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## REACHING NEW

*comprehensive annual financial report  
year ended june 30, 2006*

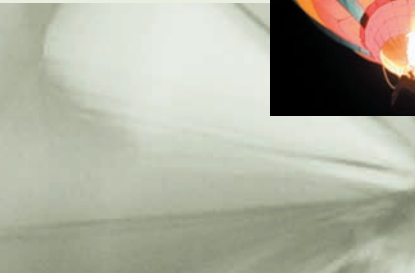
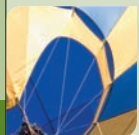
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
of new mexico



*pension trust funds  
of the state of new mexico*



heights  
REACHING<sup>NEW</sup>





*comprehensive annual financial report*  
*year ended june 30, 2006*

*pension trust funds*  
*of the state of new mexico*

prepared by PERA staff

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**Public Pension Coordinating Council**  
**Public Pension Standards**  
**2006 Award**

Presented to

**Public Employees Retirement Association**  
**of New Mexico**

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

*Presented by the Public Pension Coordinating Council, a confederation of*

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

Alan H. Winkle  
Program Administrator



**Public Employees  
Retirement Association**  
*of New Mexico*

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INTRODUCTORY SECTION









## 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*



“For this reporting period the PERA fund had a positive investment return of 11.74%, exceeding our actuarial benchmark of 8%, and bringing the fund’s net assets to \$11.4 billion. PERA’s investment performance continues to place PERA in the top ranks of large public pension funds throughout the U.S.”

October 16, 2006

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, 2006 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 11.74%, exceeding our actuarial benchmark of 8%, and bringing the fund’s net assets to \$11.4 billion. PERA’s investment performance continues to place PERA in the top ranks of large public pension funds throughout the U.S.

This is good news for the fund and membership. We should take this good news to heart in a time when many other pension funds, public and private, are undergoing stress, underfunding and even termination.

Your elected PERA Board takes its fiduciary responsibilities most seriously and we make decisions only after thorough deliberation, balancing our duties to grow the fund and control risk.

A year ago, 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 as we proceed. We are determined to act prudently as we seek to enhance our returns.

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,

David A. Baca  
PERA Board Chairman  
*County Member*



## PERA Board Members



**Mr. David A. Baca**  
Chair

County of Bernalillo  
*County Member*



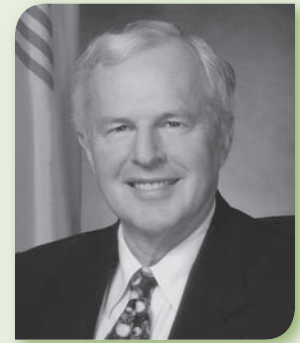
**Mr. Victor Montoya**  
Vice Chair

*Retired Member*



**The Honorable  
Rebecca Vigil-Giron**

Secretary of State  
*Ex-Officio Member*



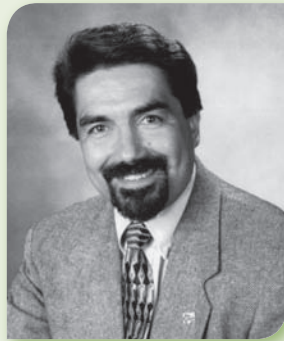
**The Honorable  
Doug Brown**

State Treasurer  
*Ex-Officio Member*



**Mr. Jeff Riggs**

Educational Retirement  
Board  
*State Member*



**Mr. Danny Sandoval**

Children, Youth &  
Families Department  
*State Member*



**Mr. Jeff A. Varela**

Administrative Office  
of the Courts  
*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*



“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.”

October 31, 2006

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, 2006 (FY06). 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).

PERA received the 2006 Public Pension Coordinating Council Certificate of Achievement for its FY05 CAFR.

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 31.

### 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 26 to 28.



## PERA Executive Director's Letter

(continued)

- 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 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 2006 Highlights*

#### Summary of Financial Information

The following schedule is a summary of the Funds' additions and deductions for the years ended June 30, 2006, and June 30, 2005.

	June 30, 2006	June 30, 2005
Additions	\$1,625,308,541	\$1,316,814,118
Deductions	(514,837,169)	(474,877,993)
<b>Net Change</b>	<b>\$1,110,471,372</b>	<b>\$841,936,125</b>

Additions increased by \$308,494,423 primarily due to an increase in net investment income of \$279,210,605. Deductions increased by \$39,959,176 primarily due to an increase of \$40,617,415 in benefit payouts while administrative expenses were reduced by \$1,513,105 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 pages 49–50. During the year ended June 30, 2006, the funded ratio of PERA, which covers 84,000 participants, was 92%. 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 11.74% for the year ended June 30, 2006. The policy benchmark return for the year was 9.88%. 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 2006 was 11.74%, allowing PERA to beat its policy target benchmark. It is also worth noting that total investment earnings over the past 10 years exceeded \$ 8.398 billion (based on invested assets of \$3.267 billion as of 6/30/96) and the annualized return over the 10-year period was 9.9% vs. the policy benchmark return of 8.28%.

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

### Legislation Enacted During the 2006 Legislative Session

**Moratorium on Benefit Enhancements** — By joint memorial in the 2005 legislative session, the Legislature declared a moratorium on benefit enhancements for PERA members through the end of 2006. No enhancements were passed during the 2005 and 2006 legislative sessions. By the end of calendar year 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. As of January 1, 2007, PERA employers who hire retired PERA members will bear both the employer and the rehired retiree contribution responsibilities. The PERA Board is authorized by statute to set the actuarial rates which the employers will be required to contribute going forward.

No legislation affecting PERA was passed during the 2006 legislative session.

### 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 project. It is essential to the efficient and accurate processing of increasing member retirements and inquiries. In August 2006 PERA implemented a self-serve online option for members to access their account information and make a variety of updates to the demographic information for their accounts.

### 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 and investment returns. 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.



## PERA Executive Director's Letter

*(continued)*

### Independent Audit

An annual audit of PERA's Financial Statements has been performed this year by the independent accounting firm of Moss Adams, 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.

### 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 and Ms. Patricia Thaxton, PERA Liaison Officer, for coordinating the preparation of this report. 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. There will be many challenges in the coming year. I believe we can meet the challenges and make them great opportunities.

Sincerely yours,

Terry Slattery, CEBS  
*Executive Director*





### 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*  
 Ramona Moore, *Accountant Auditor*  
 Sharon Moya, *Accountant Auditor*  
 Art Trujillo, *Accountant Auditor*

### Contribution Accounting

Herb Romero, *Bureau Chief*  
 Renee Baros, *Accountant Auditor*  
 Christine Carillo, *Accountant Auditor*

### Deferred Compensation

JoAnn Garcia, *Manager*

### Human Resources

Mary Ellen Trujillo,  
*Human Resource Administrator, Senior*

### Information Systems

Greg Portillos, *Information Systems Manager*  
 Mike Gonzales, *Programmer Analyst II*  
 Andres Martinez, *IS Network Specialist I*  
 Leonard Martinez, *Computer Systems Analyst*  
 Kevin Payne, *Software Engineer*  
 Vacant, *IS Network Administrator I*

### Investments

Robert Gish, *Director of Investments*  
 Dominic Garcia, *Deputy Director of Investments*  
 Julian Baca, *Portfolio Management*  
 Jason Goeller, *Portfolio Management*  
 Debbie O'Dell, *Financial Analyst*  
 Sandy Perez, *Financial Analyst*

### 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*  
 Ronald La Pointe, *Lead Man*  
 John Waterman, *Custodial Supervisor*  
 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*  
 Benny Vigil, *Custodial Worker*  
 Patrick Vigil, *Custodial Worker*  
 William Vigil, *Custodial Worker*  
 Joe Zamora, *Maintenance and Repair*

### Member Services

Vince Jaramillo, *Bureau Chief*

### Albuquerque Office

Janice Campos, *Public Relations Specialist*  
 Bernadette Meyer, *Financial Specialist*  
 Donna Morelos, *Customer Service Representative*

### Customer Services

Rose Rael, *Manager*  
 Monica Madrid, *Customer Service Representative*  
 Theresa Martinez, *Customer Service Representative*  
 Felicia Sena, *Customer Service Representative*  
 Melissa Shelley, *Customer Service Representative*  
 Mequealla Tena, *Customer Service Representative*

### Requests

Christina Gauthier, *Financial Specialist*  
 Natalia Manzanares, *Financial Specialist*  
 Nicole Tapia, *Financial Specialist*

### Quality Control

Monica Varela, *Manager*  
 Angela Romero, *Disability Administrator*  
 Jessica Maldonado, *Clerk Specialist*

### Retirements

Claudine Serna, *Manager*  
 Brenda Cordova, *Financial Specialist*  
 Angel Lujan, *Financial Specialist*  
 Jessica Perea, *Financial Specialist*  
 Joyce Rivera, *Financial Specialist*

### Annuitant Payroll

Nora Solano, *Manager*  
 Denise Vialpando, *Office Clerk*

### User Administration

Michael Martinez, *Database Administrator*  
 John Chavez, *Computer Database Administrator*  
 Xochitl Costales, *Administrative Secretary*  
 Leslie Miller, *Computer Support Specialist*



# PERA Organizational Chart





	June 30, 2005	June 30, 2006
<b>PERA Members</b>	56,949	60,904
State	23,969	26,980
Municipal	26,376	27,807
Judicial	118	129
Magistrate	51	63
Volunteer Firefighters	6,306	5,804
Legislative	129	121
<b>Retired Members and Beneficiaries</b>	22,336	23,187
State	11,728	12,154
Municipal	10,021	10,408
Judicial	94	97
Magistrate	44	48
Volunteer Firefighters	311	343
Legislative	138	137
<b>Retirement Benefits</b>	\$433,741,156	\$474,358,571
<b>Contribution Refunds</b>	\$29,416,739	\$30,271,605
<b>Participating Employers</b>	689	691
State	118	118
Municipal	81	81
Counties	33	33
Housing Authorities	15	15
Special Districts	34	36
Hospitals / Clinics	2	2
Volunteer Fire Departments	373	373
Judicial	15	15
Magistrate	18	18
<b>Contributions:</b>		
<b>Member contributions</b>	\$161,354,257	\$170,707,950
<b>Employer contributions</b>	\$237,729,721	\$253,742,916
<b>Total PERA Net Assets</b>	\$10,258,725,064	\$11,369,196,436



## Member Communications

### 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 1,355 normal retirement applications, 130 disability and 37 survivor retirements 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 plan, legislative updates, news from our Board and other relevant subjects. PERA created a new publication to explain benefits available to judicial and magistrate members. That publication was the *Judges and Magistrates Member Handbook*. 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: Quay, Santa Fe and Taos counties; Town of Red River and the City of Albuquerque and Elephant Butte Irrigation District as a potential new affiliated employer. He also made presentations at meetings of the Revenue Stabilization and Taxation Interim Committee and the Permanent Fund Investments Task Force. PERA liaison officers also visited the following affiliates: the cities and towns of Alamogordo, Albuquerque, Bernalillo, Carlsbad, Columbus, Deming, Farmington, Grants, Hobbs, Las Cruces, Milan, Rio Rancho, Roswell, Ruidoso, Santa Fe, Socorro, Taos, and Truth or Consequences; the counties of Bernalillo, Chaves, 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 84 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. The FY06 Annual Member Statements were mailed in August 2006. 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](http://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 53,154 calls in FY06.



### **Actuary**

**Gabriel, Roeder, Smith & Co.**

Consultants & Actuaries  
One Towne Square, Suite 800  
Southfield, Michigan 48076

### **Auditor**

**Moss Adams, LLP**

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

### **Investment Consultant**

**R. V. Kuhns & Associates**

1000 SW Broadway, Ste. 1680  
Portland, Oregon 97205

**Cliffwater, LLC**

Marina Towers  
4640 Admiralty Way, Suite 1101  
Marina del Rey, CA 90292-6623

### **Pension Administration System Consultant**

**L.R. Wechsler, Ltd.**

10394 Democracy Lane  
Fairfax, Virginia 22030



**Public Employees  
Retirement Association**  
*of New Mexico*

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**FINANCIAL** SECTION









**Public Employees  
Retirement Association**  
*of New Mexico*



## Independent Auditor's Report



CERTIFIED PUBLIC ACCOUNTANTS

6100 Uptown Blvd NE, Suite 400  
Albuquerque, NM 87110

Phone 505.830.6200  
FAX 505.830.6282  
www.mossadams.com

### Independent Auditors' Report

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, 2006, 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, 2006, 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 plan net assets of PERA as of June 30, 2006, and changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the individual financial statements of each Fund referred to above present fairly, in all material respects, the plan net assets of each of the individual funds administered by PERA as of June 30, 2006, and changes in plan net assets 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.

A member of  
Moore's Rowland International  
an association of independent  
accounting firms throughout  
the world



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.

*Mess Adams LLP*

November 17, 2006  
Albuquerque, New Mexico



## Management's Discussion and Analysis

June 30, 2006

This discussion and analysis of the Public Employees Retirement Fund, the Judicial Retirement Fund, the Magistrate Retirement Fund, and the Volunteer Firefighter Retirement Fund (collectively, the "Funds") of the Public Employees Retirement Association of New Mexico (PERA) for the year ended June 30, 2006 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 \$1.1 billion. All individual pension funds experienced an increase in net assets.

The increase in net assets was due to a combination of contributions revenue of \$432.1 million and investment income of \$1.2 billion then reduced by the cost of benefit payments, refunds, and other expenses.

Total assets increased by \$2.9 billion due primarily to an increase in the investment and broker receivable amounts.

Benefit payments to retirees increased by \$40.6 million due to an increased number of retirees, and refunds of member contributions only slightly increased.

### PERA Highlights

Effective July 1, 2005, the New Mexico Legislature repealed the provisions in NMSA 1978 Subsection 10-11-132 that set forth a list of allowable investments. It adopted the Uniform Prudent Investor Act, which is cited as (UPIA) and is in the NMSA 1978 Subsection 45-7-601 to 612. On December 29, 2005, PERA amended its investment policy adopting UPIA.

### 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 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.

### 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:

	2006	2005
<b>All Funds</b>		
Assets	\$14,996,926,119	\$12,053,109,484
Liabilities	3,627,729,683	1,794,384,420
Net Assets	11,369,196,436	10,258,725,064
<b>Change in Net Assets</b>	<b>1,110,471,372</b>	<b>841,936,125</b>

## Management's Discussion and Analysis

(continued)



The increase in assets from fiscal year 2005 to fiscal year 2006 is due primarily to an increase in investments. Liabilities are increased because of a higher amount of securities lending liability. The total net assets held by PERA increased during the fiscal year ended June 30, 2006 by \$1,110,471,372, 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.

The most significant pension plan administered by PERA included the following balances at the years ended June 30, 2006 and 2005:

	2006	2005
<b>PERA Fund Only</b>		
Cash & equivalents	\$786,032,122	\$771,030,496
Receivables	915,869,840	1,063,538,718
Investments	13,089,905,548	10,052,742,886
Capital Assets, Net	1,134,619	1,326,030
<b>Total Assets</b>	<b>14,792,942,129</b>	<b>11,888,638,130</b>
Accounts Payable	1,486,028,194	1,767,152,493
Accrued Expenses & Other Liabilities	2,091,897,820	2,415,769
<b>Total Liabilities</b>	<b>3,577,926,014</b>	<b>1,769,568,262</b>
<b>Net Assets Held in Trust</b>	<b>\$11,215,016,115</b>	<b>\$10,119,069,868</b>

Securities lending assets and liabilities (included in accrued expenses and other liabilities) are both higher at June 30, 2006 due to increased activity in the securities lending area 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, 2006 and 2005:

	2006	2005
<b>PERA Fund Only</b>		
<b>Additions:</b>		
Contributions	\$426,478,034	\$399,340,178
Invest Income (less Inv Exp)	322,417,094	271,242,676
Net Appreciation of FV Invest	854,078,101	629,892,093
Other Income	494,610	76,855
<b>Total Additions</b>	<b>1,603,467,839</b>	<b>1,300,551,802</b>
<b>Deletions:</b>		
Benefit Payments	(467,102,032)	(427,084,483)
Refunds	(30,245,512)	(29,416,645)
Administrative Expenses	(10,174,048)	(11,690,755)
<b>Total Deletion</b>	<b>(507,521,592)</b>	<b>(468,191,883)</b>
<b>Change in net assets</b>	<b>\$1,095,946,247</b>	<b>\$832,359,919</b>



## 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.

	2006	2005	% Increase
<b>Net Assets</b>			
Public Employees Retirement Fund	\$11,215,016,115	\$10,119,069,868	11.0 %
Judicial Retirement Fund	77,415,338	70,590,014	9.7 %
Magistrate Retirement Fund	35,394,513	32,365,257	9.4 %
Volunteer Firefighter Fund	41,370,470	36,699,925	12.7 %
<b>Total – All Funds</b>	<b>\$11,369,196,436</b>	<b>\$10,258,725,064</b>	

### Budget Comparisons

Due to the success of the investment program, the “Contractual services” expenditures in Administration increased primarily as a result of an increase in investment managers’ fees. The increase in appropriations was necessary to cover those expenditures. Due to the pending sale of the PERA building, renovation costs were not expended resulting in the \$289 thousand positive variance of “Other operating costs.” Since interest income is substantial in comparison to expenditures, only amounts necessary to pay for PERA’s expenditures were budgeted.

### 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, 2006 and 2005:

	2006	2005
<b>Carrying Value</b>		
Property and Equipment	\$1,134,619	\$1,324,333
Computer Improvement Plan	—	1,697
<b>Total</b>	<b>\$1,134,619</b>	<b>\$1,326,030</b>

### Long-Term Debt

There was no long-term debt activity.

