



# **Return on Investment Analysis of the Public Employees Retirement Association of New Mexico**

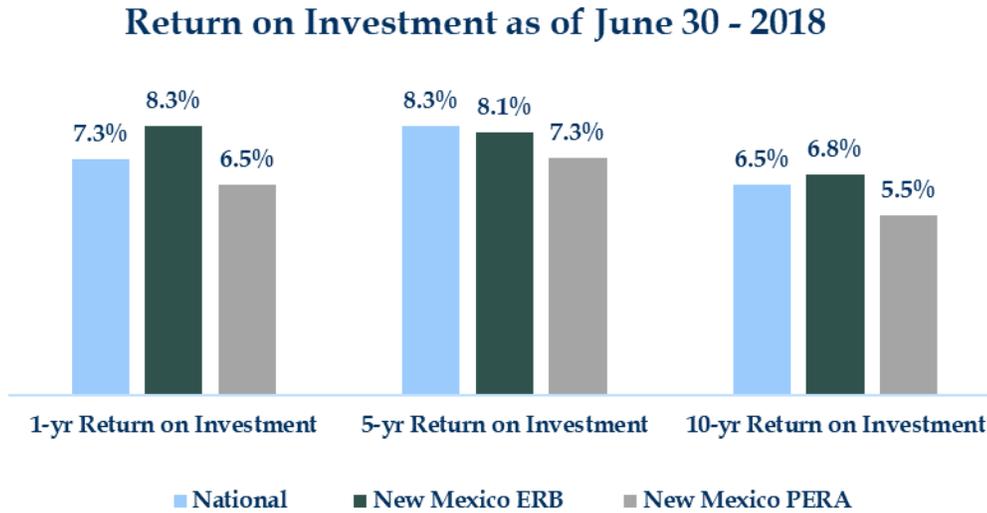
**October 2019**

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# Return on Investment Analysis

The fund of the Public Employees Retirement Association of New Mexico (New Mexico PERA) has significantly underperformed compared with similar funds over many years, as shown by the graph below.



Source: Public Plans Data

A 1% difference in return on investment on a fund of \$15 billion is \$150 million for the first year and then it is compounded every following year. That is, the return in the second year would include the return on the extra \$150 million obtained in the first year – and so on.

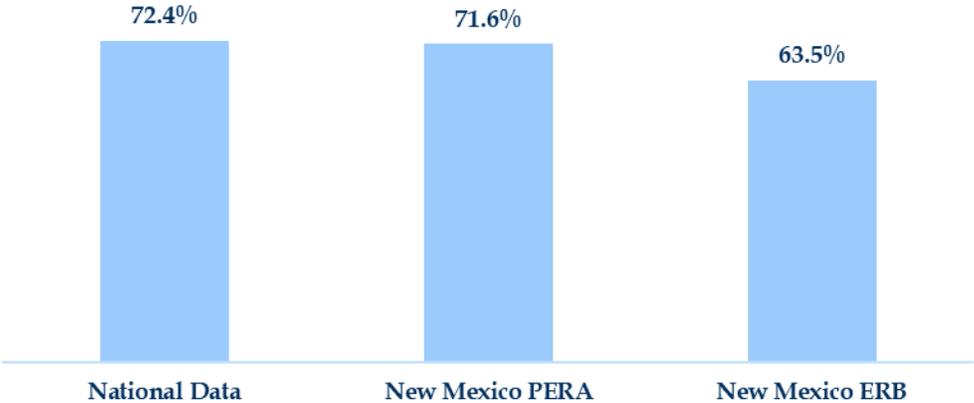
# Actuarial Funded-Ratio Analysis

The New Mexico PERA funding ratio is close to the national average. Had New Mexico PERA return on investments been in line with the national average, the funding ratio of the system would be higher than that of the average national funding ratio. The New Mexico PERA at a funding ratio of 71.6% has a higher funding ratio than the New Mexico Educational Retirement Board (ERB) at 63.5%.

