



Frequently Asked Questions (FAQs) for Plan Design Change

Q. Why does ERB have to make any changes?

A. For every dollar of benefit that ERB's members have earned, ERB has approximately 62 cents. In addition to the investment losses in 2001 and 2008, many of the factors that increase ERB's retirement costs have also increased. ERB members have been retiring sooner than expected and living longer than expected. This means that ERB members are receiving their pensions sooner and for longer than had been projected.

Q. When will the changes, if any, go into effect?

A. The New Mexico legislature sets the effective date of changes. Usually changes, such as the ones proposed by ERB, go into effect on July 1 in the year the legislature makes the change. However, sometimes the legislature sets the effective date in a future year. We will not know for sure until the legislature and the Governor take action.

Q. Why is the ERB Board making the changes for current retirees and current members? Why not have changes be made for new hires or non-vested members?

A. Although changes to new members and non-vested members will have a positive effect on the fund, it takes decades for the fund to realize these changes. At that point, the ERB fund will have a much lower balance than it currently has.

Q. Why does the baseline indicate that ERB's COLA is 2%? Will I get a 2% COLA each year? The COLA that I got this July was 1.6%.

A. ERB's COLA is based on the change in the Consumer Price Index (CPI). If the change in CPI is less than 2%, ERB's COLA is the change in CPI. If the change in CPI is more than 2%, the COLA is 1/2 the change in CPI, but not less than 2% and not more than 4%. Here are some examples:

The change in CPI is 1.5%. The COLA is 1.5%.

The change in CPI is 3%. The COLA is 2%.

The change in CPI is 4%. The COLA is 2%.

The change in CPI is 6%. The COLA is 3%.

The change in CPI is 9%. The COLA is 4%.

Our actuaries estimate that the change in CPI over a very long period of will be 3% each year. Accordingly, the actuaries estimate that on average the ERB COLA will be 2%.

Q. In order to keep the current eligibility requirements in place, what rate would total contributions need to be in order to reach funded ratio goals?

A. In order to reach the ERB Board's funded ratio goals without making any changes to the current eligibility requirements or to the retirement benefit, the total required contribution rate, on an annual basis, would have to increase to 25.2%. Most of the scenarios call for employer contributions of 13.9% and member contributions of 9.9%. In other words, an additional increase of 1.4% would be required.

Q. I've heard that ERB has badly managed its investments and that's why we have to have changes to our retirement benefits.

A. There have been many stories in the media about alleged pay-to-play investments that have cost ERB millions of dollars. The two investments most often associated with these charges are Vanderbilt, which had a \$40 million loss, and Austin Capital, which had a \$10 million loss. Together, they total \$50 million, which is a large sum. However, when put in the context of either ERB's total investment portfolio, \$9.5 billion as of June 30, 2011 or ERB's unfunded actuarial accrued liability estimated to be \$5.9 billion as of June 30, 2011, it's a relatively small proportion, much less than 1%.

Q. Why did ERB have such bad years in 2001 and 2008?

A. Before 2006, ERB only had investments in stocks and bonds. So when the stock market went down in 2001 because of the tech or Internet bubble, ERB's stock investments suffered. In 2005, the legislature authorized ERB to invest in additional asset classes such as real estate, private equity and hedge funds. Beginning in 2006, the ERB Board was able to increase the diversification of its investment portfolio. Accordingly, during the drastic market downturn in 2008, ERB's investments did not suffer as much as the stock market. By having better diversification in its investment portfolio, ERB is better able to withstand downturns in the financial markets.

Members who terminate their employment always have a right to withdraw their accumulated member contributions with interest. However, members who terminate do not have a right to withdraw the employer contributions that were made during their employment. Members who withdraw their member contributions will not receive any pension benefits.

If you have a question that you don't see here, please send it to ERB-MemberHelp@state.nm.us