### Infrastructure

PERA has no infrastructure assets 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.

# Statements of Plan Net Assets

June 30, 2006



	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund	Total
<b>Assets</b>					
Cash and cash equivalents	\$786,032,122	5,515,684	2,501,518	2,870,042	\$796,919,366
<b>Receivables</b>					
Accrued investment income	44,664,490	310,553	142,319	165,952	45,283,314
Accounts receivable – brokers	847,893,740	5,875,684	2,688,340	3,150,982	859,608,746
Contributions receivable	21,272,198	164,420	63,574	–	21,500,192
Accounts receivable – other	1,606,829	3,798	–	–	1,610,627
Interfund receivable	432,583	–	–	–	432,583
	915,869,840	6,354,455	2,894,233	3,316,934	928,435,462
<b>Investments, at Fair Value</b>					
U.S. Government and agency securities	2,204,330,759	15,275,440	6,989,073	8,191,836	2,234,787,108
Municipal bonds	3,444,391	23,869	10,921	12,800	3,491,981
Corporate equity securities	4,565,616,705	31,636,956	14,474,921	16,967,276	4,628,695,858
Corporate obligations	1,083,825,443	7,510,629	3,436,388	4,027,762	1,098,800,222
International securities	3,116,911,269	21,599,387	9,882,510	11,583,209	3,159,976,375
	10,974,128,567	76,046,281	34,793,813	40,782,883	11,125,751,544
Securities lending collateral investments	2,092,276,981	14,498,937	6,633,794	7,775,416	2,121,185,128
Investment in building	23,500,000	–	–	–	23,500,000
<b>Total Investments</b>	13,089,905,548	90,545,218	41,427,607	48,558,299	13,270,436,672
Capital assets, net	1,134,619	–	–	–	1,134,619
<b>Total Assets</b>	\$14,792,942,129	102,415,357	46,823,358	54,745,275	\$14,996,926,119
<b>Liabilities</b>					
Accounts payable – brokers	\$1,479,797,966	10,254,616	4,691,862	5,499,293	\$1,500,243,737
Accounts payable – other	6,230,228	–	1,058	–	6,231,286
Accrued expenses and other liabilities	521,425	28,553	–	–	549,978
Interfund payable	–	224,154	104,986	103,443	432,583
Securities lending liability	2,091,376,395	14,492,696	6,630,939	7,772,069	2,120,272,099
	\$3,577,926,014	25,000,019	11,428,845	13,374,805	\$3,627,729,683
<b>Net Assets Held in Trust for Pension Benefits (A Schedule of Funding Progress for each fund is presented on page 49)</b>					
	\$11,215,016,115	77,415,338	35,394,513	41,370,470	\$11,369,196,436



## Statements of Changes in Plan Net Assets

June 30, 2006

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund	Total
<b>Additions</b>					
<b>Contributions</b>					
Employer	\$249,740,236	3,153,706	848,974	–	\$253,742,916
Member	169,801,721	697,482	208,747	–	170,707,950
Appropriations from State of New Mexico – Fire Protection Fund	–	–	–	750,000	750,000
Service credits purchased	6,936,077	–	–	–	6,936,077
<b>Total Contributions</b>	<b>426,478,034</b>	<b>3,851,188</b>	<b>1,057,721</b>	<b>750,000</b>	<b>432,136,943</b>
<b>Investment Income</b>					
Interest	177,826,934	1,221,539	558,068	651,012	180,257,553
Dividends	154,683,020	1,075,489	492,418	574,267	156,825,194
Real estate operating income, net	1,342,450	–	–	–	1,342,450
Net appreciation in fair value of investments	854,078,101	5,956,098	2,725,598	3,158,702	865,918,499
Securities lending income	71,657,087	496,660	227,255	266,271	72,647,273
Other investment income	6,647,770	46,370	21,226	24,677	6,740,043
	<b>1,266,235,362</b>	<b>8,796,156</b>	<b>4,024,565</b>	<b>4,674,929</b>	<b>1,283,731,012</b>
Securities lending expenses	(66,168,174)	(458,528)	(209,793)	(245,897)	(67,082,392)
Other investment expense	(23,571,993)	(200,677)	(95,519)	(103,443)	(23,971,632)
<b>Net Investment Income</b>	<b>1,176,495,195</b>	<b>8,136,951</b>	<b>3,719,253</b>	<b>4,325,589</b>	<b>1,192,676,988</b>
Other income	494,610	–	–	–	494,610
<b>Total Additions</b>	<b>1,603,467,839</b>	<b>11,988,139</b>	<b>4,776,974</b>	<b>5,075,589</b>	<b>1,625,308,541</b>
<b>Deductions</b>					
Benefit payments	467,102,032	5,113,244	1,738,251	405,044	474,358,571
Refunds to terminated employees	30,245,512	26,093	–	–	30,271,605
Administrative expenses	10,174,048	23,478	9,467	–	10,206,993
<b>Total Deductions</b>	<b>507,521,592</b>	<b>5,162,815</b>	<b>1,747,718</b>	<b>405,044</b>	<b>514,837,169</b>
<b>Increase in Net Assets</b>	<b>1,095,946,247</b>	<b>6,825,324</b>	<b>3,029,256</b>	<b>4,670,545</b>	<b>1,110,471,372</b>
<b>Net Assets Held in Trust For Pension Benefits</b>					
Beginning of year	10,119,069,868	70,590,014	32,365,257	36,699,925	10,258,725,064
<b>End of year</b>	<b>\$11,215,016,115</b>	<b>77,415,338</b>	<b>35,394,513</b>	<b>41,370,470</b>	<b>\$11,369,196,436</b>





## Note 1. General Description Of The Association And Retirement Funds

### A. General

The Public Employee 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 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.

### B. 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 State of New Mexico, Department of Finance and Administration (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 \*

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

### C. 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,



## Notes to Financial Statements

(continued)

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 Fund is set forth in 10-11-3, NMSA 1978. Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (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 largest 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 and 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 or \$200 for each year of credited service; 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, 2006, was determined by the actuary to be \$797,242.

**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 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 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 NMSA 1978 10-11A-2. 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 2006 fiscal year from the Fire Protection Fund to the Volunteer Firefighters Retirement Fund.

#### D. Membership

At June 30, 2006, the number of participating government employers were:

Public Employees Retirement Fund	
State Agencies	118
Cities	81
Counties	33
Special Districts	36
Housing Authorities	15
Hospitals	2
<b>Totals</b>	<b>285</b>
Judicial Retirement Fund	15
Magistrate Retirement Fund	18
Volunteer Firefighters Retirement Fund	373



## Notes to Financial Statements

(continued)

At June 30, 2006, membership was as follows:

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund
Retirees and beneficiaries receiving benefits	22,699	97	48	343
Terminated plan members not yet receiving benefits	3,209	19	13	N/A
Active plan members	51,699	110	50	5,804

### Note 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.** Effective July 1, 2005, the New Mexico Legislature repealed the provisions in NMSA 1978 Subsection 10-11-132 that set forth a list of allowable investments. It adopted the Uniform Prudent Investor Act, which is cited as (UPIA) and is in the NMSA 1978 Subsection 45-7-601 to 612. On December 29, 2005, PERA amended its investment policy adopting UPIA. 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 values 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 Employee 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, 2006, are as follows:

Pool	
Public Employees Retirement Fund	98.64%
Magistrate Retirement Fund	0.31
Judicial Retirement Fund	0.68
Volunteer Firefighters Retirement Fund	0.37
<b>Total</b>	<b>100.00%</b>

**Capital Assets.** Effective June 17, 2005, the NM State Legislature changed the threshold for inventorying new capital assets from \$1,000 to \$5,000. No requirement was made to remove previously capitalized assets where the original cost is less than \$5,000. Capital assets costing \$5,000 (\$1,000 prior to June 17, 2005) or more used in 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:

**Members 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 2006 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



## Notes to Financial Statements

(continued)

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 2006 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.

Fund Balances as of June 30, 2006 are as follows:

	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund
Member Contribution Fund	\$1,742,082,981	5,316,135	2,246,383
Employers Accumulation Fund	2,265,633,501	30,332,540	17,741,888
Retirement Reserve Fund	7,207,299,633	41,766,663	15,406,242
<b>Total</b>	<b>\$11,215,016,115</b>	<b>77,415,338</b>	<b>35,394,513</b>

**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, 2006, PERA had \$91,620 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 \$92,238 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, 2006, 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 change 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).

### Note 3. Cash And Cash Equivalents

As of June 30, 2006, cash consisted of the following:

All cash is on deposit in a checking account with the State Treasurer.

Fund Name	Agency/ Fund	Reconciled PERA Balance at June 30, 2006	Subsequent Items Processed by DFA	DFA Balance at June 30, 2006
PERA Admin	366/606	\$13,445,808	–	13,445,808
PERA Maintenance	366/370	2,321,417	–	2,321,417
Judicial	366/603	178,583	–	178,583
Magistrate	366/604	59,600	–	59,600
Volunteer Fire	366/607	7,889	–	7,889
Deferred Comp	366/755	91,620	–	91,620
		<b>\$16,104,917</b>	–	<b>16,104,917</b>

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	\$796,919,366
Investments	13,270,436,672
<b>Total</b>	<b>\$14,067,356,038</b>



## Notes to Financial Statements

(continued)

### Note 4. Deposits, Investments, and Securities Lending Collateral Investments

**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.

	Bank Balance	Carrying Amount
PERA Trust Administration	\$22,618,267	13,445,808
PERA Building Maintenance	2,346,900	2,321,417
Deferred Compensation Operating Account	91,620	91,620
Judicial Retirement Fund	261,474	178,583
Volunteer Firefighters Retirement Fund	15,890	7,889
Magistrate Retirement Fund	101,199	59,600
<b>Total deposits at State Treasurer’s Office</b>	<b>\$25,435,350</b>	<b>16,104,917</b>

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. 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 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, 2006 and its exposure to custodial credit risk are as follows.

	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
<b>Asset Type</b>				
U.S. Government Bonds and agency securities	\$867,618,659	–	–	\$867,618,659
International Government Bonds and agency securities	108,683,068	–	–	108,683,068
International Municipal Bonds	7,476,143	–	–	7,476,143
U.S. Municipal Bonds	3,491,980	–	–	3,491,980
Corporate Bonds	750,590,043	–	–	750,590,043
U.S. Government MBS	1,338,637,941	–	–	1,338,637,941
Commercial MBS	134,424,195	–	–	134,424,195
Asset Backed Securities	134,619,781	–	–	134,619,781
Non-government C.M.O.	183,979,334	–	–	183,979,334
Index Linked Government Bonds	33,836,736	–	–	33,836,736
<b>Total Fixed Income Investments</b>	<b>3,563,357,880</b>	<b>–</b>	<b>–</b>	<b>3,563,357,880</b>
International Common Stock	2,872,818,757	–	–	2,872,818,757
Domestic Common Stock	4,605,387,445	–	–	4,605,387,445
International Preferred Stock	56,955,225	–	–	56,955,225
Domestic Preferred Stock	21,247,057	–	–	21,247,057
Domestic Convertible Equity	2,061,357	–	–	2,061,357
Domestic Corporate Convertible Bonds	3,717,806	–	–	3,717,806
International Rights/Warrants	206,017	–	–	206,017
<b>Total Equities</b>	<b>7,562,393,664</b>	<b>–</b>	<b>–</b>	<b>7,562,393,664</b>
Securities Lending		2,121,185,128	–	2,121,185,128
Investment in Real Estate			23,500,000	23,500,000
<b>Total Investments</b>				<b>\$13,270,436,672</b>

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



## Notes to Financial Statements

(continued)

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

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 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, 2006 and its exposure to credit risk are as follows:

Type	S & P Ratings	Market Value	% of Bond Portfolio
Government Bonds:	AAA	\$665,870,242	18.69%
	AA	4,464,445	0.13%
	A	14,072,419	0.39%
	BBB	30,153,149	0.85%
	BB	5,559,521	0.16%
	Not Rated	43,230,029	1.21%
Government Agencies:	AAA	200,715,929	5.63%
	AA	8,504,515	0.24%
	A	3,731,478	0.10%
Municipal Agencies:	AAA	3,309,144	0.09%
	AA	5,707,847	0.16%
	A	1,707,477	0.05%
	Not Rated	243,655	0.01%



Type	S & P Ratings	Market Value	% of Bond Portfolio
Corporate Bonds:	AAA	49,137,747	1.38%
	AA	62,726,241	1.76%
	A	234,722,743	6.59%
	BBB	189,526,959	5.32%
	BB	74,595,489	2.09%
	B	116,365,868	3.27%
	CCC	4,307,906	0.12%
	Not rated	19,207,090	0.54%
Government MBS:	AAA	1,328,324,896	37.28%
	Not Rated	10,313,045	0.29%
Commercial MBS:	AAA	114,045,052	3.20%
	BBB	889,295	.02%
	Not Rated	19,489,848	0.55%
Asset Backed Securities:	AAA	121,439,619	3.41%
	AA	2,990,558	0.08%
	A	1,505,206	0.04%
	BBB	2,961,759	0.08%
	BB	457,639	0.01%
	Not Rated	5,265,000	0.15%
	Non government Backed C.M.O.:	AAA	161,085,490
	AA	2,254,014	0.06%
	A	1,349,972	0.04%
	BBB	1,213,327	0.03%
	Not Rated	18,076,531	0.51%
Index Linked Government Bonds:	AAA	31,270,026	0.88%
	Not Rated	2,566,710	0.07%
		<b>\$3,563,357,880</b>	<b>100.00%</b>

**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 manager's contract, or Professional Services Agreement (PSA), with PERA. Duration is loosely defined as the dollar weighted average time to recover 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.



## Notes to Financial Statements

(continued)

A summary of PERA's investments and its respective maturities at June 30, 2006 and its exposure to interest rate risk are as follows:

Bond Category	Duration <sup>1</sup> in years	Percentage of Bond Portfolio
Corporate Convertible Bonds	5.85	.13%
Convertible Equity	25.11	.06%
Government Bonds	6.00	26.06%
Government Agencies	4.36	7.46%
Municipal Bonds	6.61	.38%
Corporate Bonds	6.36	26.30%
Government MBS	11.88	22.75%
Commercial MBS	14.02	4.71%
Asset Backed Securities	10.06	4.72%
Non-Government Backed C.M.O.s	15.20	6.24%
Index Linked Government Bonds	12.22	1.19%
		100.00%

This schedule excludes the duration of securities that are part of interest rate swaps and for privately held securities.

**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.

At June 30, 2006, PERA did not have 5% or more investment in any one issuer other than the Federal National Mortgage Association at 7.67% of the total investment in equity and fixed income securities.

**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 manager's 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.

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

Note:

<sup>1</sup> Weighted Average Maturity



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 2.00% (\$300 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 and the respective values at June 30, 2006.

Non-U.S. dollar denominated investments and cash and cash equivalents at June 30, 2006 are as follows:

Currency	Market Value (included in investments)			Deposits <sup>1</sup>
	Equity	Fixed Income	Total	
Australian Dollar	\$40,191,377	\$2,420,612	\$42,611,989	\$222,769
Brazilian Real	48,531,532	–	48,531,532	33
Canadian Dollar	86,376,620	2,739,519	89,116,139	423,535
Swiss Franc	167,624,336	–	167,624,336	348,084
Czech Koruna	–	–	–	3,335
Danish Krone	3,343,261	–	3,343,261	68,696
Euro	894,238,434	3,737,446	897,975,880	29,650,522
British Pound Sterling	456,050,799	5,252,244	461,303,043	1,711,759
Hong Kong Dollar	86,223,819	–	86,223,819	642,147
Hungarian Forint	11,245,462	–	11,245,462	29,915
Indonesian Rupiah	7,984,002	7,985,437	15,969,439	292,253
New Israeli Shekel	16,362,619	–	16,362,619	552,331
Japanese Yen	710,901,150	–	710,901,150	2,912,738
South Korean Won	78,945,085	3,696,902	82,641,987	1,142,230
Mexican Peso	19,023,054	13,375,007	32,398,061	1,060,200
Malaysian Ringgit	1,647,789	8,368,480	10,016,269	28,491
Norwegian Krone	4,150,656	–	4,150,656	99,258
New Zealand Dollar	–	973,781	973,781	–
Philippine Peso	5,545,716	–	5,545,716	–
Swedish Krona	27,006,007	–	27,006,007	511,769
Singapore Dollar	13,487,788	14,973,507	28,461,295	2,568,853
Thai Baht	22,782,496	–	22,782,496	21,944
Turkish Lira	12,973,884	–	12,973,884	464,611
New Taiwan Dollar	50,699,074	–	50,699,074	455,060
South African Rand	63,429,934	2,671,507	66,101,441	835,878
	\$2,828,764,894	\$66,194,442	\$2,894,959,336	\$44,046,411
% of total investments or cash and cash equivalents			26.02%	5.60%

Notes:

<sup>1</sup> Included in cash and cash equivalents.



## Notes to Financial Statements

(continued)

### Note 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, 2006, the Funds' investment portfolios, excluding securities lending collateral investments, included mortgage-backed securities issued by agencies of the United States government of \$1,338,637,941, 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, 2006, the Funds' investment portfolio, excluding securities lending collateral investment, included corporate asset-backed securities with a fair value of \$134,619,781. 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, 2006, the Funds had outstanding forward exchange currency contracts to purchase foreign currencies of \$46,626,362 and to sell foreign currencies of \$46,626,362. The market values of these outstanding contracts at June 30, 2006, were \$46,726,160 and \$46,774,285, respectively. These contracts are not reflected in the Statement 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.

