retired volunteer firefighters are not eligible for a Cost of Living Adjustment.

Death Benefits — The surviving spouse of a deceased annuitant receives a pension equal to two-thirds of the retirement annuity being paid at the time of death. The annuity ceases upon the surviving spouse's marriage or death.

Contributions — Funding from the State's Fire Protection Fund is transferred annually to the Volunteer Firefighters Retirement Fund. The amount transferred in FY 2005 was \$750,000.

SUMMARY OF LEGISLATIVE PLAN PROVISIONS

Membership Eligibility — The New Mexico Legislative Retirement Plans include any state legislators and lieutenant governors.

RETIREMENT ELIGIBILITY

STATE LEGISLATOR MEMBER COVERAGE PLAN 1

AGE	YEARS OF OF CREDITED SERVICE
Any	14 or more
60+	12 or more
63+	11 or more
64+	8 or more
65+	5 or more

STATE LEGISLATOR MEMBER COVERAGE PLAN 2

AGE	YEARS OF OF CREDITED SERVICE
Any	10 or more
65+	5 or more

Service Benefit Formula

The annual pension for State Legislator Member Coverage Plan 1 is \$500 multiplied by the years of credited service. The annual pension for State Legislator Member Coverage Plan 2 is 11% of the per diem rate in effect multiplied by 60 and further multiplied by the member's service credit.

Cost of Living Adjustment — Pensions are increased each July 1 by 3% if the retirement has been in effect for at least two full calendar years. If retired because of disability or if at least age 65, the two-calendar-year waiting period is reduced to one full calendar year.

Death Benefits — There is no annuity for the surviving spouse, children, or beneficiary.

Contributions — Members contribute \$100 for each year of credited service under State Legislator Member Coverage Plan 1. Members contribute \$500 for each year of credited service under State Legislator Member Coverage Plan 2 less the amount of any prior contributions made under State Legislator Member Coverage Plan 1. An additional annual appropriation to the Legislative Retirement Fund is determined by the actuarial valuation.

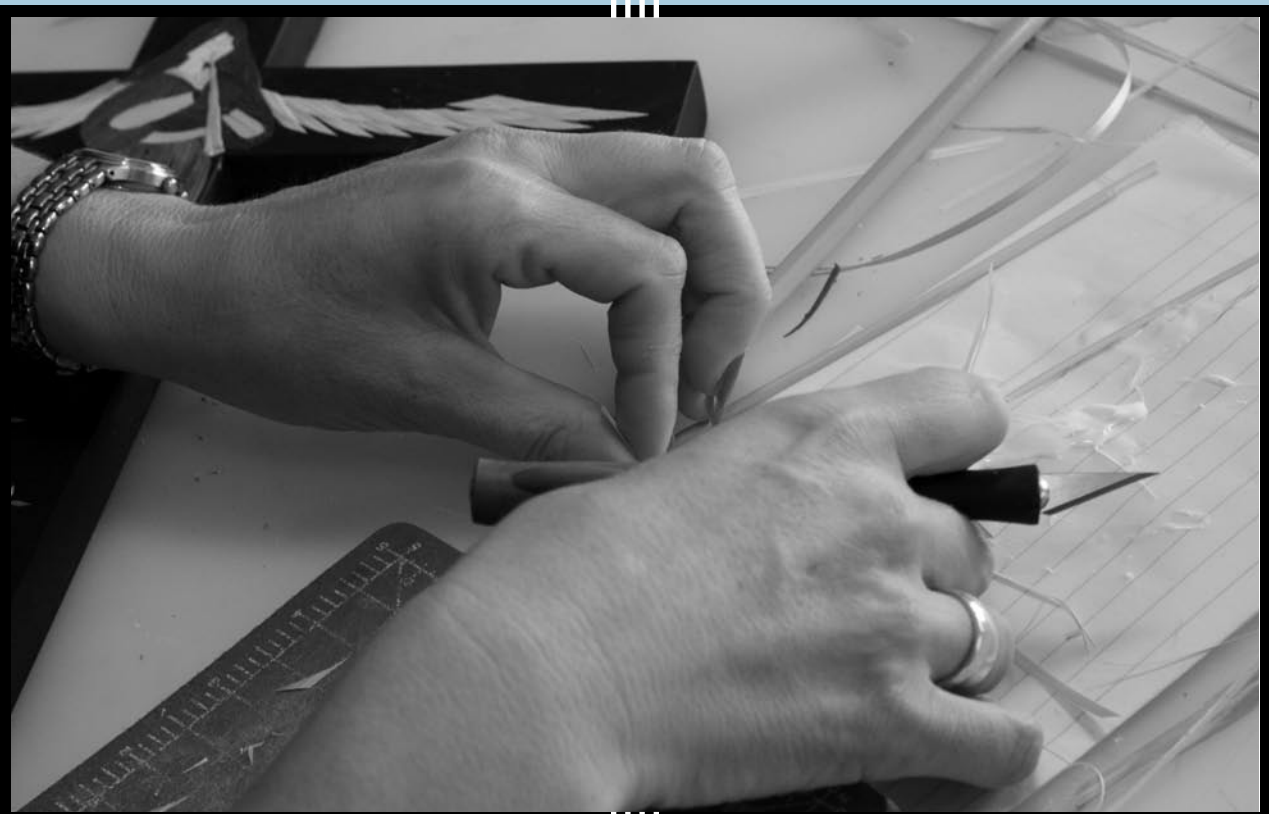
Interest — 5.25% on member contributions.

