Background:
On Sunday, January 20, 2019, the Albuquerque Journal printed a Guest Column by former ERB Board Member Bradley Day, which stated that the Legislature and governor must take certain actions to prevent both the Educational Retirement Board (NMERB) and the Public Employees Retirement Association of New Mexico (PERA) from “running completely out of assets”. Mr. Day referenced a small component of NMERB’s fiscal year 2017 Comprehensive Annual Financial Report (CAFR) and then proceeded to arrive at some dire predictions of the future to justify the need for three major revisions to keep the sky from falling. The NMERB Board and staff agree that some statutory changes should be made to shorten the time it will take to reach 100% funding, and have been working for well over a year with stakeholders and legislators to identify components of the pension plan to include in legislation to reach such a goal. We agree with his statement that the Annual Required Contribution must be paid each year. We do not, however, agree with the conclusions made by the author and feel that some clarification is needed.

Bottom line:
NMERB is not running out of money and according to our most recent actuarial projection will be able to pay retirement benefits to current and future retirees and reach 100% funding in 70 years, without any changes to current benefits or contributions. As stated above, NMERB is working with the legislature on a comprehensive bill so that we can be 100% funded in 30 years.

Detailed explanation:
The calculation of a pension plan’s Net Pension Liability (NPL) is required by Government Accounting Standards Board Statement Number 67 (GASB No. 67). It is different from the pension plan’s Unfunded Actuarial Accrued Liability (UAAL). Both are measures of a plan’s liabilities in relation to its assets; however, they are calculated in very different ways. The NPL is the difference between the actuarial present value of projected benefit payments (the Total Pension Liability or TPL) minus the fair market value of assets. In contrast the UAAL is the difference between the actuarial present value of assets and the actuarial value of assets. For NMERB, the fair market value of assets and the actuarial value of assets were both $13 billion as of June 30, 2018.

GASB 67 requires that a “depletion of assets” test be conducted in order to determine the discount rate used to calculate the TPL. This is the date (2053 that Mr. Day claimed NMERB will run out of assets. The procedures for this test are mandated by GASB and do not take into account some important features of the NMERB plan. Although the note in the financial statement indicates that “plan member and employer contributions will be made at the current statutory levels” only the contributions of current members are generally considered. This means if member A retires and new member B is hired, all of member B’s employer’s contributions are ignored and the majority of B’s employer’s contributions are also ignored when calculating the future cash inflows to the plan. Additionally, this “depletion of assets” test does not take into account the statutorily reduced Cost of Living Adjustments (COLAs) that are paid as long as the NMERB funded ratio is less than 100%. The contributions for future members, the investment income earned on those contributions, and the reduced COLAs while the NMERB funded ratio is less than 100% are all important factors in getting our funding level back to 100%. When all appropriate factors are taken into account, the expectation for the future of NMERB is that our plan will be 100% funded in 70 years.