Additionally, the Funds have undertaken a Currency Alpha program, which buys and sells forward foreign currency contracts on a notional basis. The intention of the program is to provide incremental net income to the Funds through market value appreciation of the forward foreign currency contracts. As of June 30, 2006 the net market value unrealized gain/loss of the forward foreign currency contracts in the Currency Alpha program was (\$1,157,029).

### Note 6. Securities Lending

NMSA 1978 10-11-132 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, 2006, 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 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, 2006 was \$2,120,272,099.

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, 2006, no such failures by any borrowers have occurred. Moreover, there were no losses during the fiscal year ended June 30, 2006, 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, its duration does not generally match the investments made with cash collateral.

#### Note 7. Capital Assets

A summary of capital assets at June 30, 2006, is as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets @ cost				
Property and equipment	\$3,043,809	14,727	–	\$3,058,536
Computer improvement plan	1,715,185	–	–	1,715,185
	4,758,994	14,727	–	4,773,721
Accumulated depreciation				
Property and equipment	(1,719,476)	(204,441)	–	(1,923,917)
Computer improvement plan	(1,713,487)	(1,698)	–	(1,715,185)
	(3,432,963)	(206,139)	–	(3,639,102)
<b>Total</b>	<b>\$1,326,031</b>	<b>(191,412)</b>	<b>–</b>	<b>\$1,134,619</b>

#### Note 8. Compensated Absences

The following represents changes in long-term liabilities for the year ended June 30, 2006.

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Compensated absences	\$223,709	246,827	(226,166)	\$244,370

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.



## Notes to Financial Statements

(continued)

### Note 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.

### Note 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, generally accepted accounting principles (“GAAP”) basis which recognizes capital expenditures as current expenditures, does not recognize depreciation expense, and recognizes revenue on the accrual basis. 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 (GAAP Basis) is included as additional information in this report.

#### *Special, Deficiency, and Specific Appropriations (Public Employees Retirement Fund only)*

PERA received an appropriation of \$6,000,000 to purchase and implement a new retirement information system in FY01 (Chapter 5, Laws of 2000, Section 8, Subsection 5); however, no expenditures were made in FY01. An additional appropriation of \$2,000,000 was authorized in Chapter 64, Laws of 2001, Section 8, Subsection 12 to be used in FY01 and FY02 for the retirement system. This same law also reauthorized the previous appropriation of \$6,000,000 for expenditure in FY02. Chapter 4, Laws of 2002, Section 7, Subsection 12 extended the period of time for expending the





two appropriations (\$8,000,000 total) through the end of FY04. Another retirement information system appropriation of \$6,700,000 was authorized by Chapter 76, Laws of 2003, Section 7, Subsection 8 for expenditure in FY's 03 and 04. At the end of FY04, expenditures for the retirement information system for FY's 02 through 04 totaled \$5,647,120, and encumbrances at the end of FY04 totaled \$3,558,314. Chapter 33, Laws of 2005, Section 7, Subsection 9 re-appropriated \$5,494,700 from the previous \$6,700,000 appropriation (Laws of 2003) and made a new appropriation of \$791,200 for a total of \$6,285,900 for expenditure on the retirement information system in FY's 05 and 06. In FY05, expenditures on the retirement information system totaled \$5,993,265 (\$3,550,496 in prior-year expenditures and \$2,442,769 in current-year expenditures). The two related encumbrances remaining at the end of FY05 were cancelled. Expenditures for the retirement information system in FY06 amounted to \$4,011,687, and two residual encumbrances were cancelled at the end of FY06. (Early in FY06 it was determined that the remaining appropriation balance was insufficient for the projected FY06 expenditures, and a budget adjustment request was approved to increase funding for the retirement information system by \$181,800.) At the end of FY06, all expenditures for the retirement information system since FY02 totaled \$15,652,072.

As the monies are appropriated from the Public Employees Retirement Fund, the unspent amount of \$20,928 does not revert to the State of New Mexico General Fund.

#### Note 11. Retirement Plans

**Plan Description.** Substantially all of the PERA's full-time employees participate in the 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, 2006, 2005, and 2004 were \$477,905, \$533,897, and \$491,628, respectively, equal to the amount of the required contributions for each year.

#### Note 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



## Notes to Financial Statements

*(continued)*

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 medical plus basic life plan and an additional fee of \$5.00 if the eligible participant retired prior to the employers NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

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, New Mexico 87107.

For the fiscal year ended June 30, 2006, the PERA remitted \$37,351 in employer contributions and \$18,676 in employee contributions.

Required Supplementary Information  
Schedules of Funding Progress



Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial 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)
<b>Public Employees Retirement Fund<sup>1</sup></b>						
June 30, 2001	\$8,308,210,019	\$7,883,446,910	\$(424,763,109)	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	246,694,680	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
June 30, 2006	10,863,894,951	11,800,860,704	936,965,753	92.1	1,774,918,446	52.8
<b>Judicial Retirement Fund</b>						
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
June 30, 2006	74,003,122	95,216,477	21,213,355	77.7	10,059,893	210.9
<b>Magistrate Retirement Fund</b>						
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
June 30, 2006	33,694,422	33,362,138	(332,284)	101.0	3,149,560	-
<b>Volunteer Firefighters Retirement Fund<sup>2</sup></b>						
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
June 30, 2006	39,511,723	23,742,890	(15,768,833)	166.4	N/A	N/A

Notes:

<sup>1</sup> Includes the Legislative Retirement Plan Data

<sup>2</sup> 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, 2006

Fiscal Year Ended	Public Employees Retirement Fund		Judicial Retirement Fund	
	Annual Required Contribution	% Contributed	Annual Required Contribution	% Contributed
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
June 30, 2006	235,863,262	100.0	3,851,188	100.0

Fiscal Year Ended	Magistrate Retirement Fund		Volunteer Firefighters Retirement Fund <sup>1</sup>	
	Annual Required Contribution	% Contributed	Annual Required Contribution	% Contributed <sup>2</sup>
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
June 30, 2006	1,009,203	104.8	0 – 545,000	137.6

Notes:

<sup>1</sup> Contributions are appropriated from the State of New Mexico Fire Protection Fund

<sup>2</sup> Using the high end of the range for the calculation

## Notes to Required Supplementary Information

Year Ended June 30, 2006



	Public Employees Retirement Fund	Judicial Retirement Fund	Magistrate Retirement Fund	Volunteer Firefighters Retirement Fund
Valuation date	June 30, 2006	June 30, 2006	June 30, 2006	June 30, 2006
Actuarial cost method	Entry age	Entry age	Entry age	Unit credit
Amortization method	Level percent, open	Level percent, open	Level percent, open	Level dollar, open
Amortization period	16 years	30 years <sup>1</sup>	30 years <sup>2</sup>	30 years <sup>2</sup>
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market	4 year smoothed market
Rate of return on investment of present and future assets*	8%	8%	8%	8%
Projected salary increases*	4.5 – 19%	5%	5%	N/A <sup>3</sup>
Post retirement benefit increases	3%	3%	3%	N/A <sup>3</sup>
*Includes inflation at	4.0%	5%	5%	5%

**Notes:**

- <sup>1</sup> The statutory contribution rate is not sufficient to meet PERA board's objective of funding over 30 years
- <sup>2</sup> Assets currently exceed actuarial accrued liabilities. The excess was amortized over 30 years and applied as a credit to determine the required contribution.
- <sup>3</sup> Benefits are not based on salary and are not subject to cost of living increases.



## Schedule of Revenues, Appropriations, and Expenses Budget and Actual — PERA Fund Only

Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues and Appropriations</b>				
<b>Other State Funds:</b>				
Interest income	\$27,696,880	33,472,580	177,826,934	\$144,354,354
Rental income	1,386,600	1,386,600	2,338,547	951,947
<b>Total Revenue and Appropriations</b>	<b>29,083,480</b>	<b>34,859,180</b>	<b>180,165,481</b>	<b>145,306,301</b>
<b>Expenditures</b>				
<b>Administration</b>				
Contractual services	22,386,000	28,043,200	26,389,673	1,653,527
Personnel services and benefits	4,013,610	4,193,410	4,147,061	46,349
Other operating costs	1,297,270	1,235,970	1,039,739	196,231
<b>Subtotal Administration Division</b>	<b>27,696,880</b>	<b>33,472,580</b>	<b>31,576,473</b>	<b>1,896,107</b>
<b>Maintenance Division</b>				
Contractual services	5,000	5,000	–	5,000
Personnel services and benefits	692,800	692,800	596,376	96,424
Other operating costs	688,800	688,800	399,720	289,080
<b>Subtotal Maintenance Division</b>	<b>1,386,600</b>	<b>1,386,600</b>	<b>996,096</b>	<b>390,504</b>
<b>Total Expenditures</b>	<b>29,083,480</b>	<b>34,859,180</b>	<b>32,572,569</b>	<b>2,286,611</b>
<b>Change in Net Assets, Budget Items</b>	<b>\$ –</b>	<b>–</b>	<b>147,592,912</b>	<b>\$147,592,912</b>
<b>Non-Budget Revenues and Expenses:</b>				
Investment earnings and change in fair value			1,020,897,804	
Contributions from members and employers			426,478,034	
Other income			494,610	
Benefit payments to retirees and beneficiaries			(467,102,032)	
Refunds to terminated employees			(30,245,512)	
Change in accrued investment manager fees			(2,411,614)	
Expenditures allocated to other funds			433,457	
Expenditures capitalized			14,727	
Depreciation expense			(206,139)	
<b>Increase in Plan Net Assets</b>			<b>1,095,946,247</b>	
<b>Net Assets Held in Trust for Pension Benefits</b>				
Balance — beginning of year			10,119,069,868	
<b>Balance — End of Year</b>			<b>\$11,215,016,115</b>	

## Schedule of Administrative and Investment Expenses

*Year Ended June 30, 2006*



<b>Investment Expenses:</b>	
Investment Manager Fees	\$22,346,908
Custodian Fees	1,359,738
Consultant Fees	264,986
<b>Total Investment Expenses</b>	<b>23,971,632</b>
<b>Administrative Expenses:</b>	
<b>Other Contractual Services:</b>	
Pension System — Developer	3,490,361
Information Technology Services	332,476
Actuarial Services	202,000
Pension System – Consultant	136,595
Audit Fees	125,140
Medical Services	43,181
Legal Fees	23,807
Miscellaneous other	467,087
<b>Total Other Contractual Services</b>	<b>4,820,647</b>
<b>Other Administrative Services:</b>	
Personnel Services and Benefits	4,147,061
Other Operating Costs	1,033,146
Depreciation Expense	206,139
<b>Total Other Administrative Services</b>	<b>5,386,346</b>
<b>Total Administrative Expenses</b>	<b>10,206,993</b>
<b>Total Administrative and Investment Expenses</b>	<b>\$34,178,625</b>



**Public Employees  
Retirement Association**  
*of New Mexico*



heights  
REACHING<sup>NEW</sup>



**INVESTMENT** SECTION







“For the past three years stocks have generated returns in line with historical experience. This occurred in spite of consensus expectations that stock returns would likely be reduced to low single digit levels for the remainder of the decade following the stock market decline that began early in 2000 subsequently followed by the events of 9-11.”

October 26, 2006

Members and Retirees of NM PERA:

For the past three years stocks have generated returns in line with historical experience. This occurred in spite of consensus expectations that stock returns would likely be reduced to low single digit levels for the remainder of the decade following the stock market decline that began early in 2000 subsequently followed by the events of 9-11. PERA's actual U.S. stock market returns were 21.38%, 8.9% and 11.01%, for each of the last three fiscal years, respectively, outperforming the target benchmark by 0.92%, 0.85% and 1.45%, respectively. PERA's returns on non-U.S. stocks were 30.82%, 16.69% and 30.26%, respectively. As a result, PERA's total stock returns (both U.S. and non-U.S. combined) were 11.10%, 23.72% and 17.57% for each of the last three fiscal years, substantially above consensus predictions of several years ago. In contrast, PERA's fixed-income (bond) returns were 1.23%, 7.57%, respectively, and a meager 0.02% for fiscal year 2006. In spite of this drag on total funds' returns, PERA's total funds' returns were 15.55%, 9.85% and 11.74%, respectively, well above the long-term actuarial assumed rate of return of 8% required to meet PERA's long-term pension obligations to members.

PERA's total fund return of 11.74% was 186 basis points (1.86%) greater than PERA's investment policy target return of 9.88% for the fiscal year ending June 30, 2006. This placed PERA's investment performance in the top 22nd 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 were 7.58% and 9.9%, respectively, ranking in the upper 18th and 6th percentiles, respectively, of the Callan database.

Fortunately, PERA has participated in the huge rise in stock prices, exceeding its three-year annualized returns for U.S. and non-U.S. stocks and fixed-income benchmarks by 145 basis points (1.45%) combined. Since PERA's defensive investment strategy preserved much of the corpus of the funds during the years from 2000 through 2002, total assets reached an all-time fiscal year-end high of \$11.327 billion on June 30, 2006, almost \$3.084 billion, greater than assets were on June 30, 2000 before the stock market decline began in earnest.

The economy and stock markets have recovered considerably from their post 9-11 lows, even in the midst of the Iraq War, the devastating hurricanes of 2005 and record high energy and fuel prices consumers have had to pay worldwide. Based on advice available through its professional investment consultant, PERA will continue to maintain an optimized portfolio of diversified investments to maximize return and minimize risk to achieve its long-term goal of generating sufficient risk-adjusted returns to secure the retirement future of its members and retirees.

Sincerely,

Robert E. Gish  
Director of Investments



# The Public Employees Retirement Association Investment Plan Summary

## General Objectives

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

Effective July 1, 2005, the New Mexico Legislature repealed the provisions in NMSA 1978 Subsection 10-11-132 that set forth a list of allowable investments. It adopted the Uniform Prudent Investor Act, which is cited as (UPIA) and is in the NMSA 1978 Subsection 45-7-601 to 612. On December 29, 2005, PERA amended its investment policy adopting UPIA.

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
<b>Long-Term Asset Allocation Plan</b>			
Domestic Equities	40%	32%	48%
International Equities	25%	20%	30%
Fixed Income	35%	30% <sup>1</sup>	40% <sup>1</sup>
Cash Equivalents	0%	0%	5% <sup>1</sup>
<b>Total</b>	<b>100%</b>		

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.

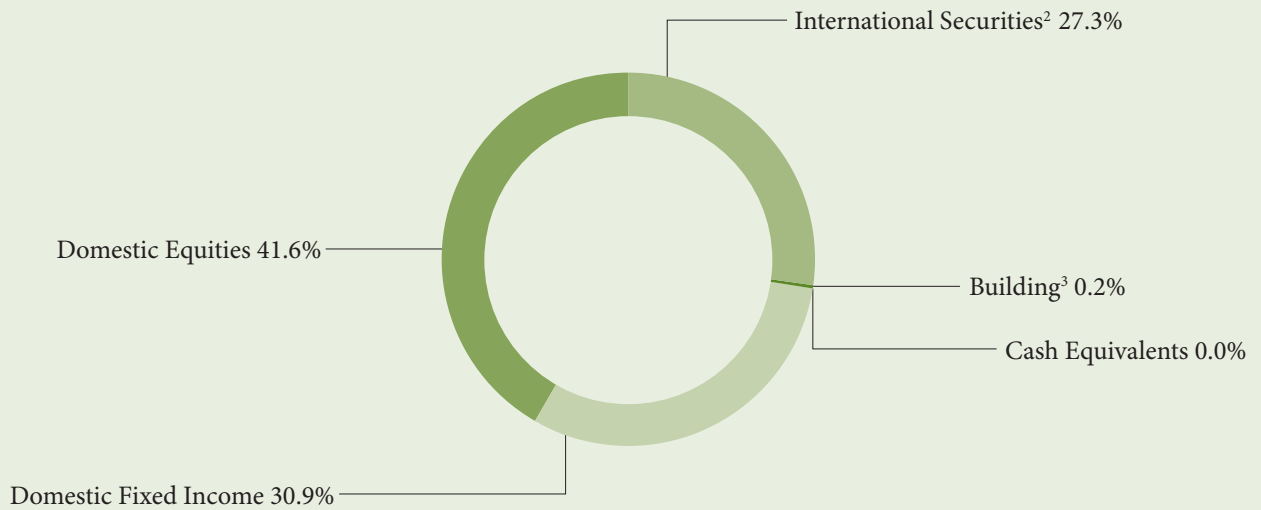
### Note:

<sup>1</sup> 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 30% and allocations to Fixed-Income and Cash Equivalents combined shall not exceed 45%.



