

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
REGULAR MEETING

December 5, 2008

A Regular Meeting of the New Mexico Educational Retirement Board was called to order on this date at approximately 9:10 a.m. in the Educational Retirement Board Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico.

ROLL CALL – QUORUM PRESENT:

Members Present:

Mr. Bruce F. Malott, Chairman
Mr. Gary B. Bland, Secretary
Ms. Mary Lou Cameron, Vice-chair
Dr. Veronica Garcia [departing at 9:45 a.m.]
Mr. H. Russell Goff
Mr. James B. Lewis
Dr. Beulah Woodfin

Members Excused:

None.

Legal Counsel Present:

Mr. Chris Schatzman, General Counsel

Staff Present:

Ms. Jan Goodwin, Executive Director
Ms. Linda Kissko, Executive Admin. Assistant
Ms. LeAnne Larrañaga-Ruffy, Investment Officer
Ms. Clara Mares, HR Director
Mr. Steve Moreno, Benefits Manager
Mr. Steve Neel, Portfolio Manager
Mr. Jeff Riggs, Deputy Director
Mr. Paul Swanson, Member Services
Mr. Greg Trujillo, IT Director
Mr. Robert Westervelt, CFO

Others Present:

Mr. Allan Martin, New England Pension Consultants
Ms. Judith Beatty, Recorder
[Also see sign-in sheet]

a. Approval of Agenda

Mr. Bland moved approval of the Agenda, as published. Mr. Lewis seconded the motion, which passed by voice vote.

b. Approval of Minutes: 10-24-08 Regular Meeting

Ms. Cameron moved approval of the October 24 meeting minutes, as submitted. Dr. Woodfin seconded the motion, which passed by voice vote.

c. Introduction of Guests

Guests were introduced.

[The Agenda was reprioritized.]

2. COMBINING PEIC/REAL ESTATE COMMITTEE WITH INVESTMENT COMMITTEE: STEVE NEEL

[Resolution No. 2008-08, addressing this issue, was in the Board packet.]

Mr. Neel stated that the Private Equity Investment Committee/Real Estate Committee have been meeting every month, and the intention of this resolution is to combine those with the Investment Committee. He said this will make it easier to achieve a quorum and accommodate the busy schedules of the members.

Mr. Neel stated that a typical meeting under the new arrangement will take approximately four hours.

Mr. Bland moved approval of Resolution No. 2008-08. Mr. Lewis seconded the motion, which passed by voice vote.

3. INTEREST RATE POLICY: CHRIS SCHATZMAN

[Resolution No. 2008-06, addressing this issue, was in the Board packet.]

Mr. Schatzman stated that the Board reviews and sets interest rates for the forthcoming calendar year at its December meeting, and this Resolution sets the new interest rates (effective January 1, 2009) to be 3.97% for the Retiree Death Refund Rate; 3.33% for the Non-Retiree Death refund and regular death rate, and 8% for the purchase of earned service credit.

Ms. Cameron moved approval of Resolution No. 2008-06. Mr. Goff seconded the motion, which passed by voice vote.

4. OPEN MEETINGS ACT RESOLUTION: CHRIS SCHATZMAN

Mr. Schatzman stated that the Open Meetings Act Resolution is the same resolution adopted in previous years, updated for 2009. He said there are no material changes to this resolution.

Dr. Garcia moved approval of the Open Meetings Act Resolution. Ms. Cameron seconded the motion, which passed by voice vote.

**5. AMENDMENT TO RULE 2.82.5.15 (RETURN TO WORK):
CHRIS SCHATZMAN**

Mr. Schatzman stated that the Board reviewed this proposed revision at its October meeting, and a notice of the rule change was sent to the local administrative units and posted on the ERB website. He said no comments were received specifically addressing the rule change.

Mr. Schatzman said this amendment moves the 12-month layout period from being fixed in front of the time a retiree submits a Return to Work application to being any 12-month period. He said the language has also been simplified and clarified.

Addressing another added provision, Mr. Schatzman stated that there have been a number of proposals from individuals to go to work for subsidiaries of universities, foundations or nonprofit corporations owned by the university. He said this effectively thwarts the purpose of Return to Work—there would be some question as to whether it would be acceptable to the IRS, and it also circumvents the actuarial assumptions upon which Return to Work was based.