NOTE:

¹ **IMPORTANT NOTICE:** This summary is intended to provide basic background about PERA plan provisions. As a result, the information contained herein is of a general nature and may not apply to all situations. Additionally, future changes to the N.M. State statutes or PERA rules that govern these provisions may make some of the information obsolete. In all situations the provisions of the Public Employees Retirement, the Judicial Retirement, the Magistrate Retirement, and the Volunteer Firefighters Retirement Acts, along with the rules of the Association, control and override any statement or information contained in this summary. This summary is not a contract. It is not intended to and cannot be considered to create any contractual obligation on the part of PERA.



**Public Employees
Retirement Association**
of New Mexico





SCHEDULE OF REVENUES BY SOURCE

	MEMBER CONTRIB	EMPLOYER CONTRIB			AS A PERCENT OF COVERED PAYROLL	NET INVESTMENT INCOME	OTHER INCOME	TOTAL ADDITIONS
		EMPLOYER CONTRIB CONTRIB	DOCKET FEES/APPROP					
PERA								
2000	\$127,982,964	\$182,000,473	-	14.50%	\$834,762,076	\$2,599,213	\$1,147,344,726	
2001	137,596,564	196,544,110	-	15.01%	(166,424,502)	1,052,354	166,768,526	
2002	143,832,702	204,734,125	-	14.65%	(175,298,706)	157,259	173,425,380	
2003	149,813,944	213,712,566	-	14.71%	278,314,427	198,358	642,039,295	
2004	155,424,078	223,058,780	-	14.90%	1,247,763,151	257,325	1,626,503,334	
2005	164,602,706	234,231,976	-	14.57%	901,134,769	(450,199)	1,299,519,252	
JUDICIAL								
2000	\$365,059	\$617,537	\$1,502,163	9.07%	\$6,099,713	-	\$8,584,472	
2001	359,386	646,499	1,512,564	9.09%	(1,206,890)	-	1,311,559	
2002	378,579	681,365	1,369,639	9.00%	(1,288,210)	-	1,141,373	
2003	372,344	670,204	1,447,573	9.07%	1,837,249	-	4,327,370	
2004	534,808	869,634	1,775,910	9.68%	8,421,536	-	11,601,888	
2005	543,554	890,723	1,843,947	9.01%	6,232,090	-	9,510,314	
MAGISTRATE								
2000	\$181,283	\$315,523	\$623,942	9.08%	\$2,877,319	\$2,848	\$4,000,915	
2001	194,790	323,354	958,987	9.00%	(532,395)	-	944,736	
2002	193,464	347,788	797,989	9.01%	(610,933)	-	728,308	
2003	204,936	353,613	789,261	8.96%	1,020,305	-	2,368,115	
2004	149,000	268,197	510,814	8.70%	4,502,751	-	5,430,762	
2005	171,953	282,679	480,396	8.84%	2,861,660	-	3,796,688	
VOLUNTEER FIREFIGHTERS								
2000	-	-	\$1,250,000	N/A	\$2,659,693	-	\$3,909,693	
2001	-	-	1,000,000	N/A	(556,750)	-	443,250	
2002	-	-	500,000	N/A	(586,530)	-	(86,530)	
2003	-	-	750,000	N/A	1,013,993	-	1,763,993	
2004	-	-	750,000	N/A	4,407,912	-	5,157,912	
2005	-	-	750,000	N/A	3,237,864	-	3,987,864	