## Asset Allocation

June 30, 2006



Fiscal Year Ended June 30	2006 <sup>1</sup>	2005	2004	2003	2002	2001	2000
Domestic Fixed Income	30.92%	33.75%	34.43%	35.91%	43.15%	41.27%	35.58%
Domestic Equities	41.55%	45.33%	46.48%	49.97%	36.16%	43.95%	37.18%
International Securities <sup>2</sup>	27.32%	20.48%	18.21%	13.61%	15.18%	14.24%	17.86%
Building <sup>3</sup>	0.21%	0.23%	0.16%	0.19%	0.19%	0.19%	0.18%
Cash Equivalents	0.00%	0.21%	0.72%	0.32%	5.32%	0.35%	9.20%
<b>Total Portfolio</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

### Notes:

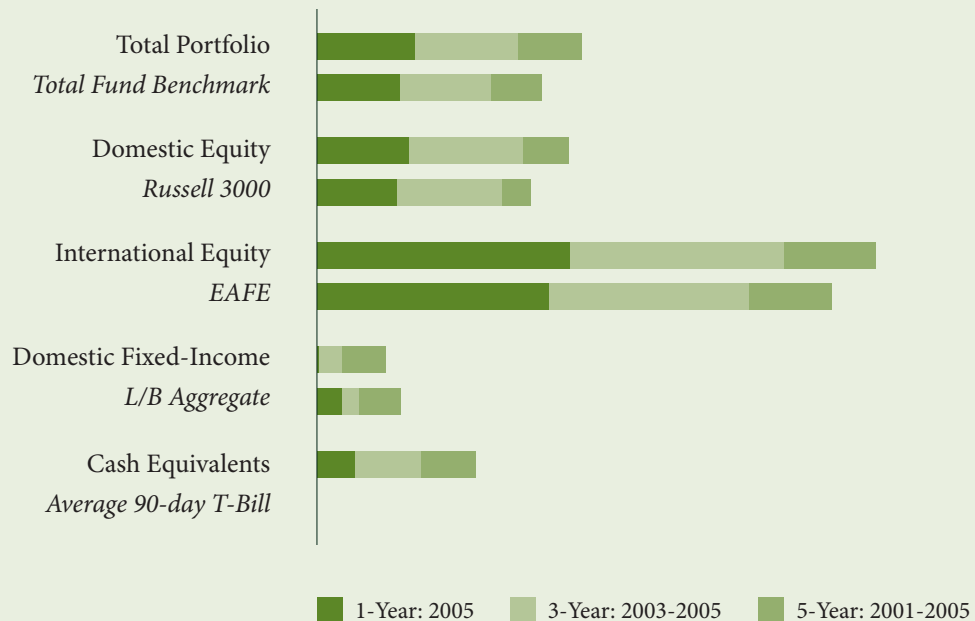
<sup>1</sup> Effective with fiscal year 2006, broker receivable, broker payable, accrued investment income and cash are excluded.

<sup>2</sup> Includes equity and fixed income securities.

<sup>3</sup> 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, 2006



Investment Category Benchmark	1-Year 2005	3-Year 2003-2005	5-Year 2001-2005
Total Portfolio	11.74%	12.35%	7.58%
Total Fund Benchmark <sup>1</sup>	9.88%	10.90%	6.12%
Domestic Equity	11.01%	13.63%	5.58%
Russell 3000	9.56%	12.56%	3.53%
International Equity	30.26%	25.75%	11.04%
EAFE	27.80%	23.94%	10.02%
Domestic Fixed-Income	0.02%	2.89%	5.30%
L/B Aggregate	2.93%	2.05%	4.97%
Cash Equivalents	4.46%	7.97%	6.57%
Average 90-day T-Bill	0.00%	0.00%	0.00%

### Notes:

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.

<sup>1</sup> Total Fund Benchmark — 44% Russell 3000, 16% EAFE, 40% Lehman Aggregate



## Investment Summary at Fair Value

June 30, 2006

Type of Investment	Fair Value	% of Total Fair Value
<b>Domestic Equity</b>		
Large Cap	\$3,434,802,179	25.88%
Small/Mid Cap	1,193,893,680	9.00%
<b>Total Domestic Equity</b>	<b>4,628,695,859</b>	<b>34.88%</b>
Domestic Fixed Income	3,450,916,475	26.00%
International Equity	2,929,773,982	22.08%
International Fixed Income	116,159,211	0.88%
Cash Equivalents	206,017	0.00%
<b>Total Before Other Investments</b>	<b>11,125,751,544</b>	<b>83.84%</b>
Securities Lending Collateral Investments	2,121,185,128	15.98%
Building	23,500,000	0.18%
<b>Total Investments</b>	<b>\$13,270,436,672<sup>1</sup></b>	<b>100.00%</b>

Note:

<sup>1</sup> Effective with fiscal year 2006, broker receivable, broker payable, accrued investment income and cash are excluded



## List of Largest Assets Held

June 30, 2006



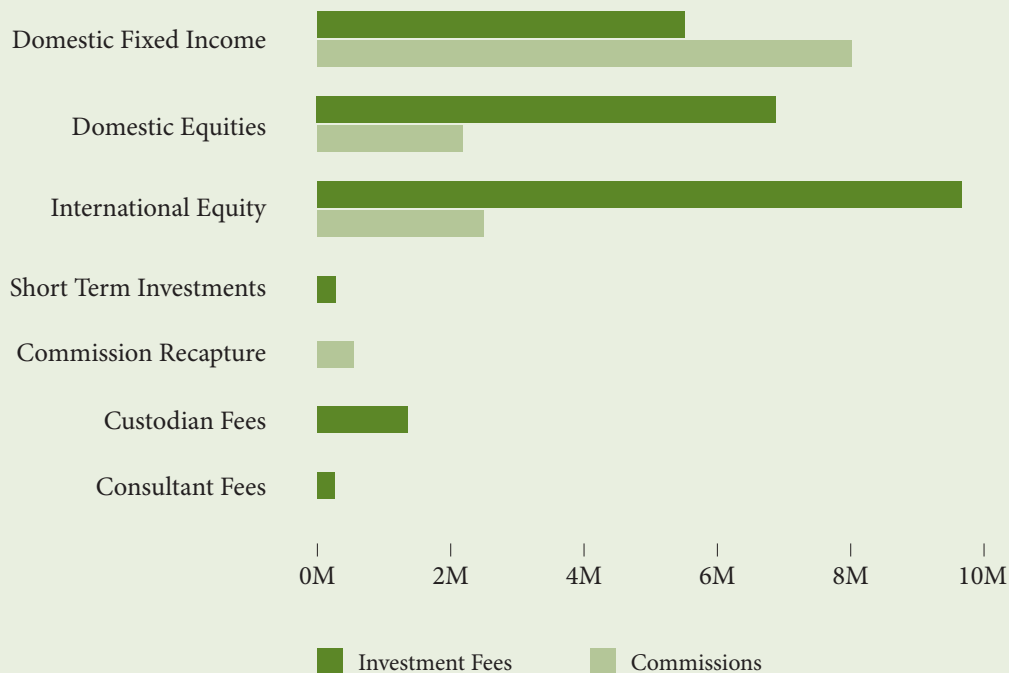
Ten Largest Stock Holdings	Shares	Fair Value
GENERAL ELECTRIC CO	2,656,900	\$87,571,424
CITIGROUP INC	1,586,676	76,541,250
EXXON MOBIL CORP	1,243,162	76,267,989
BANK OF AMERICA CORP	1,327,329	63,844,525
VODAFONE GROUP ORD	28,085,847	59,867,966
SANOFI-AVENTIS	523,226	51,046,452
ROYAL DUTCH SHELL	1,528,500	50,264,717
SUMITO MITSU	4,652	49,240,432
JP MORGAN CHASE & CO	1,167,219	49,023,198
MICROSOFT CORP	1,945,300	45,325,490

Ten Largest Bond Holdings	Par Value	Fair Value
FEDERAL NATL MTG ASSN, 5.0%, 30 Yr TBA	206,649,000	\$193,152,341
FEDERAL NATL MTG ASSN, 5.5%, 15 Yr TBA	123,300,000	118,406,470
FEDERAL HOME LOAN MORTGAGE CORP, 5.5%, 30Yr TBA	111,466,000	107,042,137
U.S. TREASURY NOTES 4.5% DUE 02/28/2011	94,700,000	92,339,887
FEDERAL NATL MTG ASSN, 4.5%, 30 Yr TBA	97,000,000	91,634,930
FEDERAL NATL MTG ASSN, 6.5%, 30 Yr TBA	79,105,000	79,500,525
U.S. TREASURY NOTES 4.5% DUE 11/15/2015	36,094,000	34,379,635
FEDERAL HOME LOAN MORTGAGE CORP, 5.5%, 30 Yr TBA	35,040,059	33,744,628
FEDERAL NATL MTG ASSN, 5.0%, 30 Yr TBA	32,820,000	31,599,490
U.S. TREASURY NOTES 4.75% DUE 05/15/2014	26,904,000	26,245,067



## Schedule of Investment Fees and Commissions

For Year Ended June 30, 2006



	Investment Fees	Commissions
Domestic Fixed Income	\$5,515,453	\$8,023,195 <sup>1</sup>
Domestic Equities	6,885,462	2,187,000
International Equity	9,673,875	2,503,000
Short Term Investments	272,118	-
Commission Recapture	-	(550,964)
<b>Total</b>	<b>22,346,908</b>	<b>12,162,231</b>
Custodian Fees	1,359,738	N/A
Consultant Fees	264,986	N/A
<b>Total</b>	<b>\$23,971,632</b>	<b>\$12,162,231</b>

Note:

<sup>1</sup> Estimated

heights  
REACHING<sup>NEW</sup>



**ACTUARIAL** SECTION







**Public Employees  
Retirement Association**  
*of New Mexico*



## Actuaries Certification Letter

# GRS

Gabriel Roeder Smith & Company  
Consultants & Actuaries

One Towne Square  
Suite 800  
Southfield, MI 48076-3723

248.799.9000 phone  
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October 24, 2006

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, 2006**

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 30, 2006, 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	32.37
Municipal General Division	21.14
Municipal Police Division	33.55
Municipal Fire Division	37.28

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 valuation, 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,

Kenneth G. Alberts

David Kausch, FSA, EA, MAAA

KGA:dks



## Summary of Assumptions and Methods

*As of June 30, 2006*

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.

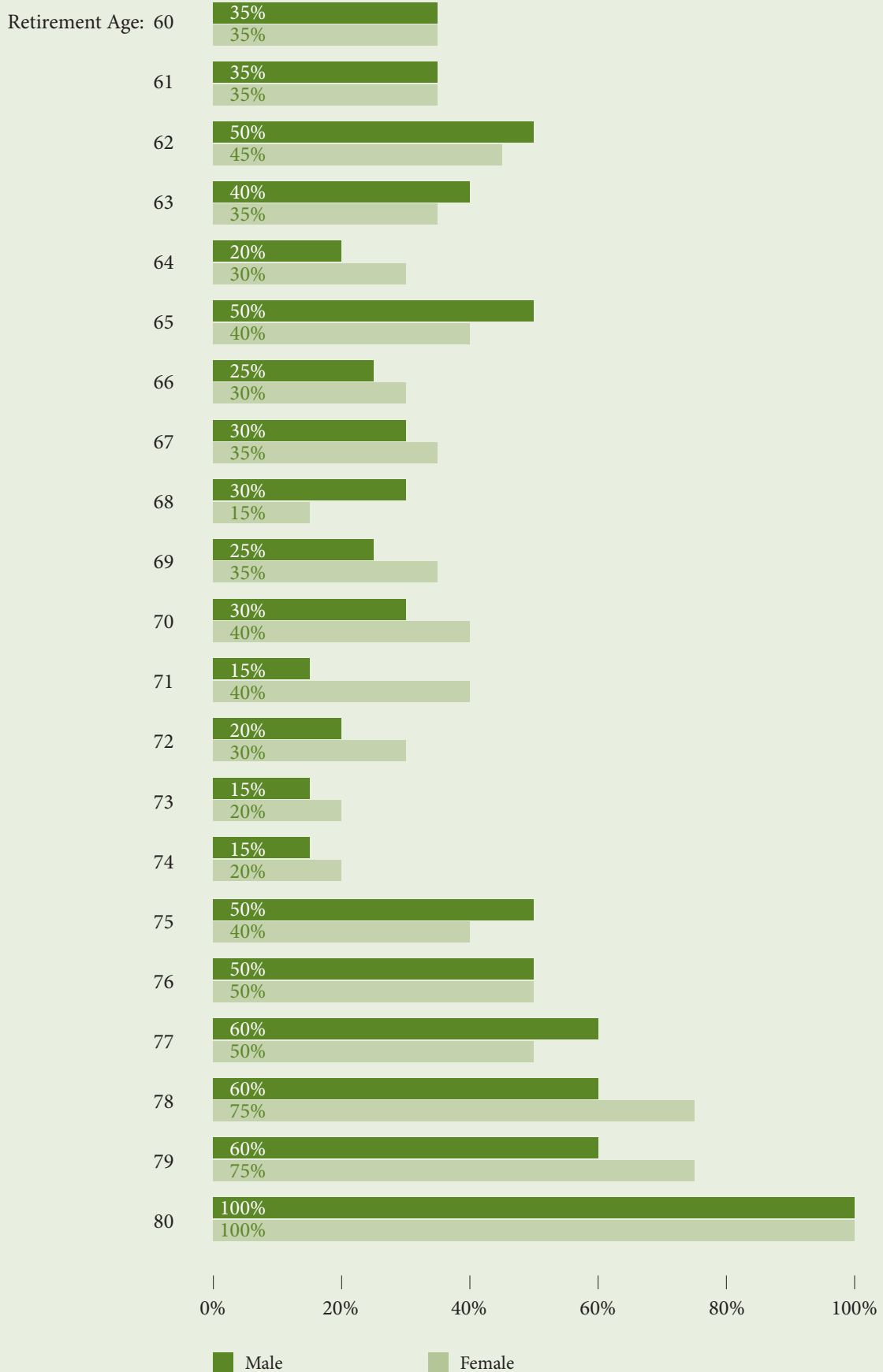
In addition, the following assumptions were used in calculating the actuarial liability:

- 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
  - Rates of Separation from Active Membership
  - Rates of Disability
  - Member and Employer Contribution Rates





State General

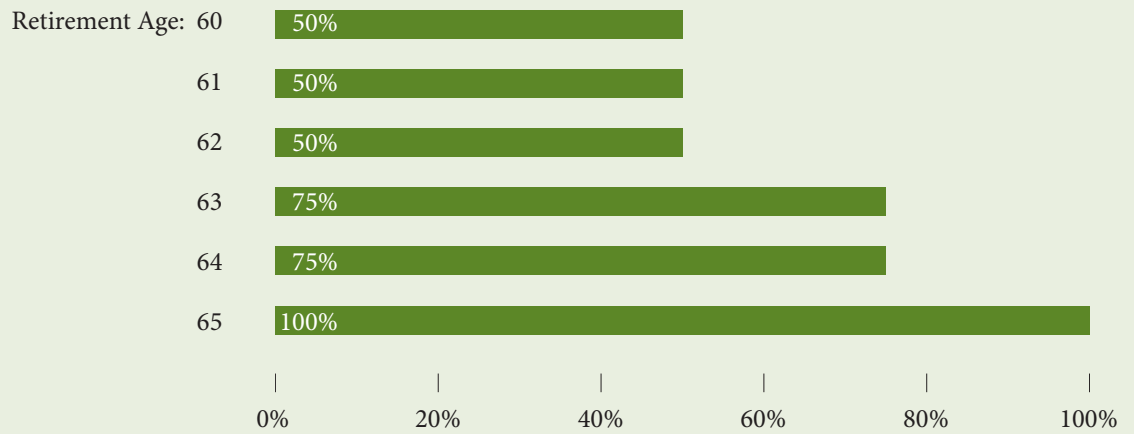




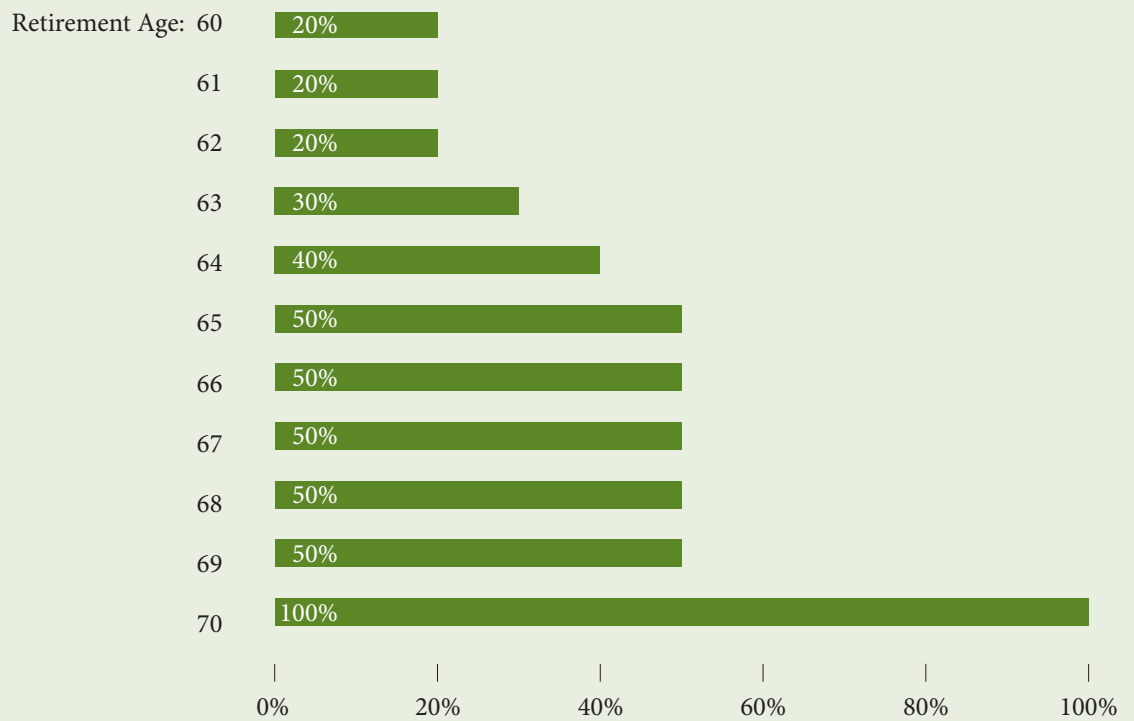
## Rate of Retirement

(continued)