Mr. Schatzman recommended approval of the rule change.

Mr. Bland asked if people under duress, medical or otherwise, will be able to understand the language in the amendment, and Mr. Schatzman responded that many staff people who expressed confusion with the prior rule understood this version of it.

Dr. Garcia recommended sending the rule to educational associations, unions and education partners so they can put it in their newsletters.

Ms. Goodwin stated that she would put together an article for inclusion in these publications.

A representative from UNM expressed concern that, because unit administrators are not really required to disseminate new rules to the members, the members might not hear about it.

Mr. Schatzman responded that the ERB posts the rule on its website and takes it a step further by circulating it to the school districts, colleges and universities, which is more extensive than many other state agencies do in rule changes. He said he could not recommend that the ERB force or require the OAU's to send it to every single employee.

Mr. Schatzman also clarified for Dr. Garcia that there is no requirement for a hearing; however, people were told they could attend today's Board meeting and express any concerns. He said staff did not recommend a hearing because no written comments were received and there were only two verbal inquiries.

Mr. Bland commented that this is a very confusing subject, and asked if the topic is included in exit interviews with retiring employees.

Mr. Riggs responded that the ERB does not counsel employees in any of the educational institutions upon retirement. He added that, since 2006, employees upon retirement are given a retirement informational packet and are asked to sign a document acknowledging receipt.

Mr. Bland said he thought there should be some counseling involved.

Mr. Malott commented that he thought the ERB should do everything possible to support the constituency, but thought counseling retirees was not part of its charter and could cross a line in terms of potential liability. He added that the ERB does not have sufficient staff to take on that responsibility.

Dr. Garcia responded that, in terms of the rule, it is the ERB's responsibility in being very clear in getting information out to the members, active and retired, and Mr. Malott concurred. He said it should be on the website, newsletters and so forth.

Ms. Goodwin added that the ERB is working with the higher educational institutions, universities and the Association of Superintendents to see that information is emailed to at least one person at every school.

Dr. Woodfin suggested inviting HR directors, at the university level in particular, to a meeting so this information can be pointed out to them and clarified.

Mr. Riggs stated that Member Services and the ERB's outreach program are putting together a pilot project, and did their first pilot visit in Pojoaque last month. He said a team from Member Services, along with a manager, visit the individual administrative units, and while Member Services team people are meeting with the

members, the managers are meeting with the administrative unit people (HR person, superintendent or both) and going through these issues.

Ms. Cameron moved for approval. Mr. Goff seconded the motion, which passed by voice vote.

6. PAT KLAURENS—NMUNM POLICE OFFICERS ASSOCIATION

Mr. Klaurens appeared before the Board and stated that he was appearing on behalf of the UNM Police Department Police Officers Association, as well as all educational police officers and firefighters in the state of New Mexico.

Mr. Klaurens gave a slide presentation proposing to create an “Emergency Services Enhancement” within ERB. He said 31 states include educational employees involved in emergency services in public service (police and fire) retirement plans, or add an enhancement to the retirements of educational emergency services personnel.

Mr. Klaurens said most of the states that create an enhancement use a multiplier of .030 for each year of service, allow retirement at 25 years, and require the employee to contribute between 0% and 1.5% more of their annual pay than other educational employees in order to cover the cost of the enhancement.

Mr. Klaurens also asked for a 75% pension at 25 years and capping the benefit at 80-100% of the best 20 quarters.

In conclusion, Mr. Klaurens proposed entering into a dialogue to find out what the ERB thinks should be done in order to make this happen.

Mr. Malott said the Board has gone on record that there will be no new benefits. He added, however, that the Board recognizes the commitment of emergency services personnel, and as Board chair, he would be willing to enter into a dialogue. He said it has to be cost-neutral to the Fund, starting with the actuarial study and analysis, but the Fund cannot advance money toward 183 people when it is responsible for 90,000 people in all.

Mr. Malott asked if the IRIS system is capable of handling a second plan, and Mr. Moreno responded that it is, but a cost would be involved in modifying the system.

