NMERB CONNECTION

Summer 2017

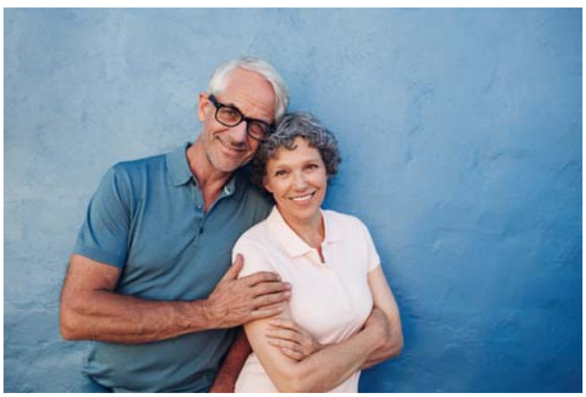
People confident in public defined benefit plans

Though Americans are worried about economic security in retirement, 82 percent regard pensions or defined benefit plans as a route to economic security.

These are the results of a study by the National Institute on Retirement Security and Greenwald and Associates.

The study found 76 percent of Americans (across party lines) are worried about economic insecurity in retirement, and 88 percent believe the nation faces a retirement crisis.

Americans believe, however, that defined benefit plans provide more economic security in retirement than defined contribution plans, also known as, 401(k) plans.



Americans overwhelmingly support public sector defined benefit plans.

According to the study, "92 percent of (Americans) see these retirement plans (Defined Benefit plans) as a strong recruitment and retention tool."

For those nearing retirement age or who have concerns about retirement, working for an entity with a defined benefit plan provides much needed peace-of-mind. For this reason, the New Mexico Educational Retirement Board (NMERB) works to ensure the health of its fund.

Though retirement security weighs heavily on the mind of the rest of the country, this is evidence that NMERB members may have more confidence in their retirement years.

In February, NMERB's fund reached an all-time high of $12 billion and growing – good news for those planning to retire soon or at the end of their careers.

To see the full Retirement Security report, please visit the National Institute on Retirement Security's website: www.nirsonline.org.

In This Issue

Retired and living it up!

"I am incredibly blessed to have a teacher pension."

-Nancy Jenkins

Nancy Jenkins is having a ball in her seventh year of retirement. She taught English for 37 years, the bulk of them at Taos High School, where she chaired the English Department and was drama coach for 20 years.

Now she is a volunteer for Court Appointed Special Advocates and the Holy Cross Hospital Auxiliary and enjoys theater, movies, and dining out. She also frequently runs into former students and their children, "the sweetest thing about living in a small town."

"I am incredibly blessed to have a teacher pension," she said. Not only does she have hers, but she receives some income from the pension of her late husband, Ken Jenkins, also an English teacher, who selected one of the beneficiary options.

She calls herself fortunate to be insured under the New Mexico Retiree Health Care Authority. She recently had retinal surgery, which cost $50,000 – "and I didn't have to pay a penny."

After years of taking only 17 minutes for lunch as a teacher, she promised herself that at retirement she would take time to savor her meals. Now she eats lunch out four times a week with friends – and often enjoys a glass of wine.

This award-winning teacher is a self-described "math ding-bat." She said, "English teachers know Keats, but we don't know finance." She found NMERB's member services very helpful when she was planning retirement.

"My friends who don't have pensions may be living off savings that can change over time, and I have a steady, predictable income."

Let us share your story. To be included in Retiree Profile, please contact Member.Services@state.nm.us

When Is a good time to start receiving Social Security benefits?

Enjoying a comfortable retirement is everyone's dream. For over 80 years, Social Security has been helping people realize those dreams, assisting people through life's journey with a variety of benefits. It's up to you as to when you can start retirement benefits. You could start them a little earlier or wait until your "full retirement age." There are benefits to either decision, pun intended.

Full retirement age refers to the age when a person can receive their Social Security benefits without any reduction, even if they are still working part or full time. In other words, you don't actually need to stop working to get your full benefits.

For people who attain age 62 in 2017 (i.e., those born between January 2, 1955 and January 1, 1956), full retirement age is 66 and two months. Full retirement age was age 65 for many years. However, due to a law passed by Congress in 1983, it has been gradually increasing, beginning with people born in 1938 or later, until it reaches 67 for people born after 1959.

You can learn more about the full retirement age and find out how to look up your own at : www.ssa.gov.

You can start receiving Social Security benefits as early as age 62 or any time after that. The longer you wait, the higher your monthly benefit will be, although it stops increasing at age 70. Your monthly benefits will be reduced permanently if you start them any time before your full retirement age. For example, if you start receiving benefits in 2017 at age 62, your monthly benefit amount will be reduced permanently by about 26 percent.

On the other hand, if you wait to start receiving your benefits until after your full retirement age, then your monthly benefit will be higher. The amount of this increase is two-thirds of one percent for each month — or eight percent for each year – – that you delay receiving them until you reach age 70. The choices you make may affect any benefit your spouse or children can receive on your record, too. If you receive benefits early, it may reduce their potential benefit, as well as yours.

For more information or to read the full article, *When to Start Receiving Retirement Benefits* visit: www.socialsecurity.gov/pubs/EN-05-10147.pdf.