### State Police

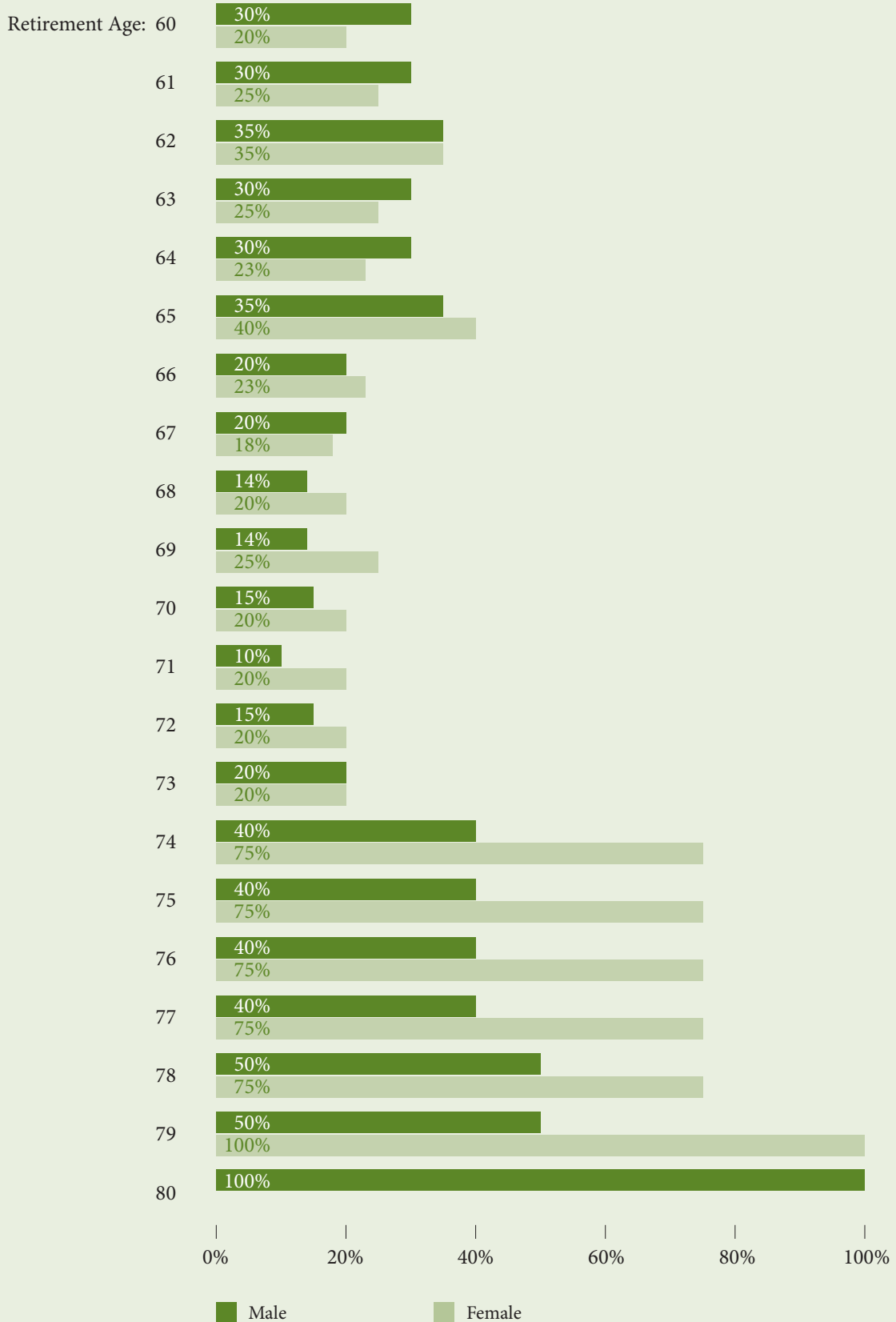


### State Corrections





Municipal General

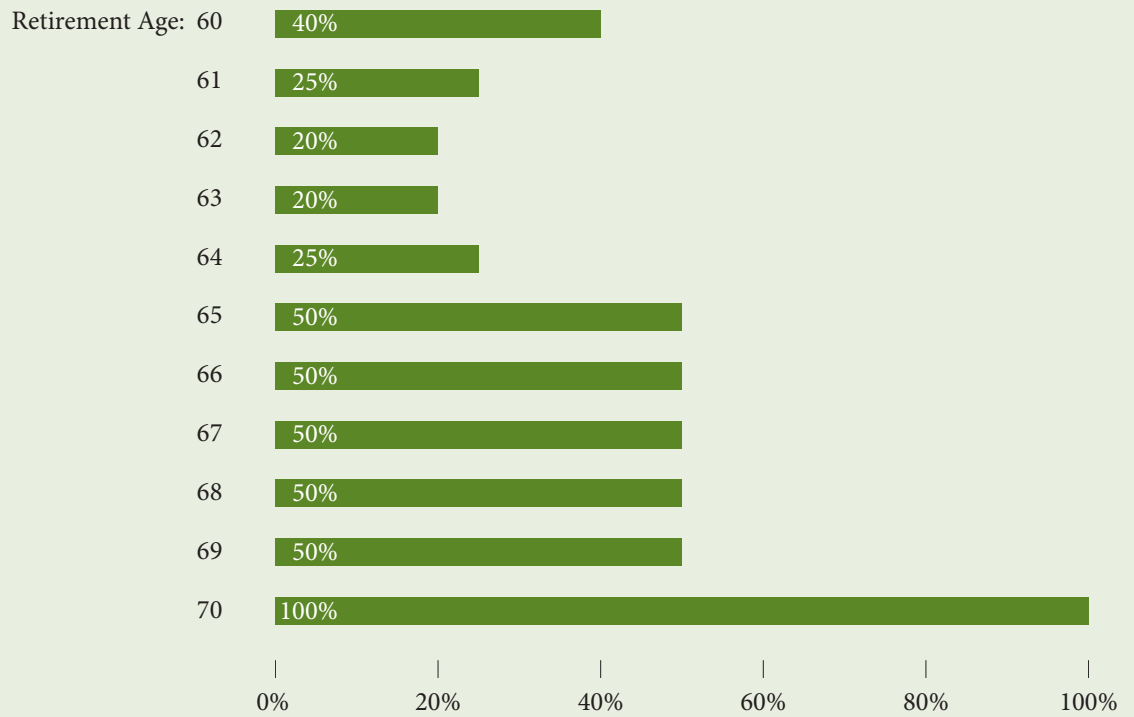




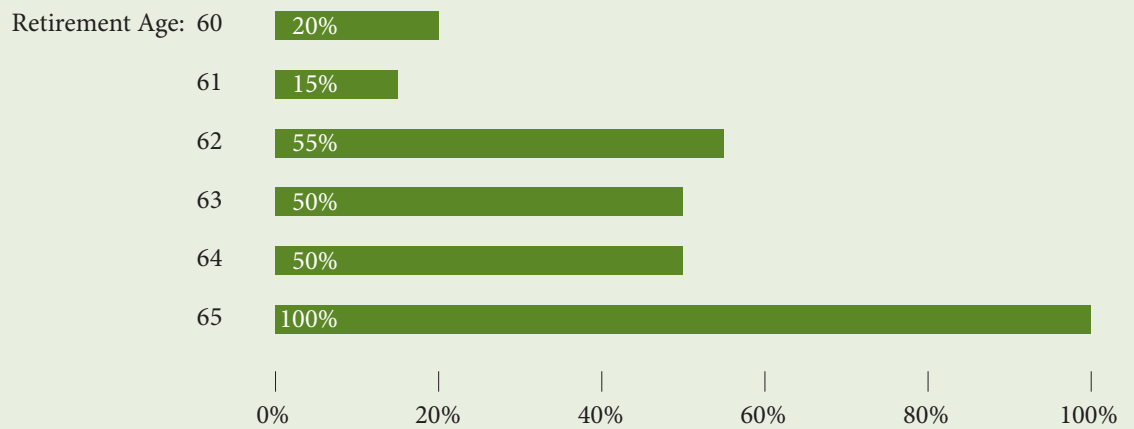
## Rate of Retirement

(continued)

### Municipal Police

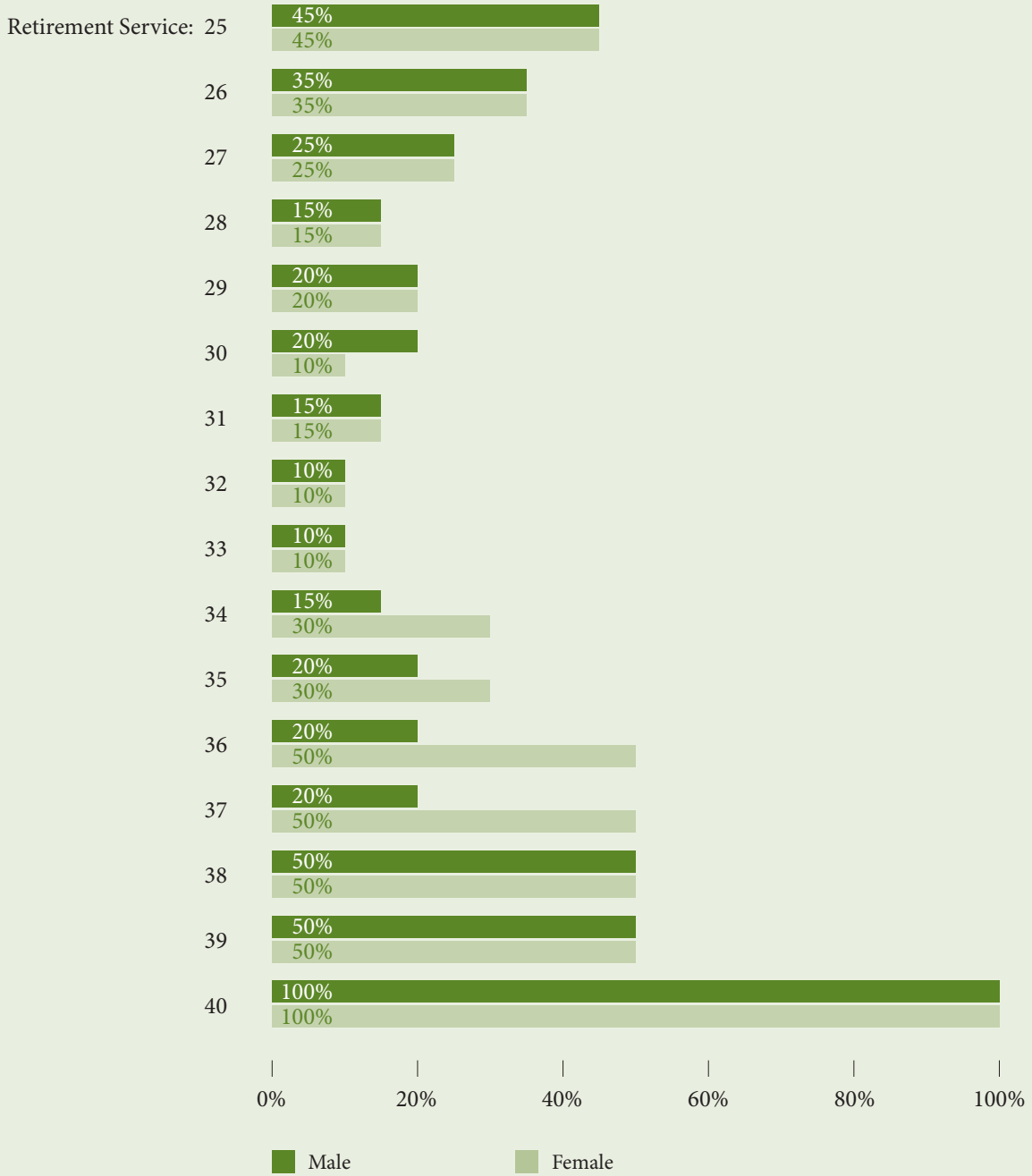


### Municipal Fire





State General

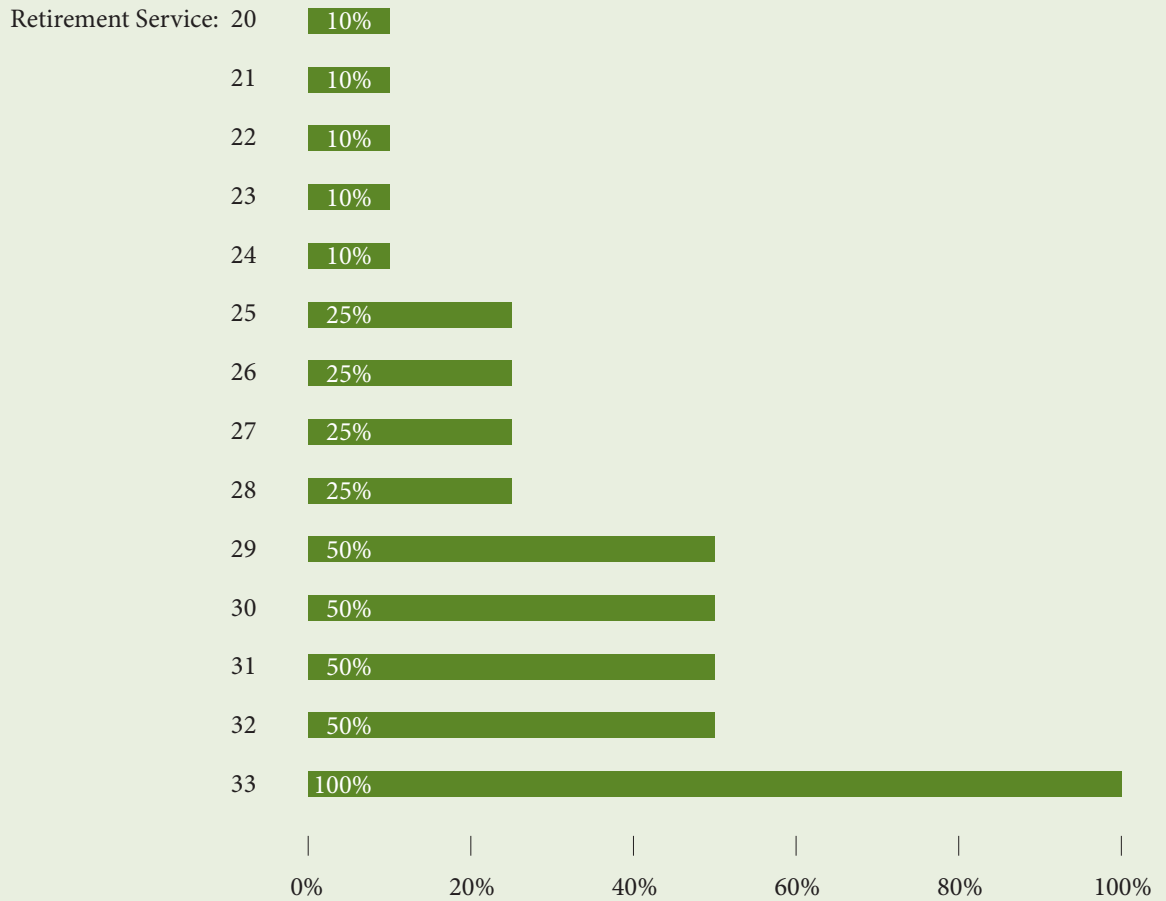




## Rate of Retirement

(continued)