Ms. Cameron told Mr. Klaurens that there are many members who feel they, too, make sacrifices on the job, and she was not sure how they would react to the idea of a second plan that excluded them.

Mr. Goff stated that a big concern is the multiplier of 2.35 that educators and others have been paying for many years, and what kind of impact would be created with a new multiplier of 3.0 for Mr. Klaurens’ group.

Dr. Woodfin agreed with Mr. Goff and commented that setting up a two-tiered system within a single entity would be very difficult. She said it would be a valuable approach if something could be worked out, but it would take a lot of effort.

Mr. Lewis asked Mr. Klaurens if the 183 people involved have voted to support this proposal in its entirety.

Mr. Klaurens responded no. He said he has been in loose touch with them, and they are generally supportive.

Mr. Lewis cited remarks by Mr. Klaurens during his presentation about constant attrition because pay is better elsewhere. He said this was a problem when he was city manager in Rio Rancho and also with the City of Albuquerque, where police officers were going to higher paying jobs in other cities. He asked Mr. Klaurens if he thought that problem would cease to exist with the incentives he was proposing.

Mr. Klaurens responded that this is a step in the right direction and a very large part of the solution.

Mr. Bland disclosed that he is a semi-active officer and receives a very small check from the police system, so would abstain from any vote on this matter.

Mr. Bland stated that correctional officers and others are also asking for improved benefits, and suggested that Mr. Klaurens' group be included in that discussion. He said this issue would probably be addressed during the upcoming Legislative Session.

Mr. Malott pointed out that getting an actuarial study done in order to begin this dialogue would cost \$10,000 to \$20,000. He asked Board members for comment.

Ms. Cameron said she would agree that the ERB should not pay for this study. Further, she expressed concern about advising Mr. Klaurens on what steps he should take next because it would imply that the ERB was endorsing his proposal.

Mr. Malott asked Board members if they would be willing to allow Mr. Klaurens' group to talk to the ERB's actuaries, provide their own data and fund the study themselves.

Mr. Bland told Mr. Klaurens that it might be helpful to coordinate with the various custodial institutions that are looking at the same kind of benefit increase, including correctional officers.

Mr. Malott asked Mr. Klaurens if there has been discussion about the fact that all of the other licensed police officers in New Mexico are in the PERA plan, and Mr. Klaurens responded that he did not know the actuarial impact of withdrawing from ERB and joining PERA, but perhaps that would be the simplest solution.

Mr. Lewis noted that the PERA Board has taken the position that they will not support any enhancements, which is not to say Mr. Klaurens cannot lobby for that. He said the Investments & Pensions Oversight Committee is reviewing a variety of proposals, as mentioned by Mr. Bland. He said they include earlier retirement for public safety personnel in the Retiree Health Care Authority.

[Break.]

7. CONSENT AGENDA—BOARD TRAVEL

None.

8. APPROVAL OF 2009 BOARD MEETING DATES

Ms. Cameron moved for approval. Mr. Lewis seconded the motion, which passed by voice vote.

9. DISABILITY RETIREMENTS

- a) New Applicants (Permanent & Continuing)
- b) COLAs

Ms. Cameron moved for approval. Dr. Woodfin seconded the motion, which passed by voice vote.

- c) Appeals

None.

10. AGE & SERVICE RETIREMENTS

Ms. Cameron moved for approval. Mr. Bland seconded the motion, which passed by voice vote.

11. DIRECTOR'S REPORT

- a. Legislative Agenda Update

Ms. Goodwin reported that the ERB presented its legislative agenda to the LFC and some constituent groups, and while there is some concern about changing the service requirement from 25 years to 30 years, the ERB hopes that people will see the need for that given the current financial situation. She explained that the concern raised is that a number of legislators and the Governor have pledged not to diminish ERB benefits relative to those offered at PERA; however, there is considerable legislative interest in changing the PERA benefits, so ultimately this may not be an issue.