How much money will you need for health care?

A new report from the Employee Benefit Research Institute (EBRI) examines how much money Medicare beneficiaries are projected to need to cover health expenses in retirement, including premiums for Medicare Parts B and D, premiums for Medigap Plan F, and out-of-pocket spending for outpatient prescription drugs.

Medicare generally covers only about 62 percent of the cost of health care services for Medicare beneficiaries ages 65 and older, some couples could need as much as $350,000. This does not include expenses associated with long-term care or spending for health care services not traditionally covered by Medicare, such as dental care.

Making estimates is a tricky process. For example, the amount of money a person needs will depend on the age at which he or she retires; length of life after retirement; the availability and source of health insurance coverage to supplement Medicare; health status and out-of-pocket expenses; the rate at which health care costs increase; and interest rates and other rates of return on investments.

Rather than trying to come up with a single number that an individual can use to set retirement savings goals based on averages, which will be too small for about one-half of the population—the EBRI analysis uses a Monte Carlo simulation model. This approach treats health insurance premiums and out-of-pocket health care expenses in retirement as known values but deals with the uncertainty of how long the individual or couple will survive and what rate of return they would achieve on their savings in retirement.

Many individuals are likely to need more than the amounts cited in the EBRI report because it does not factor in the savings needed to cover long-term care expenses and other expenses not covered by Medicare. Also, it does not take into account the fact that many individuals retire prior to becoming eligible for Medicare.

On the other hand, some individuals will need to save less than what is reported if they choose to work past age 65, postponing enrollment in Medicare Parts B and D if they receive health benefits as active workers. EBRI cautions that "issues surrounding retirement income security are certain to become an even greater challenge in the future, as policymakers begin to realistically address financial issues in the Medicare program with solutions that may shift more responsibility for health care costs to Medicare beneficiaries."

Retiree health care continues to present significant challenges to retirement security. That is why the future of the Affordable Care Act (ACA), which includes a provision to phase in a reduction in the coverage gap for outpatient prescription drugs, known as the "donut hole," from 100 percent to 25 percent of their costs and the nature of its replacement are important.

Retirees should also remember that the percentage of private-sector establishments offering retiree health benefits has been falling, EBRI observes, and this is true in the public sector as well.

This information was excerpted from an article by Leigh Snell, Director of Federal Relations, National Council on Teacher Retirement.

For the full EBRI report, please visit: https://www.ebri.org/pdf/notespdf/EBRI_Notes_10_Oct15_HlthSvgs_DB-DC.pdf

Legislative update

One of the New Mexico Educational Retirement Board (NMERB)'s bills passed this Legislative session and one that affects NMERB and Public Employee Retirement Association (PERA) members passed. The two were signed by the Governor. **They are:**

SB 28, which revises the Educational Retirement Act to clarify statutory language and conform to current practices. It deletes outdated references to the term "provisional members" from the Act; permits disability benefit applicants to see their own medical provider and provide applicable records to NMERB, which will make a decision on disability; and eliminates other out-dated terms and provisions.

HB 34, in which retirees with both PERA and NMERB benefits will receive separate payments from each system for the benefits from each system. This bill goes into effect July 1, and affects **only new retirees who retired on or after July 1, 2017**. Others will continue to receive a consolidated benefit payment monthly for the foreseeable future. At some time in the future, all NMERB and PERA retirees with service in both plans will receive separate payments from the two funds

SB 29, which would have given the Executive Director of NMERB the authority to appoint and determine the salaries of various positions in NMERB's Investment Division, did not pass.

For more information please visit: www.nmerb.org.

Dear NMERB Members:

This July, the New Mexico Educational Retirement Board trust fund will be celebrating its 60th anniversary. NMERB has a great deal to be proud of, with 60,000 active members, 46,000 retirees and a $12 billion dollar investment portfolio. In addition, NMERB has a board and a professional staff committed to maintaining your defined benefit pension plan and delivering excellent customer service.

In 2013, when NMERB undertook pension sustainability reform, we told our members that the road to being 100 percent funded would have bumps. On Friday, April 21, 2017, the NMERB trustees accepted the recommendation of the fund's actuaries to lower the long-term investment return assumption from 7.75 percent to 7.25 percent. Although this may seem inconsistent with NMERB's recent impressive investment performance, the assumption must take into account expectations for future investment results. This change has reduced the funding ratio, which is assets divided by liabilities for benefits, from 64.2 percent to 61.5 percent, and has increased the unfunded actuarial accrued liability from $6.6 billion to $7.4 billion, based on our June 30, 2016 annual valuation report.

These changes do not affect NMERB's ability to pay pension benefits for the foreseeable future, but it does stress the importance of the need for a renewed dialogue on ensuring the sustainability of your pension plan for the long haul.

I believe that the best way to have a dialogue is in person. This fall, Rick Scroggins, NMERB's Deputy Director, and I will hold a series of town hall meetings across the state so we can provide you with an update on the fund and learn about your priorities and ideas for ensuring NMERB's long-term sustainability. We will post the meeting schedule on our website and providing NMERB employers this information so they can share it with you.

I look forward to continuing the conversations that began in 2012 and 2013.

Jan Goodwin