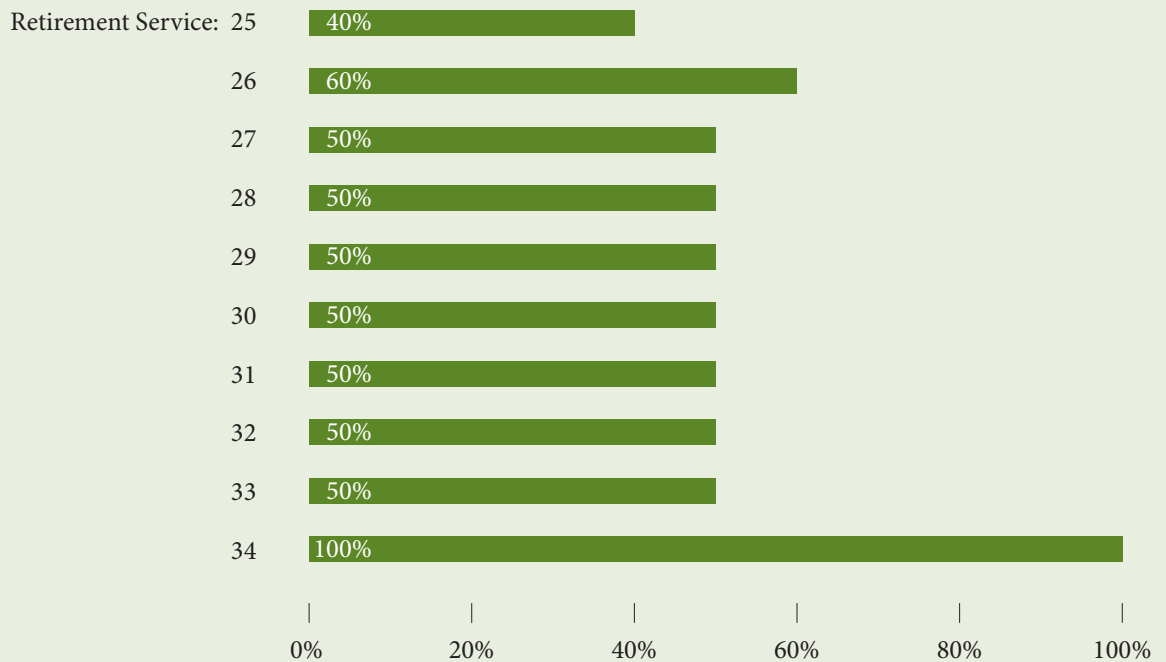
### State Police



76

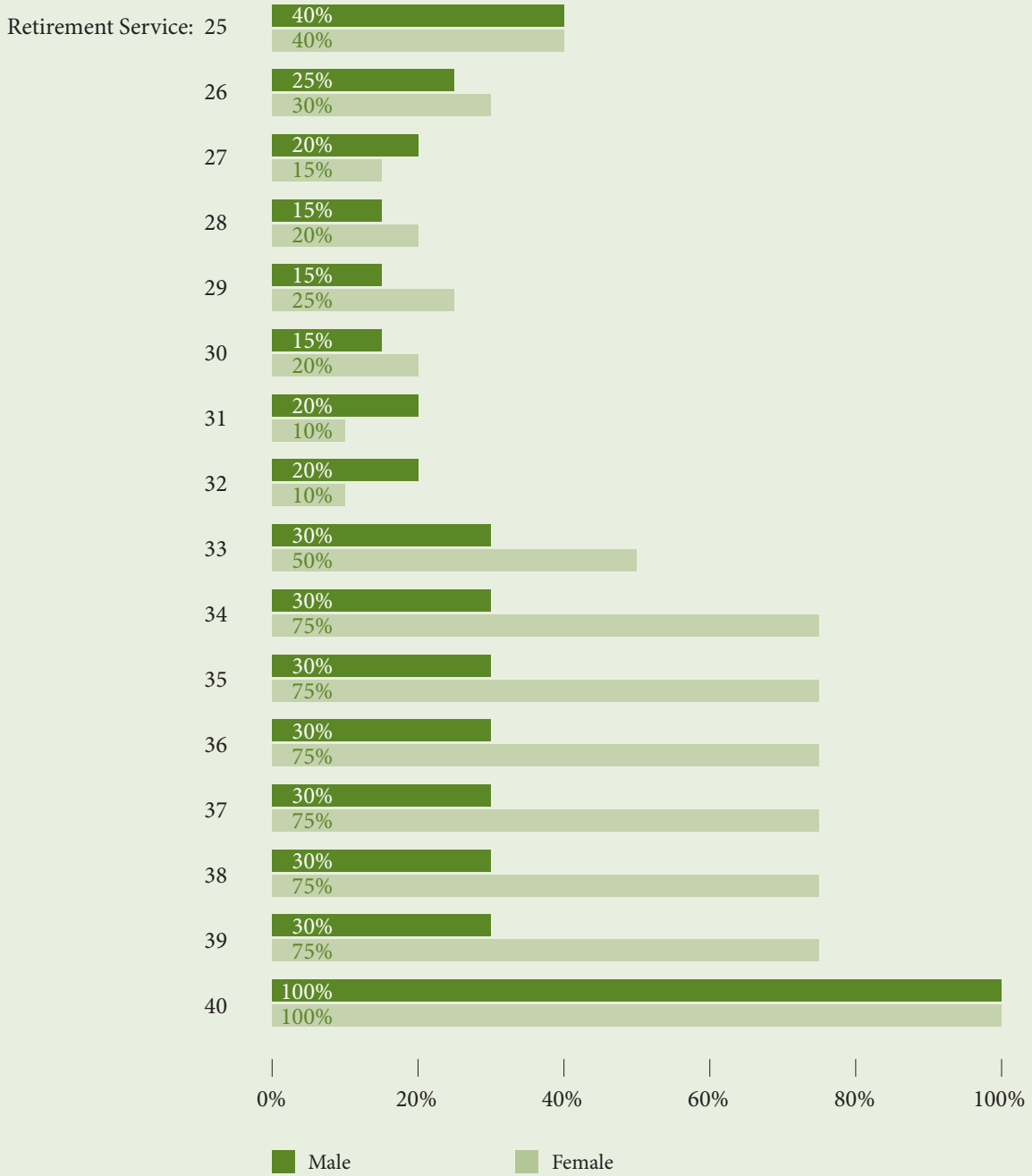
ACTUARIAL  
section

### State Corrections





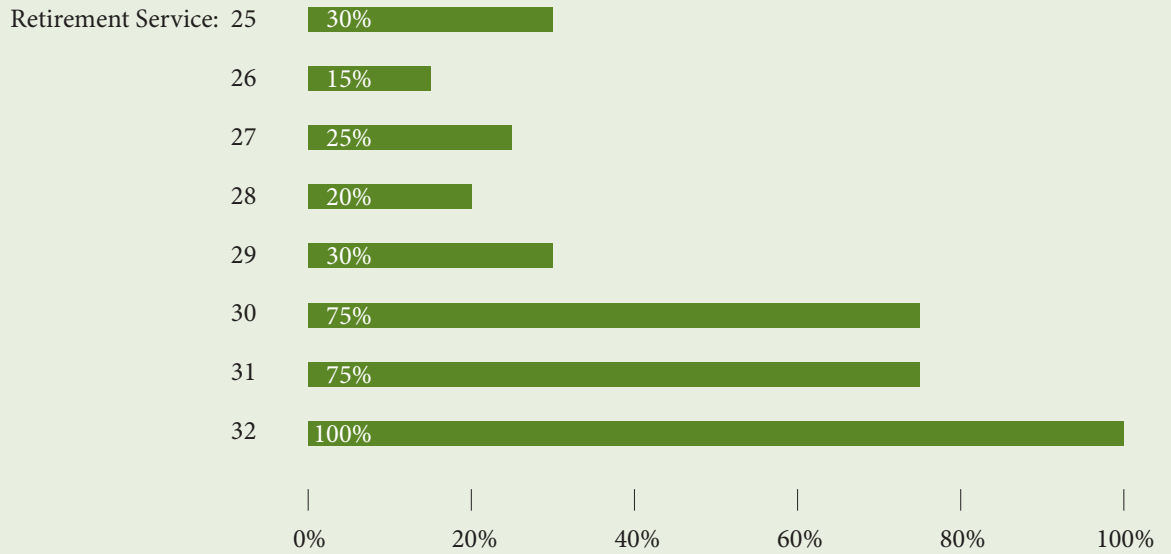
Municipal General



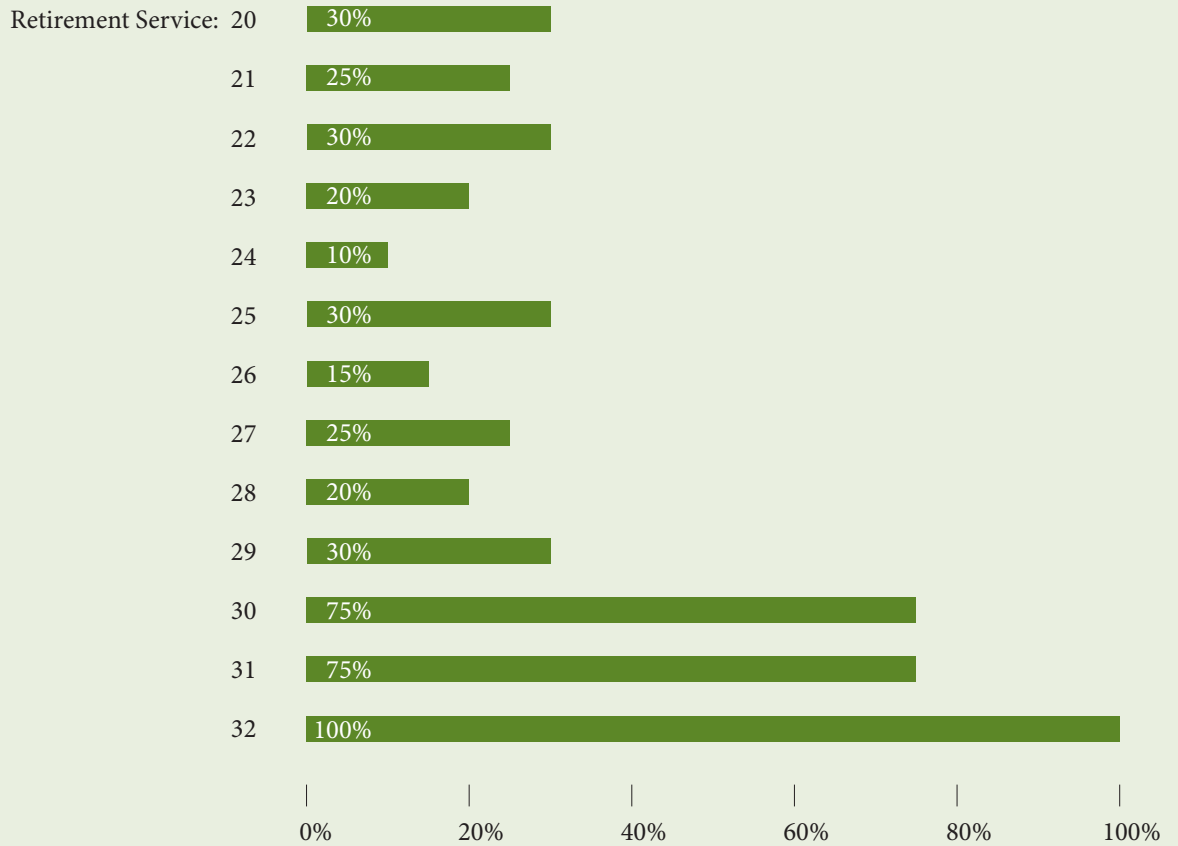


## Rate of Retirement (continued)

### Municipal Police Plans 1, 2



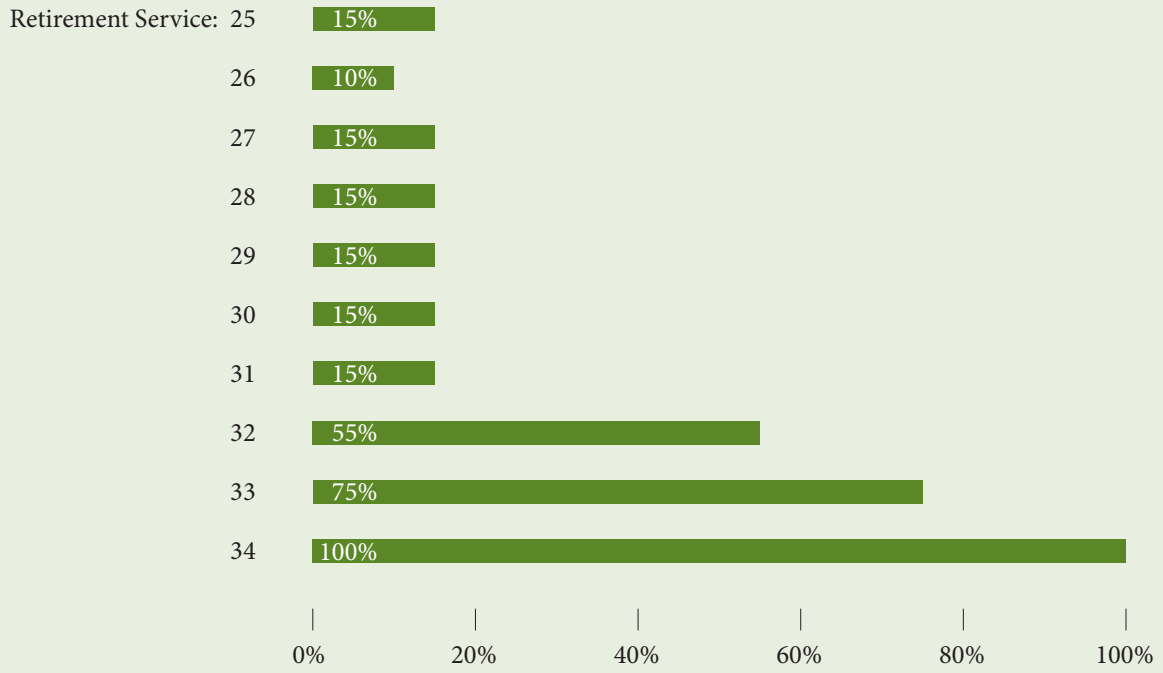
### Municipal Police Plans 3, 4, 5







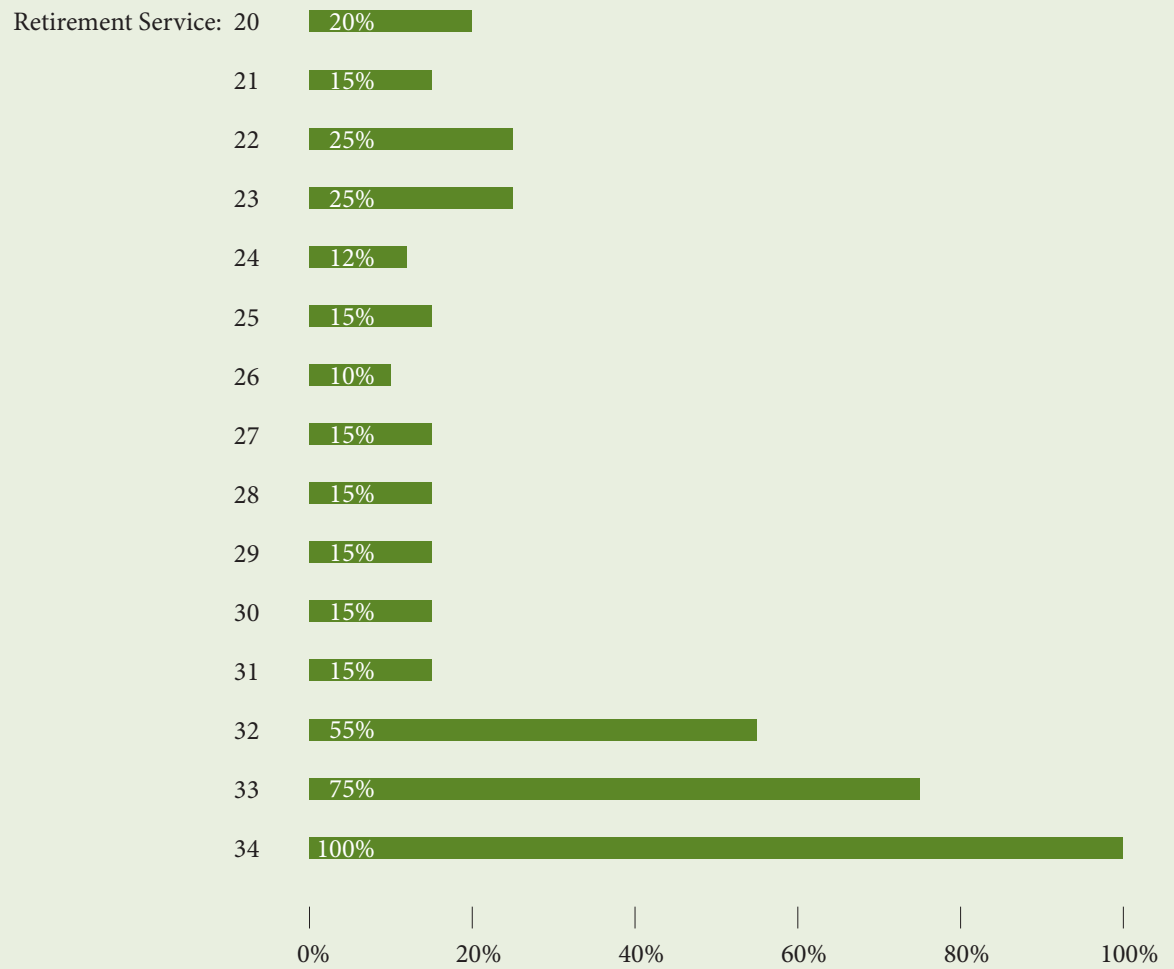
**Municipal Fire Plans 1, 2**





## Rate of Retirement (continued)

### Municipal Fire Plans 3, 4, 5





### 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%	0.10%	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%	0.15%	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	Years 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%						
	<b>Over Select Period</b>											
	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
<b>State General</b>										
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%				
2006	N/A	N/A	N/A	N/A	7.42%	16.59%				
<b>State Police and Adult Corrections (Plan 1)</b>										
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%								
2006	7.60%	25.10%								
<b>Juvenile Corrections (Plan 2)</b>										
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%						
2006	N/A	N/A	4.78%	25.72%						
<b>Municipal General</b>										
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%		
2006	7.00%	7.00%	9.15%	9.15%	13.15%	9.15%	15.65%	11.65%		
<b>Municipal Police</b>										
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%
2006	7.00%	10.00%	7.00%	15.00%	7.00%	18.50%	12.35%	18.50%	16.30%	18.50%
<b>Municipal Fire</b>										
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%
2006	8.00%	11.00%	8.00%	17.50%	8.00%	21.25%	12.80%	21.25%	16.20%	21.25%
<b>Judicial</b>										
2001	5.00%	9.00% <sup>1</sup>								
2002	5.00%	9.00% <sup>1</sup>								
2003	5.00%	9.00% <sup>1</sup>								
2004	5.00%	9.00% <sup>1</sup>								
2005	6.50%	10.00% <sup>1</sup>								
2006	7.50%	12.00% <sup>1</sup>								
<b>Magistrate</b>										
2001	5.00%	9.00% <sup>1</sup>								
2002	5.00%	9.00% <sup>1</sup>								
2003	5.00%	9.00% <sup>1</sup>								
2004	5.00%	9.00% <sup>1</sup>								
2005	6.50%	10.00% <sup>1</sup>								
2006	7.50%	11.00% <sup>1</sup>								