Ms. Goodwin also reported that the ERB is in the process of producing a newsletter that will go out to all current and retired members with FAQs on legislative proposals and directing them to a website for further information.

b. Legislative Finance Committee Update

Ms. Goodwin said the ERB appeared before the LFC a couple of weeks ago to discuss its budget and legislative agenda, and LFC members seemed very pleased at the ERB's proactive stance by proposing the 30 year service requirement.

c. CAPP Conference Report

Ms. Goodwin reported that she attended a four-day training session in Texas a few weeks ago sponsored by the International Foundation of Employee Benefit Plans. She said this program provides excellent training for board members, going into the responsibilities of board members, actuarial issues and other pertinent issues. She said she would strongly recommend this training for anyone interested.

d. NMRHCA Report

Ms. Goodwin said the Retiree Health Care Authority will be working with ERB investment advisor Allan Martin and has a meeting scheduled today to discuss their investment allocation. She said the RHCA also has a number of items to take to the next Legislative Session, including statutory changes to help protect the Fund. She stated that the RHCA's new executive director, Wayne Propst, has been able to fill all vacant positions with the exception of one at this point, and the agency is much more stable than before.

e. Positive Response to Member Letter

Ms. Goodwin reported that, after the ERB sent out letters to all members on the status of the Fund, it received letters and phone calls from many people expressing gratitude for this information.

Mr. Lewis stated that the Investments and Pensions Oversight Committee has requested that the ERB send a representative to one of their meetings to explain the type of training ERB Board members have received on fiduciary responsibility.

Mr. Schatzman agreed to make a presentation to IPOC.

12. STATUS REPORT ERB AUDIT — BOB WESTERVELT

Mr. Westervelt reported that the audit is on track to be submitted on time, and an exit conference will be scheduled next week. He said a draft report will then be prepared for DFA review.

13. ACTUARY VALUATION REPORT: CHRIS CONRADI

Chris Conradi, actuary with Gabriel Roeder Smith & Company, presented the Actuarial Valuation as of June 30, 2008. He also distributed a draft copy of the valuation report.

With respect to the draft valuation report, Mr. Conradi stated that GRS received revised asset figures from the ERB just this week; however, the bottom line impact is very trivial.

Mr. Conradi reported that the number of active members increased by 1,000+, or by 1.6%, and since 1998, active membership has increased an average of 0.9% a year.

Mr. Conradi also reported that the number of retirees increased by 1,223, or by 4.1%; and over the last ten years, the number of retirees has grown an average of 4.9% per year.

Mr. Conradi said there have been huge market losses, and most of his clients are experiencing losses of -20% to -28%. In reviewing projections, he said average 8% returns every year for 30 years would result in a 98.5% funded ratio in 2038, whereas a -20% return in FY 2009 with 8% returns for all of the subsequent years would bring the funded ratio down to about 53% and the funding period would be infinite.

Mr. Malott commented that, if the world has changed economically and 8% is no longer achievable, then there is a problem.

Mr. Conradi agreed. He stated that groups with percentages above 8% are now moving downward toward 8%, but most of the systems sitting at 8% are still there, although a few have gone from 8% to 7.75% or from 7.75% to 7.5%.

Mr. Lewis asked Mr. Conradi if there is anything the ERB should be doing allocation-wise, or is it positioned right at the current time.

Mr. Conradi responded that most systems are not moving their allocations around, and those that are overexposed in equities are staying the course and hoping for recovery.

14. INVESTMENT REPORTS

a. September Quarterly Performance Report: Allan Martin, NEPC

Mr. Martin stated that the Fund was at \$8.770 billion on June 30, and Northern Trust's report for October 31 was at \$6.669 billion, representing roughly an 18% decrease.

Mr. Martin stated that people are witnessing the systematic de-leveraging of the banking system on a global basis; and if there is no credit supplied to the economy, there is no opportunity for growth.

Mr. Martin said the intent of the ERB's strategy over the last two years has been to reduce volatility by taking money out of the equity markets and moving it to alternatives on the belief that they would be protected. He said the bad news is that everything went down in this environment, but it is still true that many of the alternative classes went down much less than equity. He added that there will be erosion in private equity and real estate once the appraisals come in.

Mr. Malott asked if the ERB should be putting an allowance on private equity and real estate investments rather than waiting, then, and Mr. Martin responded that the valuations will certainly be lower, and NEPC could estimate the impact.