The source for the national funding ratios is the “Public Plans Data”. This database was developed and is maintained through a collaboration of the Center for Retirement Research at Boston College, the Center for State and Local Government Excellence, and the National Association of State Retirement Administrators.

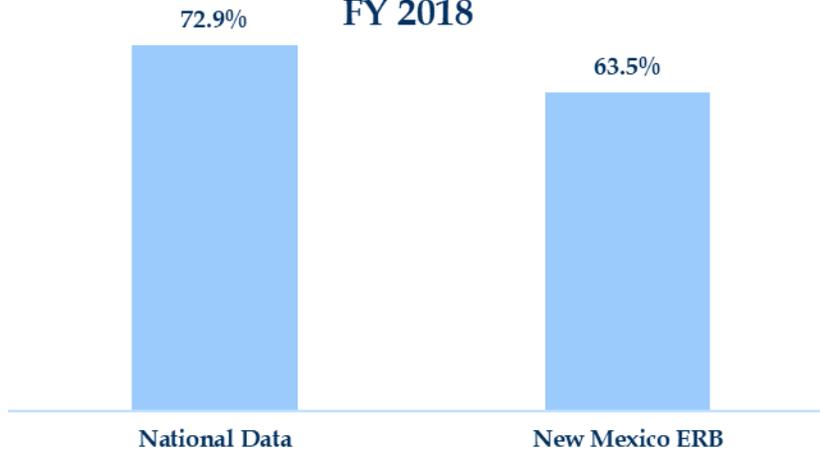
The overall national public-retirement fund ratio, which stands at 72.4%, is for all public retirement plans. The national funding ratio for similar retirement plans to New Mexico PERA stands at 76.5% and at 72.9% for similar retirement plans to New Mexico ERB. The second one (72.9%) is a subset of the first one, grouping plans by type of participants and taking into account whether the participants have Social Security coverage.

## Actuarial Funded Ratio Comparison FY 2018



Source: Public Plans Data  
Note: The national data average are weighted by plan size.

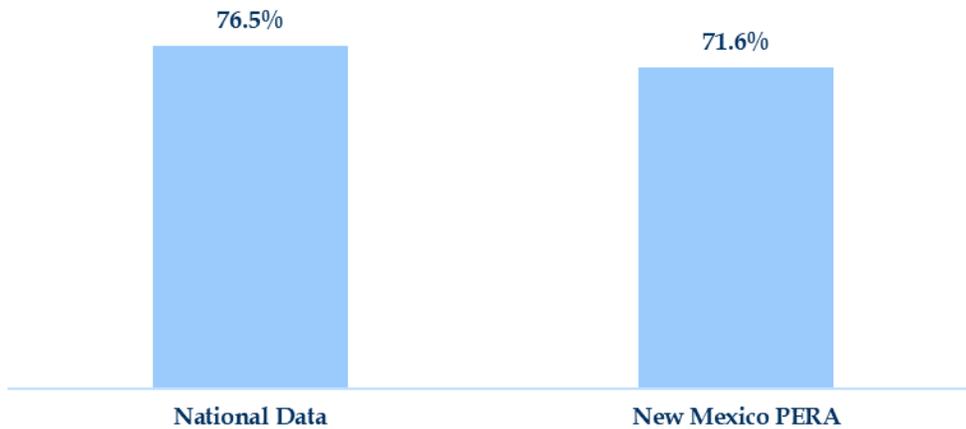
### Actuarial Funded Ratio New Mexico Educational FY 2018



Source: Public Plans Data

Note: The national data reflects the average for plans of a similar type and Social Security coverage.

### Actuarial Funded Ratio New Mexico PERA FY 2018



Source: Public Plans Data

Note: The national data reflects the average for plans of similar type and Social Security coverage.

## Asset Allocation

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The asset allocation of the New Mexico PERA explains the poor performance of the fund compared to its peers.