**Notes:**

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

<sup>1</sup> Employers are also required to remit a portion of docket fees



## Active Member Valuation Data

As of June 30, 2006

Year	Number of Participating Employers	Number of Active Members	Annual Payroll <sup>1</sup>	Average Pay	% Increase in Average Pay
<b>State General</b>					
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 <sup>2</sup>	693,532,722	34,727	2.63%
2005	116	20,647	728,031,257	35,261	1.54%
2006	116	23,080	795,195,389	34,454	-2.29%
<b>State Police/Hazardous Duty</b>					
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%
2006	3	1,951	61,422,860	31,483	0.27%
<b>Municipal General</b>					
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%
2006	169	21,245	668,632,509	31,472	5.21%
<b>Municipal Police</b>					
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 <sup>2</sup>	126,208,845	37,969	-3.43%
2005	98	3,400	145,849,480	42,897	12.98%
2006	98	3,759	173,833,996	46,245	7.80%
<b>Municipal Fire</b>					
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 <sup>2</sup>	66,503,690	39,704	-2.96%
2005	35	1,788	76,485,708	42,777	7.74%
2006	35	1,571	75,833,692	48,271	12.84%

## Active Member Valuation Data

(continued)



Year	Number of Participating Employers	Number of Active Members	Annual Payroll <sup>1</sup>	Average Pay	% Increase in Average Pay
<b>Legislative</b>					
2001	1	112	N/A	N/A	N/A
2002	1	112	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
2006	1	93	N/A	N/A	N/A
<b>Judicial</b>					
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%
2006	15	110	10,059,893	91,454	-1.91%
<b>Magistrate</b>					
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%
2006	18	50	3,149,560	62,991	-1.45%
<b>Volunteer Firefighter</b>					
2001	367	5,170 <sup>3</sup>	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
2006	373	5,804	N/A	N/A	N/A

**Notes:**

- <sup>1</sup> Actual payroll is projected to a full-year salary for actuarial calculations
- <sup>2</sup> Data cleansing efforts during FY04 resulted in correctly accounting for members under Municipal plans that had previously been accounted for under other plans
- <sup>3</sup> Number of active volunteer firefighters was significantly reduced due to a 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, 2006

Year	Number Added	Number Removed	Total Retirants & Beneficiaries	Annual Allowances	Increase in Annual Allowances	Average Annual Allowances
<b>State General</b>						
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
2006	599	171	11,269	231,738,272	8.34%	20,564
<b>State Police/Hazardous Duty</b>						
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
2006	159	7	885	22,286,587	25.06%	25,183
<b>Municipal General</b>						
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
2006	479	86	7,288	135,066,523	10.49%	18,533
<b>Municipal Police</b>						
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
2006	129	-	1,906	55,733,766	10.26%	29,241
<b>Municipal Fire</b>						
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	9.14%	29,781
2005	125	10	1,150	32,619,986	5.83%	28,365
2006	64	-	1,214	35,571,801	9.05%	29,301



## Schedule of Retirees and Beneficiaries

(continued)



Year	Number Added	Number Removed	Total Retirants & Beneficiaries	Annual Allowances	Increase in Annual Allowances	Average Annual Allowances
<b>Legislative</b>						
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% <sup>1</sup>	5,675
2005	19	15	132	816,710	12.42%	6,187
2006	12	7	137	902,879	10.55%	6,590
<b>Judicial</b>						
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
2006	12	4	97	5,254,601	11.45%	54,171
<b>Magistrate</b>						
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
2006	6	2	48	1,824,031	10.07%	38,001
<b>Volunteer Firefighter</b>						
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
2006	49	4	343	429,944	16.34%	1,253

Note:

<sup>1</sup> New legislative plans implemented with larger benefits



## Solvency Test

### Aggregate Accrued Liabilities

Date	Aggregate Accrued Liabilities			Total (4)
	Active Member Contributions (1)	Retirees & Beneficiaries (2)	Active Members Employer Portion (3)	
<b>State General</b>				
6/30/01	437,155,361	2,084,302,740	1,310,078,031	3,831,536,132
6/30/02	476,552,721	2,243,623,595	1,441,607,100	4,161,783,416
6/30/03	512,272,905	2,448,673,878	1,502,411,000	4,463,357,783
6/30/04	549,227,388	2,698,298,630	1,415,737,376	4,663,263,394
6/30/05	583,146,453	2,766,461,744	1,649,982,371	4,999,590,568
6/30/06	625,760,105	2,990,413,402	1,693,434,620	5,309,608,127
<b>State Police/Hazardous Duty</b>				
6/30/01	35,046,826	182,225,515	141,456,984	358,729,325
6/30/02	37,658,994	197,684,474	148,785,082	384,128,550
6/30/03	40,444,420	213,324,522	198,112,321	451,881,263
6/30/04	43,223,992	236,364,990	213,573,411	493,162,393
6/30/05	46,274,613	253,559,215	203,504,075	503,337,903
6/30/06	44,180,688	320,946,819	199,106,064	564,233,571
<b>Municipal General</b>				
6/30/01	517,836,633	1,100,388,240	681,341,446	2,299,566,319
6/30/02	566,969,660	1,211,873,457	706,093,035	2,484,936,152
6/30/03	612,857,678	1,337,083,714	755,733,653	2,705,675,045
6/30/04	662,011,140	1,510,127,026	748,105,929	2,920,244,095
6/30/05	695,969,808	1,631,538,147	942,017,218	3,269,525,173
6/30/06	746,704,453	1,801,463,475	1,018,974,499	3,567,142,427
<b>Municipal Police</b>				
6/30/01	154,355,667	497,975,415	191,335,956	843,667,038
6/30/02	164,455,165	559,859,958	176,175,068	900,490,191
6/30/03	174,101,971	628,847,417	178,832,138	981,781,526
6/30/04	185,219,198	709,882,406	279,184,904	1,174,286,508
6/30/05	192,945,781	780,263,875	377,248,454	1,350,458,110
6/30/06	206,888,487	858,760,869	462,921,097	1,528,570,453
<b>Municipal Fire</b>				
6/30/01	77,923,592	362,623,800	102,528,688	543,076,080
6/30/02	86,410,010	388,190,768	92,812,594	567,413,372
6/30/03	93,862,473	421,561,947	97,825,447	613,249,867
6/30/04	102,326,449	458,520,345	138,421,112	699,267,906
6/30/05	108,757,669	484,973,626	186,125,726	779,857,021
6/30/06	117,907,283	526,463,519	167,796,858	812,167,660
<b>Legislative</b>				
6/30/01	102,842	2,955,000	3,814,158	6,872,000
6/30/02	108,638	3,144,000	3,926,362	7,179,000
6/30/03	124,517	3,312,823	4,219,838	7,657,178
6/30/04	710,612	7,583,534	15,236,510	23,530,656
6/30/05	576,795	7,584,395	10,037,277	18,198,467
6/30/06	641,965	8,805,152	9,986,388	19,433,505
<b>Judicial</b>				
6/30/01	3,911,336	40,366,909	26,325,844	70,604,089
6/30/02	4,387,293	41,576,215	29,994,990	75,958,498
6/30/03	4,108,598	50,680,275	31,162,723	85,951,596
6/30/04	4,634,853	51,938,705	31,046,596	87,620,154
6/30/05	5,035,241	52,838,347	29,301,623	87,175,211
6/30/06	5,316,135	59,913,319	29,987,023	95,216,477
<b>Magistrate</b>				
6/30/01	1,397,474	13,659,061	11,628,745	26,685,280
6/30/02	1,613,881	14,056,788	13,288,758	28,959,427
6/30/03	1,650,781	18,728,541	8,698,728	29,078,050
6/30/04	1,850,875	19,465,866	9,033,596	30,350,337
6/30/05	2,030,058	19,498,351	9,856,553	31,384,962
6/30/06	2,246,383	21,057,235	10,058,520	33,362,138
<b>Volunteer Firefighter</b>				
6/30/01	N/A	2,679,840	13,126,952	15,806,792
6/30/02	N/A	2,777,192	13,350,402	16,127,594
6/30/03	N/A	2,974,933	14,083,319	17,058,252
6/30/04	N/A	3,465,970	14,312,175	17,778,145
6/30/05	N/A	3,719,977	21,431,600	25,151,577
6/30/06	N/A	4,322,414	19,420,476	23,742,890

Solvency Test (continued)



Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets			
	(1)	(2)	(3)	(4)
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%
<b>4,518,903,504</b>	<b>100%</b>	<b>100%</b>	<b>53%</b>	<b>85%</b>
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%
775,889,322	100%	100%	100%	138%
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%
<b>3,477,139,848</b>	<b>100%</b>	<b>100%</b>	<b>91%</b>	<b>97%</b>
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%
<b>1,393,242,801</b>	<b>100%</b>	<b>100%</b>	<b>71%</b>	<b>91%</b>
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%
<b>685,041,627</b>	<b>100%</b>	<b>100%</b>	<b>24%</b>	<b>84%</b>
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%
<b>13,677,848</b>	<b>100%</b>	<b>100%</b>	<b>42%</b>	<b>70%</b>
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%
<b>74,003,122</b>	<b>100%</b>	<b>100%</b>	<b>29%</b>	<b>78%</b>
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%
<b>33,694,422</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>101%</b>
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%
<b>39,511,723</b>	<b>N/A</b>	<b>100%</b>	<b>100%</b>	<b>166%</b>



## Analysis of Financial Experience

PERA Fund	Experience Gain (or Loss) for Year (in Thousands)					
	2006	2005	2004	2003	2002	2001
UAAL at Beginning of Year	\$905,283	\$682,956	\$244,865	\$(264,692)	\$(426,245)	\$(409,969)
Normal Cost for Year	344,461	316,767	294,026	282,233	262,248	247,027
Contributions (net of Refunds)	(393,790)	(367,322)	(347,742)	(337,298)	(322,530)	(306,535)
Interest Accrual	70,449	52,615	17,439	(23,378)	(36,512)	(35,486)
Expected UAAL before Non-Recurring Adjust	926,403	685,016	208,588	(343,135)	(523,039)	(504,963)
Effect of Assumption Changes	(49,497)	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	-	-	-	-	-	-
Expected UAAL after Audit Adjustment	876,906	935,821	208,588	(300,840)	(523,039)	(255,499)
Actual UAAL	931,210	905,283	682,956	244,865	(264,692)	(426,245)
<b>Gain (Loss)</b>	<b>\$(54,304)</b>	<b>\$30,538</b>	<b>\$(474,368)</b>	<b>\$(545,705)</b>	<b>\$(258,347)</b>	<b>\$170,746</b>

Judicial Fund	Experience Gain (or Loss) for Year (in Dollars)					
	2006	2005	2004	2003	2002	2001
UAAL at Beginning of Year	\$18,394,594	\$21,411,385	\$20,728,330	\$14,272,120	\$11,081,455	\$8,589,544
Normal Cost for Year	3,866,393	3,441,427	3,085,658	2,649,262	2,489,954	2,231,077
Contributions (net of Refunds)	(3,851,188)	(3,278,223)	(3,129,038)	(2,490,122)	(2,429,583)	(2,518,036)
Interest Accrual	1,472,176	1,719,439	1,656,531	1,148,135	888,931	685,985
Expected UAAL before Non-Recurring Adjust	19,881,975	23,294,028	22,341,481	15,579,395	12,030,757	8,988,570
Transfer of Judges from Magistrate Ret Fund	-	-	-	245,658	-	-
Change in data load <sup>1</sup>	(904,342)	-	-	-	-	-
Effect of Assumption Changes <sup>2</sup>	-	-	-	-	-	4,278,629
Expected UAAL after Adjustments	18,977,633	23,294,028	22,341,481	15,825,053	12,030,757	13,267,199
Actual UAAL	21,213,355	18,394,594	21,411,385	20,728,330	14,272,120	11,081,455
<b>Gain (Loss)</b>	<b>\$(2,235,722)</b>	<b>\$4,899,434</b>	<b>\$930,096</b>	<b>\$(4,903,277)</b>	<b>\$(2,241,363)</b>	<b>\$2,185,744</b>



Magistrate Fund	Experience Gain (or Loss) for Year (in Dollars)					
	2006	2005	2004	2003	2002	2001
UAAL at Beginning of Year	\$81,527	\$122,955	(551,412)	\$(3,080,161)	\$(3,572,815)	\$(3,359,591)
Normal Cost for Year	1,223,210	1,056,102	1,084,041	1,267,815	1,144,211	1,039,336
Contributions (net of Refunds)	(1,057,722)	(935,027)	(928,011)	(1,347,811)	(1,339,240)	(1,477,130)
Interest Accrual	13,142	14,679	(37,872)	(249,613)	(293,626)	(286,279)
Expected UAAL before Non-Recurring Adjust	260,157	258,709	(433,254)	(3,409,770)	(4,061,470)	(4,083,664)
Transfer of Judges to Judicial Retire Fund	-	-	-	61,246	-	-
Effect of Assumption Changes <sup>2</sup>	-	-	-	-	-	1,350,572
Expected UAAL after Audit Adjustment	260,157	258,709	(433,254)	(3,348,524)	(4,061,470)	(2,733,092)
Actual UAAL	(332,284)	81,527	122,955	(551,412)	(3,080,161)	(3,572,815)
<b>Gain (Loss)</b>	<b>\$592,441</b>	<b>\$177,182</b>	<b>\$(556,209)</b>	<b>\$(2,797,112)</b>	<b>\$(981,309)</b>	<b>\$839,723</b>

Volunteer Firefighters Fund	Experience Gain (or Loss) for Year (in Dollars)					
	2006	2005	2004	2003	2002	2001
UAAL at Beginning of Year	\$(10,499,493)	\$(15,222,105)	\$(14,163,294)	\$(13,656,494)	\$(12,184,790)	*
Normal Cost for Year	2,345,000	1,865,323	1,890,280	1,819,655	1,813,230	*
Contributions (net of Refunds)	(750,000)	(750,000)	(750,000)	(750,000)	(500,000)	*
Interest Accrual	(776,159)	(1,173,155)	(1,087,452)	(1,049,733)	(922,254)	*
Expected UAAL before Non-Recurring Adjust	(9,680,652)	(15,279,937)	(14,110,466)	(13,636,572)	(11,793,814)	*
Effect of Assumption Changes	-	-	-	-	-	*
Expected UAAL after Audit Adjustment	(9,680,652)	(15,279,937)	(14,110,466)	(13,636,572)	(11,793,814)	*
Actual UAAL	(15,768,833)	(10,499,493)	(15,222,105)	(14,163,294)	(13,656,494)	*
<b>Gain (Loss)</b>	<b>\$6,088,181</b>	<b>\$(4,780,444)</b>	<b>\$1,111,639</b>	<b>\$526,722</b>	<b>\$1,862,680</b>	<b>*</b>

Notes:

<sup>1</sup> Change in data load from 5% of active member accrued liability to 2% of active member accrued liability

<sup>2</sup> Based on Experience Study completed in 2001

\* Information not available for years prior to 2002



# PERA Comprehensive Annual Financial Report

## Summary Of PERA Plan Provisions<sup>1</sup>

**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 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 twenty percent 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.

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 a minimum of 18 months under the plan. Members employed by municipalities which adopted the plan effective July 1, 2004 were first eligible 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.



## PERA Comprehensive Annual Financial Report

**Purchase of Service Credit** — A JRA member or current contributing member of PERA, ERA, or MRA 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 was 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.

### 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 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 member or current contributing member of PERA, ERA, or JRA may purchase previously refunded service credit if employed by an affiliated public employer at the time of purchase by paying a lump sum amount plus interest.

**Contribution Rates** — The contribution rate of members prior to July 1, 2005 was 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 court.

**Interest** — 5.25% on member contributions.

### Summary Of Volunteer Firefighter 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. The reduced retirement annuity is \$100 per month.