Mr. Martin said the ERB's equity commitment at 45% is substantially below the equity market and other large public funds, so the ERB did relatively better on that basis. In reviewing the total fund composite data, he noted that the Fund has earned 7% a year over five years, including the drop that occurred through 9/30, putting the ERB in the top third of all public funds.

Mr. Martin pointed out that, through October, the best-performing fund he knows of is down 19.6%. He stated that the SIC's Land Grant Permanent Fund is down 21.7%, the Severance Tax Permanent Fund is down 22.5% and the ERB is down 25.9%. He stated that the range of performance in large public funds, year to date, is slightly below -20% to slightly above -30%.

Mr. Martin stated that there are a lot of indicators from this point forward that equities and commodities are undervalued—for instance, gas in California has gone from \$5 a gallon to under \$2 a gallon—and there are a lot of elements of the economy that NEPC feels will recover. He said NEPC feels the stock market is permanently in an 8-10% range, though, and that value will be found in non-equities such as bank debt.

Mr. Martin said NEPC would like to take another look at the ERB's credit strategies, feeling that debt and opportunity strategies will offer better returns on a risk adjusted basis than pure equity strategy. He pointed out that the one credit opportunity fund that the ERB has invested in was PIMCO, which had a positive return for the quarter ending September 2008.

Mr. Martin stated that he was not optimistic that the market would bounce back soon, but there will be a recovery, and marginally shifting some of the strategies to a little more credit would be helpful.

Mr. Martin also suggested re-looking at the managers. He said one of NEPC's clients is firing all of their equity managers not to rehire someone else, but to look at strategies that have equity characteristics that are not necessarily long-only strategies, with a heavy use of futures. He said Mr. Jacksha has asked NEPC to look at the ability to do some overlays on the portfolio, which is something the SIC is doing.

b. October Flash Report

[Not addressed.]

c. Update on Alternative Investment Approvals by Investment Committee

Mr. Neel reported that three commitments were made: \$30 million to Sevin Rosen, a venture fund, and \$25 million each to the Mitigation Banking Fund and the Forestry Conservation Fund. He said the latter two investments came out of the absolute return bucket, and the venture fund investment came out of the private equity bucket.

d. Other Investment Reports

Mr. Neel further reported that the ERB has reached terms with its coinvestment partner, Aldus.

15. EXECUTIVE SESSION

a. Appeal of Dr. James Ellison

Mr. Goff moved to go into Executive Session pursuant to NMSA §10-15-1(H)(3) to consider the appeal of Dr. James Ellison. Mr. Lewis seconded the motion, which passed on the following Roll Call vote:

For: Chairman Malott; Ms. Cameron; Mr. Bland; Mr. Goff; Dr. Woodfin; Mr. Lewis.

Against: None.

[The Board was in Executive Session from 11:45 until 11:55 a.m.]

Mr. Bland moved to come out of Executive Session. Ms. Cameron seconded the motion, which passed on the following Roll Call vote:

For: Chairman Malott; Ms. Cameron; Mr. Bland; Mr. Goff; Dr. Woodfin; Mr. Lewis.

Against: None.

16. ACTION FROM EXECUTIVE SESSION

Chairman Malott stated that the only matter discussed in Executive Session was the appeal of Dr. James Ellison.

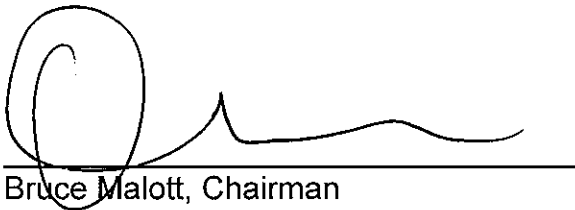
Ms. Cameron moved to deny the appeal of Dr. James Ellison. Dr. Woodfin seconded the motion, which passed by voice vote.

Mr. Malott commented that this was most unfortunate, but the Board was required to adhere to the rule.

17. NEXT MEETING: FRIDAY, FEBRUARY 13, 2009 — ALBUQUERQUE

18. ADJOURN

Its business completed, the Educational Retirement Board adjourned the meeting at approximately 12:00 p.m.



Bruce Malott, Chairman

ATTEST:

Gary B. Bland, Secretary

