

Reader View: Educational retirement fund on track to reach long-term funding goals

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By Mary Lou Cameron

New Mexico state legislators last fall had a special session to address budget shortfalls and how to provide required and needed services to its citizens. Although the New Mexico Educational Retirement Board pension trust fund is not administered by tax dollars, the Legislature has oversight over administration of the agency to ensure the trust fund's financial stability.

The trust fund governing board recognizes the importance of keeping its members and retirees, legislators and other interested parties updated on important pension-related issues. As a public entity, educational retirement board has a duty to maintain public trust and transparency and welcomes the opportunity to provide information regarding the status of the trust fund.

As fiduciaries of the \$11.4 billion trust fund, the board of trustees is active in all aspects of investments made by the fund. Understanding the actuarial implications of how we administer the fund is crucial.

One valuable tool used to measure the solvency of the trust fund is an actuarial valuation. The most recent valuation conducted by board actuaries, Gabriel Roeder Smith & Company, reported that the New Mexico Educational Retirement Board is on track to reach its goal of fully funding its pension plan by 2062.

The actuaries presented the Actuarial Valuation Report as of June 30, 2016, to the retirement board of trustees at its Oct. 21, 2016, meeting. The valuation is a snapshot in time that measures actuarial liabilities, determines the adequacy of current statutory contributions, explains the actuarial condition of the educational retirement fund, tracks changes over time and provides early warnings on new trends that might affect the fund.

Extensive pension reform was passed by the New Mexico state Legislature in 2013 to shore up the solvency of the state's retirement funds. Legislation took a balanced approach to achieving long-term solvency and sustainability. A mature defined-benefit pension fund, it has 1.3 active members for every retiree. Benefits are generated by employee and employer contributions and investment returns.

The actuarial valuation presented the following key results:

- u The actuarial funded ratio of the pension plan had improved from 63.7 percent to 64.2 percent toward the 100 percent funding goal.

u The Unfunded Actuarial Accrued Liability of the pension fund increased from \$6.5 billion to \$6.6 billion. This liability is the amount of retirement payments owed to an employee in future years that exceeds current assets and their projected growth. The estimate is revised annually based on the five most recent years of experience. Recent pension reform initiatives put the fund on pace to reduce the unfunded liabilities so that all funds can go toward paying pensions.

u The funding period increased from 43.2 years to 45 years.

The valuation reported a 2.8 percent actuarial return on the market value of assets. In fiscal year 2016, there was a 6.6 percent actuarial return on assets, reflecting investment losses and gains that were smoothed in over a five-year period.

The New Mexico Educational Retirement Fund Board of Trustees is dedicated to working toward long-term sustainability. To that end, the board will continue to share the findings of actuarial valuation reports, actuarial studies and investment data in line with its transparency policy.

Mary Lou Cameron is chairwoman of the New Mexico Educational Retirement Fund Board of Trustees.