SCHEDULE OF EXPENSES BY TYPE

Fiscal Year Ended June 30, 2005

YEAR	BENEFIT PAYMENTS	REFUNDS	ADMINISTRATIVE EXPENSES	TOTAL
PERA				
2000	\$264,480,078	\$26,811,590	\$3,272,761	\$294,564,429
2001	291,118,491	27,357,500	3,993,496	322,469,487
2002	318,441,086	25,624,513	3,815,183	347,880,782
2003	349,178,208	25,985,842	6,755,844	381,919,894
2004	387,306,615	28,146,201	8,257,055	423,709,871
2005	427,084,483	29,416,645	11,690,755	468,191,883
JUDICIAL				
2000	\$3,184,925	\$9,210	\$7,858	\$3,201,993
2001	3,427,332	413	8,367	3,436,112
2002	3,498,724	-	9,113	3,507,837
2003	4,029,986	-	12,012	4,041,998
2004	4,450,515	30,593	13,210	4,494,318
2005	4,686,441	94	20,576	4,707,111
MAGISTRATE				
2000	\$1,064,999	141	5,666	1,070,806
2001	1,122,418	13,570	6,130	1,142,118
2002	1,196,982	2,020	6,754	1,205,756
2003	1,462,139	-	9,697	1,471,836
2004	1,591,230	-	6,224	1,597,454
2005	1,624,220	-	8,767	1,632,987
VOLUNTEER FIREFIGHTERS				
2000	\$211,565	N/A	-	\$211,565
2001	232,552	N/A	-	232,552
2002	246,773	N/A	-	246,773
2003	271,034	N/A	-	271,034
2004	307,354	N/A	-	307,354
2005	346,012	N/A	-	346,012

SCHEDULE OF RETIRED MEMBERS BY BENEFIT OPTION

BENEFIT OPTION	2000	2001	2002	2003	2004	2005
Normal single life pension terminating on death	6,497	6,835	7,125	7,421	7,782	7,898
Normal two-life 100% survivor pension for retiree & survivor	6,288	6,667	7,016	7,433	7,928	8,307
Normal two-life 50% survivor pension for retiree & survivor	2,702	2,826	2,935	3,052	3,207	3,331
Normal single life with temporary child survivor pension	79	88	96	116	127	140
Disability single life pension terminating on death	295	292	210	200	205	206
Disability two-life 100% survivor pension for retiree & survivor	480	491	470	504	536	595
Disability two-life 50% survivor pension for retiree & survivor	93	88	87	98	105	113
Disability single life with temporary child survivor pension	14	14	13	14	17	18
Preretirement survivor pension	733	736	772	792	823	788
Judicial retirement	78	78	79	87	88	89
Magistrate retirement	35	36	37	46	44	44
Volunteer firefighters retirement	184	200	216	234	272	298
Legislative retirement	84	89	93	98	128	132
TOTAL	17,562	18,440	19,149	20,095	21,262	21,959

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Fiscal Year Ended June 30, 2005

DIV/PLAN	YEARS OF CREDITED SERVICE					
	4 – 10	10 – 15	15 – 20	20 – 25	25 – 30	30+
2000						
Average Monthly Benefit	*	*	*	*	*	*
Average Final Average Salary	*	*	*	*	*	*
Number of Active Retired	*	*	*	*	*	*
2001						
Average Monthly Benefit	*	*	*	*	*	*
Average Final Average Salary	*	*	*	*	*	*
Number of Active Retired	*	*	*	*	*	*
2002						
Average Monthly Benefit	*	*	*	*	*	*
Average Final Average Salary	*	*	*	*	*	*
Number of Active Retired	*	*	*	*	*	*
2003						
Average Monthly Benefit	*	*	*	*	*	*
Average Final Average Salary	*	*	*	*	*	*
Number of Active Retired	*	*	*	*	*	*
2004						
Average Monthly Benefit	*	*	*	*	*	*
Average Final Average Salary	*	*	*	*	*	*
Number of Active Retired	*	*	*	*	*	*
2005						
Average Monthly Benefit	*	*	*	*	*	*
Average Final Average Salary	*	*	*	*	*	*
Number of Active Retired	*	*	*	*	*	*

NOTE:

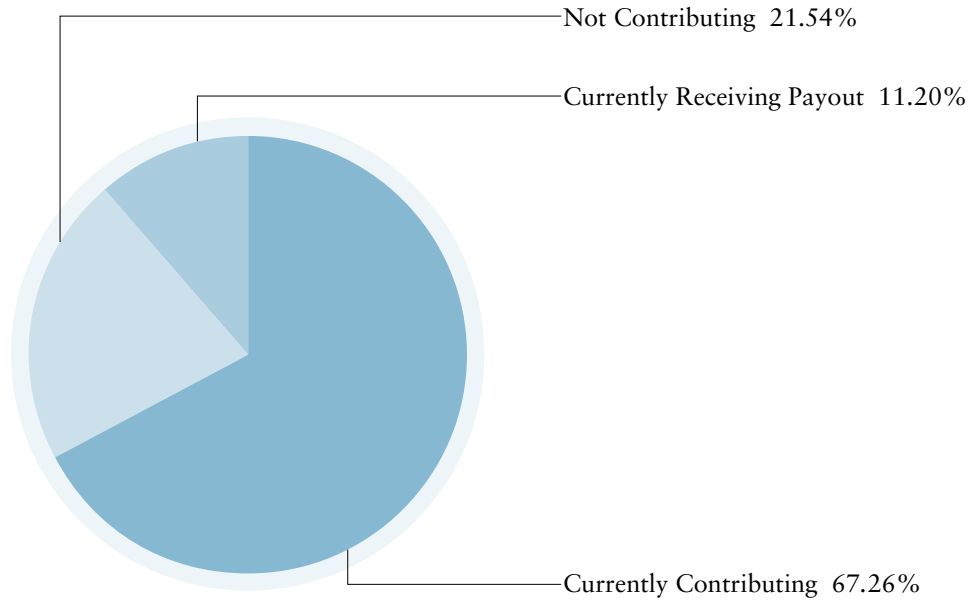
* Information not available in breakdown of years of service. New retirement information system will start accumulating years of service information for retirees.

PARTICIPATING EMPLOYERS
As of June 30, 2005

PUBLIC EMPLOYEES RETIREMENT FUND

State Agencies	118
Municipalities	81
Counties	33
Special Districts	34
Housing Authorities	15
Hospitals	2
Judicial Retirement Fund	15
Magistrate Retirement Fund	18
Volunteer Firefighters Fund	373
TOTAL	689

STATE OF NEW MEXICO
 DEFERRED COMPENSATION PLAN — SECTION 457
(numbers extracted from Nationwide Retirement Solutions report)



PARTICIPANTS AT JUNE 30, 2005

Total Plan Participants	12,777
Currently Contributing	8,594
Not Contributing	2,752
Currently Receiving Payout	1,431

STATE OF NEW MEXICO
DEFERRED COMPENSATION PLAN — SECTION 457

(continued)

ASSET ALLOCATION BY ASSET CLASS	ASSETS AS OF JUNE 30, 2005	% OF TOTAL ASSETS
Domestic Equity Funds:		
Large Cap Funds	\$91,911,547	37.38%
Mid Cap Funds	6,745,504	2.74%
Small Cap Funds	6,258,165	2.55%
International Equity Funds	8,845,760	3.60%
Balanced Funds	12,610,744	5.13%
Fixed Income Funds	4,892,893	1.98%
Lifecycle Portfolios	1,357,300	0.54%
Stable Value & Self-directed	113,267,468	46.06%
TOTAL	\$245,889,381	100%

DEFERRED COMPENSATION PLAN COMPARATIVE INVESTMENT RESULTS

Fiscal Year Ended June 30, 2005

MANAGER	1-YEAR 2005	3-YEAR 2003 – 2005	5-YEAR 2001 – 2005
LARGE CAP FUNDS			
American Century Ultra Fund	0.9%	5.3%	-6.1%
Calvert Social Invest Equity Fund	5.6%	6.7%	2.8%
Growth Fund of America	8.9%	11.8%	-0.8%
Dodge & Cox Stock Fund	13.1%	13.0%	13.0%
Fidelity Equity – Income	6.2%	8.1%	4.5%
Fidelity Contrafund	11.9%	11.5%	2.6%
Fidelity Growth & Income Fund	5.5%	5.3%	-1.4%
Vanguard Institutional Index	6.3%	8.3%	-2.3%
SMALL CAP FUNDS			
Fidelity Low Priced Stock Fund	16.5%	15.6%	18.7%
Fidelity Small Cap Stock Fund	6.6%	12.7%	7.3%
MID CAP FUNDS			
Ariel Appreciation Fund Growth	8.9%	9.4%	12.7%
T. Rowe Price Mid Cap Growth	11.9%	13.6%	5.7%
INTERNATIONAL FUNDS			
American EuroPacific Growth Fund	15.1%	12.5%	0.5%
Fidelity Diversified Int'l	14.9%	14.6%	5.0%
FIXED INCOME FUNDS			
Vanguard Total Market Index	6.7%	5.3%	6.9%
BALANCED FUNDS			
Dodge & Cox	9.7%	11.3%	11.8%
Income Fund of America	11.4%	11.1%	9.8%
STABLE VALUE FUND	3.9%	4.3%	N/A
LIFECYCLE PORTFOLIOS	Added on February 25, 2005		



**Public Employees
Retirement Association**
of New Mexico

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