**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 2006 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 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 Credited Service
Any	10 or more
65+	5 or more



## PERA Comprehensive Financial Report

(continued)

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

***Interest*** — 5.25% on member contributions.

### Note:

<sup>1</sup> **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.*

heights  
REACHING<sup>NEW</sup>



STATISTICAL SECTION







**Public Employees  
Retirement Association**  
*of New Mexico*



## Changes in Plan Net Assets — Last Ten Fiscal Years

<b>PERA Retirement Fund</b> (in thousands of dollars)	1997	1998	1999
<b>Additions:</b>			
Contributions:			
Employers	\$162,496	\$165,249	\$174,324
Members	109,624	113,693	119,377
Purchased service credits by members	8,890	1,750	2,448
<b>Total Contributions</b>	281,010	280,692	296,149
Investment income:			
Interest	149,163	120,381	108,086
Dividends	38,300	76,761	102,137
Net change in fair value of investments	684,413	801,482	725,277
Securities lending income	–	27,394	15,442
Rental income	1,771	907	829
Other investment income	–	573	1
	873,647	1,027,498	951,772
Less investment expenses			
Securities lending expenses	–	–	–
Brokerage fees and other investment expenses	–	(33,706)	(22,524)
<b>Net Investment Income</b>	873,647	993,792	929,248
Other income	259	1,773	2,070
<b>Total Additions</b>	1,154,916	1,276,257	1,227,467
<b>Deductions:</b>			
Benefit payments	182,217	212,130	237,555
Refunds to terminated employees	21,487	25,001	25,612
Administrative expenses	12,611	4,348	4,876
<b>Total Deductions</b>	216,315	241,479	268,043
<b>Net Increase (Decrease) in Plan Net Assets</b>	938,601	1,034,778	959,424
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of year	4,367,165	5,305,766	6,340,544
End of year	\$5,305,766	\$6,340,544	\$7,299,968

## Changes in Plan Net Assets — Last Ten Fiscal Years

(continued)



2000	2001	2002	2003	2004	2005	2006
\$182,000	\$196,544	\$204,734	\$213,713	\$223,059	\$234,232	\$249,740
125,929	135,594	140,857	146,589	151,568	160,639	169,802
2,054	2,002	2,976	3,224	3,856	3,964	6,936
309,983	334,140	348,567	363,526	378,483	398,835	426,478
215,028	243,653	198,016	173,605	179,322	152,764	177,827
56,048	65,088	71,688	77,227	103,261	137,366	154,683
575,346	(459,348)	(430,901)	39,708	975,692	629,892	854,078
21,662	15,621	10,236	6,916	4,443	8,610	71,657
360	407	1,070	641	891	584	1,342
–	–	–	–	–	–	6,648
868,444	(134,579)	(149,891)	298,097	1,263,609	929,216	1,266,235
–	–	–	–	(2,843)	(6,635)	(66,168)
(33,682)	(31,845)	(25,170)	(19,783)	(13,003)	(21,446)	(23,572)
834,762	(166,424)	(175,061)	278,314	1,247,763	901,135	1,176,495
2,599	1,052	157	199	257	(450)	495
1,147,344	168,768	173,663	642,039	1,626,503	1,299,520	1,603,468
264,480	291,118	318,441	349,178	387,307	427,084	467,102
26,811	27,358	25,624	25,986	28,146	29,417	30,246
3,273	3,993	3,815	6,756	8,257	11,691	10,174
294,564	322,469	347,880	381,920	423,710	468,192	507,522
852,780	(153,701)	(174,217)	260,119	1,202,793	831,328	1,095,946
7,299,968	8,152,748	7,999,047	7,824,830	8,084,949	9,287,742	10,119,070
\$8,152,748	\$7,999,047	\$7,824,830	\$8,084,949	\$9,287,742	\$10,119,070	\$11,215,016



## Changes in Plan Net Assets — Last Ten Fiscal Years

(continued)

<b>Judicial Retirement Fund</b> (in thousands of dollars)	1997	1998	1999
<b>Additions:</b>			
Contributions:			
Employers	\$2,285	\$2,043	\$2,046
Members	310	340	323
Transfer from the Magistrate Retirement Fund	-	-	-
Purchased service credits by members	-	5	-
<b>Total Contributions</b>	<b>2,595</b>	<b>2,388</b>	<b>2,369</b>
Investment income:			
Interest	1,135	527	28
Dividends	388	1,036	1,708
Net change in fair value of investments	5,304	6,866	5,140
Securities lending income	-	-	-
Other investment income	-	-	-
	<b>6,827</b>	<b>8,429</b>	<b>6,876</b>
Less investment expenses			
Securities lending expenses	-	-	-
Brokerage fees and other investment expenses	-	(6)	(10)
<b>Net Investment Income</b>	<b>6,827</b>	<b>8,423</b>	<b>6,866</b>
Other income	243	19	-
<b>Total Additions</b>	<b>9,665</b>	<b>10,830</b>	<b>9,235</b>
<b>Deductions:</b>			
Benefit payments	2,461	2,794	2,945
Refunds to terminated employees	-	-	-
Administrative expenses	12	7	8
<b>Total Deductions</b>	<b>2,473</b>	<b>2,801</b>	<b>2,953</b>
<b>Net Increase (Decrease) in Plan Net Assets</b>	<b>7,192</b>	<b>8,029</b>	<b>6,282</b>
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of year	32,760	39,952	47,981
End of year	\$39,952	\$47,981	\$54,263



## Changes in Plan Net Assets — Last Ten Fiscal Years

*(continued)*



2000	2001	2002	2003	2004	2005	2006
\$2,120	\$2,159	\$2,051	\$2,118	\$2,594	\$2,735	\$3,154
343	359	378	372	455	543	697
-	-	-	-	3,291	-	-
22	-	-	-	80	-	-
<b>2,485</b>	<b>2,518</b>	<b>2,429</b>	<b>2,490</b>	<b>6,420</b>	<b>3,278</b>	<b>3,851</b>
1,565	1,757	1,388	1,183	1,151	1,051	1,222
412	471	510	536	700	965	1,075
4,153	(3,318)	(3,079)	208	6,649	4,358	5,956
158	112	72	48	31	60	497
-	-	-	-	-	-	46
6,288	(978)	(1,109)	1,975	8,531	6,434	8,796
-	-	-	-	(20)	(46)	(459)
(189)	(229)	(179)	(137)	(89)	(156)	(201)
6,099	(1,207)	(1,288)	1,838	8,422	6,232	8,136
-	-	-	-	-	-	-
8,584	1,311	1,141	4,328	14,842	9,510	11,987
3,185	3,427	3,499	4,030	4,451	4,686	5,113
9	-	-	-	31	-	26
8	8	9	12	13	21	23
3,202	3,435	3,508	4,042	4,495	4,707	5,162
5,382	(2,124)	(2,367)	286	10,347	4,803	6,825
54,263	59,645	57,521	55,154	55,440	65,787	70,590
<b>\$59,645</b>	<b>\$57,521</b>	<b>\$55,154</b>	<b>\$55,440</b>	<b>\$65,787</b>	<b>\$70,590</b>	<b>\$77,415</b>



## Changes in Plan Net Assets — Last Ten Fiscal Years

(continued)

<b>Magistrate Retirement Fund</b> (in thousands of dollars)	1997	1998	1999
<b>Additions:</b>			
Contributions:			
Employers	\$1,086	\$1,072	\$1,078
Members	167	164	160
Purchased service credits by members	-	-	1
<b>Total Contributions</b>	1,253	1,236	1,239
Investment income:			
Interest	447	231	42
Dividends	194	459	821
Net change in fair value of investments	2,683	3,380	2,397
Securities lending income	-	-	-
Other investment income	-	-	-
	3,324	4,070	3,260
Less investment expenses			
Securities lending expenses	-	-	-
Brokerage fees and other investment expenses	-	(3)	(5)
<b>Net Investment Income</b>	3,324	4,067	3,255
Other income	-	-	-
<b>Total Additions</b>	4,577	5,303	4,494
<b>Deductions:</b>			
Benefit payments	653	712	895
Contribution to the Judicial Retirement Fund	-	-	-
Refunds to terminated employees	-	24	40
Administrative expenses	8	5	6
<b>Total Deductions</b>	661	741	941
<b>Net Increase (Decrease) in Plan Net Assets</b>	3,916	4,562	3,553
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of year	14,477	18,393	22,955
End of year	\$18,393	\$22,955	\$26,508

## Changes in Plan Net Assets — Last Ten Fiscal Years

(continued)



2000	2001	2002	2003	2004	2005	2006
\$940	\$1,282	\$1,146	\$1,143	\$779	\$763	\$849
175	180	193	196	149	172	209
6	15	-	9	-	-	-
1,121	1,477	1,339	1,348	928	935	1,058
794	908	722	636	620	469	558
197	228	257	282	375	443	492
1,982	(1,612)	(1,536)	150	3,550	2,015	2,726
76	55	37	25	15	28	227
-	-	-	-	-	-	21
3,049	(421)	(520)	1,093	4,560	2,955	4,024
-	-	-	-	(9)	(22)	(210)
(172)	(112)	(91)	(73)	(48)	(72)	(95)
2,877	(533)	(611)	1,020	4,503	2,861	3,719
3	-	-	-	-	-	-
4,001	944	728	2,368	5,431	3,796	4,777
1,065	1,122	1,197	1,462	1,591	1,624	1,738
-	-	-	-	3,291	-	-
-	14	2	-	-	-	-
6	6	6	10	6	9	9
1,071	1,142	1,205	1,472	4,888	1,633	1,747
2,930	(198)	(477)	896	543	2,163	3,030
26,508	29,438	29,240	28,763	29,659	30,202	32,365
\$29,438	\$29,240	\$28,763	\$29,659	\$30,202	\$32,365	\$35,395



## Changes in Plan Net Assets — Last Ten Fiscal Years

(continued)

<b>Volunteer Firefighters Retirement Fund</b> (in thousands of dollars)	1997	1998	1999
<b>Additions:</b>			
Contributions:			
Employers	\$ -	\$ -	\$ -
Members	-	-	-
Appropriations from the State of New Mexico			
Fire Protection Fund	750	1,000	1,000
Purchased service credits by members	-	-	-
<b>Total Contributions</b>	<b>750</b>	<b>1,000</b>	<b>1,000</b>
Investment income:			
Interest	383	204	19
Dividends	164	398	749
Net change in fair value of investments	2,246	2,855	2,186
Securities lending income	-	-	-
Other investment income	-	-	-
	<b>2,793</b>	<b>3,457</b>	<b>2,954</b>
Less investment expenses			
Securities lending expenses	-	-	-
Brokerage fees and other investment expenses	-	(2)	(4)
<b>Net Investment Income</b>	<b>2,793</b>	<b>3,455</b>	<b>2,950</b>
Other income	-	-	-
<b>Total Additions</b>	<b>3,543</b>	<b>4,455</b>	<b>3,950</b>
<b>Deductions:</b>			
Benefit payments	119	147	172
Administrative expenses	1	-	-
<b>Total Deductions</b>	<b>120</b>	<b>147</b>	<b>172</b>
<b>Net Increase (Decrease) in Plan Net Assets</b>	<b>3,423</b>	<b>4,308</b>	<b>3,778</b>
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of year	11,630	15,053	19,361
End of year	\$15,053	\$19,361	\$23,139

## Changes in Plan Net Assets — Last Ten Fiscal Years

(continued)



2000	2001	2002	2003	2004	2005	2006
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
1,250	1,000	500	750	750	750	750
-	-	-	-	-	-	-
1,250	1,000	500	750	750	750	750
734	855	670	600	608	542	651
178	218	241	270	368	500	574
1,791	(1,575)	(1,447)	189	3,472	2,267	3,159
69	52	34	24	16	31	266
-	-	-	-	-	-	25
2,772	(450)	(502)	1,083	4,464	3,340	4,675
-	-	-	-	(10)	(24)	(246)
(112)	(107)	(84)	(69)	(47)	(78)	(104)
2,660	(557)	(586)	1,014	4,407	3,238	4,325
-	-	-	-	-	-	-
3,910	443	(86)	1,764	5,157	3,988	5,075
212	232	247	271	307	346	405
-	-	-	-	-	-	-
212	232	247	271	307	346	405
3,698	211	(333)	1,493	4,850	3,642	4,670
23,139	26,837	27,048	26,715	28,208	33,058	36,700
\$26,837	\$27,048	\$26,715	\$28,208	\$33,058	\$36,700	\$41,370



## Schedule of Retired Members by Benefit Option

Benefit Option	2001	2002	2003	2004	2005	2006
Normal single life pension terminating on death	6,835	7,125	7,421	7,782	7,898	8,249
Normal two-life 100% survivor pension for retiree & survivor	6,667	7,016	7,433	7,928	8,307	8,928
Normal two-life 50% survivor pension for retiree & survivor	2,826	2,935	3,052	3,207	3,331	3,495
Normal single life with temporary child survivor pension	88	96	116	127	140	145
Disability single life pension terminating on death	292	210	200	205	206	200
Disability two-life 100% survivor pension for retiree & survivor	491	470	504	536	595	570
Disability two-life 50% survivor pension for retiree & survivor	88	87	98	105	113	108
Disability single life with temporary child survivor pension	14	13	14	17	18	18
Preretirement survivor pension	736	772	792	823	788	849
Legislative retirement	89	93	98	128	132	137
<b>Total PERA fund</b>	<b>18,126</b>	<b>18,817</b>	<b>19,728</b>	<b>20,858</b>	<b>21,528</b>	<b>22,699</b>
Judicial retirement	78	79	87	88	89	97
Magistrate retirement	36	37	46	44	44	48
Volunteer firefighter retirement	200	216	234	272	298	343
<b>Total</b>	<b>36,566</b>	<b>37,966</b>	<b>39,823</b>	<b>42,120</b>	<b>43,487</b>	<b>45,886</b>

Participating Employers  
As of June 30, 2006

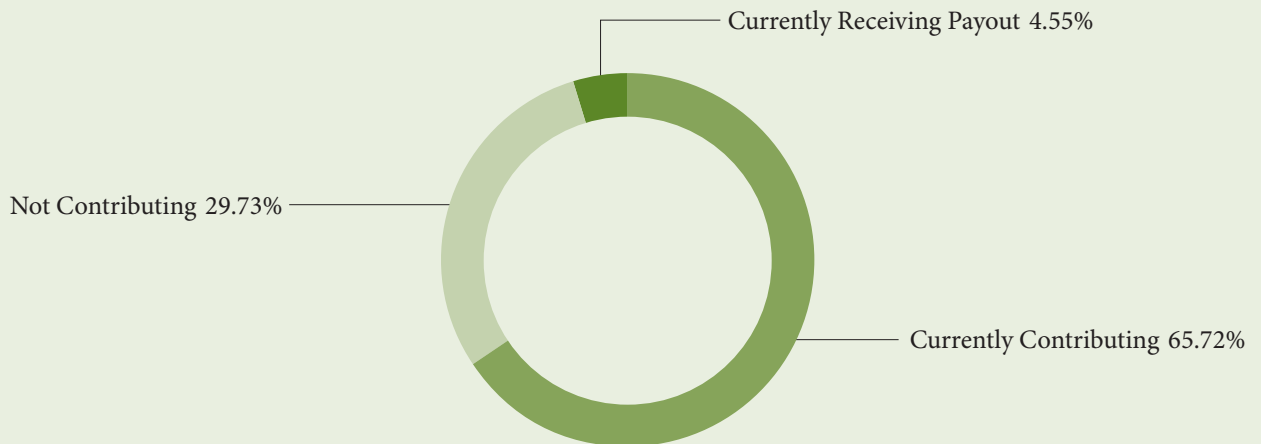


<b>Public Employees Retirement Fund</b>	
State Agencies	118
Municipalities	81
Counties	33
Special Districts	36
Housing Authorities	15
Hospitals	2
<b>Judicial Retirement Fund</b>	15
<b>Magistrate Retirement Fund</b>	18
<b>Volunteer Firefighters Retirement Fund</b>	373
<b>Total</b>	691



## Deferred Compensation Plan — Section 457

(numbers extracted from Nationwide Retirement Solutions report)



<b>Participants at June 30, 2006</b>		
Total Plan Participants		12,939
Currently Contributing		8,504
Not Contributing		3,846
Currently Receiving Payout		589

<b>Asset Allocation by Asset Class</b>	<b>Assets as of June 30, 2006</b>	<b>% of Total Assets</b>
Domestic Equity Funds:		
Large Cap Funds	\$96,077,032	35.31%
Mid Cap Funds	10,436,413	3.84%
Small Cap Funds	7,309,699	2.69%
International Equity Funds	15,649,702	5.75%
Balanced Funds	15,603,728	5.73%
Fixed Income Funds	4,427,238	1.63%
Stable Value	114,305,914	42.01%
Asset Allocation	5,023,640	1.85%
Loans and other Assets	3,161,495	1.19%
<b>Total</b>	<b>\$271,994,861</b>	<b>100.0%</b>



# Deferred Compensation Program Comparative Investment Results

Fiscal Year Ended June 30, 2006



Manager	1-Year 2006	3-Year 2004 – 2006	5-Year 2002 – 2006
<b>Large Cap Funds</b>			
Calvert Social Invest Equity Fund	5.0%	8.0%	3.2%
Growth Fund of America	15.4%	15.2%	4.9%
Dodge & Cox Stock Fund	15.3%	18.4%	10.6%
Fidelity Equity and Income	6.2%	8.1%	4.5%
Fidelity Contrafund	17.0%	17.6%	9.4%
Victory Inst'l Diversified Stock	10.4%	13.2%	4.4%
Vanguard Institutional Index	8.6%	11.2%	2.5%
<b>Small Cap Funds</b>			
Fidelity Low Priced Stock Fund	11.8%	19.9%	14.8%
Lord Abbett Small Cap Blend	9.8%	21.6%	13.2%
<b>Mid Cap Funds</b>			
Vanguard Strategic Equity	13.0%	19.6%	11.6%
T. Rowe Price Mid Cap Growth	14.2%	17.2%	8.4%
<b>International Funds</b>			
American EuroPacific Growth Fund	28.4%	24.5%	10.8%
Fidelity Diversified Int'l	26.2%	24.2%	13.5%
<b>Fixed-Income Funds</b>			
Vanguard Total Bond Index Fund	-1.0%	1.9%	4.4%
<b>Balanced Funds</b>			
Dodge and Cox	9.9%	12.8%	9.3%
Income Fund of America	9.6%	12.4%	8.4%
<b>Stable Value Fund</b>			
	4.4%	4.1%	4.6%
<b>Asset Allocation</b>			
Conservative Portfolio	4.0%	N/A	N/A
LifeCycle 2015 Portfolio	7.0%	N/A	N/A
LifeCycle 2025 Portfolio	8.6%	N/A	N/A
LifeCycle 2035 Portfolio	10.8%	N/A	N/A
LifeCycle 2045 Portfolio	12.9%	N/A	N/A



REACHING heights  
NEW



# heights REACHING<sup>NEW</sup>

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