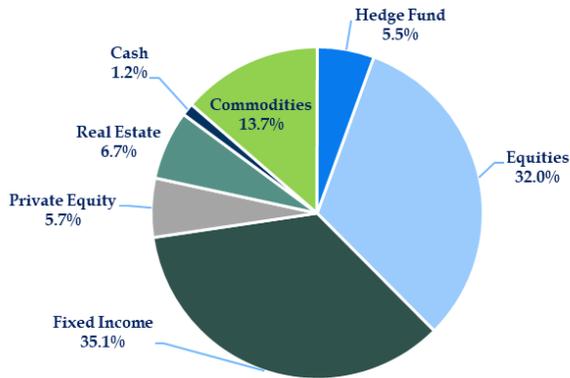
While a retirement portfolio of a middle-age individual needs to be conservative, a pension fund should have moderate risk. The reason is that an individual might not have the time to recover from a temporary decline in his/her investments. He/she is limited by his/her lifetime. By contrast, a pension fund has a longer investment time horizon because it could operate indefinitely.

New Mexico PERA has a conservative asset distribution with almost half (49%) of its investments in either fixed income (bonds) or commodities. Meanwhile, the average public pension plan has less than a quarter (24%) of its investments in these two areas.

The New Mexico PERA also has almost one-third (32%) of its investments in equities compared with almost half (48%) for its peers. Moreover, it has a much lower percentage than its peers allocated to high-return investments such as Private Equity and Hedge Funds. (See the following graphs.)

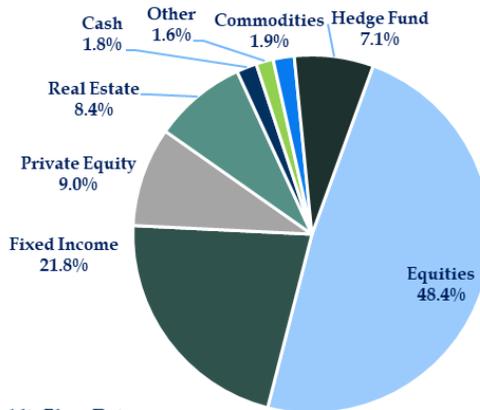
Since New Mexico PERA has such a conservative asset distribution, over time it has a lower return on investment. The fund performs better than the national average when the stock market retreats. However, it performs significantly worse than the national average when the stock market does well. In the long term, the fund has a poor asset allocation resulting in poor returns for the fund.

### Asset Allocation for New Mexico PERA - 2018



Source: Public Plans Data

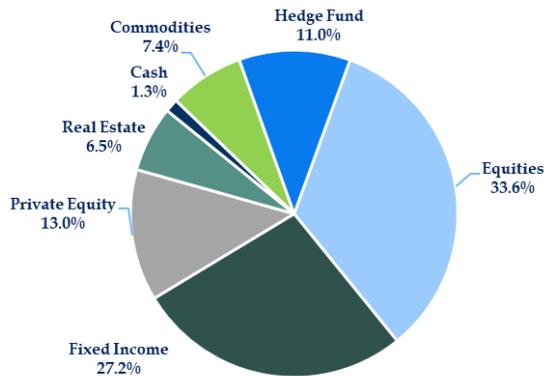
### Asset Allocation for State and Local Pensions - 2018



Source: Public Plans Data

Note: The national data averages are weighted by plan size.

### Asset Allocation for New Mexico ERB - 2018



Source: Public Plans Data

## Addendum – Pension Plans in Neighbouring States

Actuarial Funded Ratio - 2018		
State	Pension Plans	Ratio
Arizona	Tucson Supplemental RS	76.2%
Arizona	Arizona SRS	71.2%
Arizona	Phoenix ERS	58.2%
Arizona	Arizona State Corrections Officers	54.1%
Arizona	Arizona Public Safety	45.8%
Colorado	Denver Schools	76.8%
Colorado	Denver Employees	62.2%
Colorado*	Colorado Municipal	77.7%
Colorado*	Colorado School	57.9%
Colorado*	Colorado State	56.1%
Kansas	Wichita	90.9%
Kansas	Kansas PERS	68.4%
Nevada	Nevada Police Officer and Firefighter	76.5%
Nevada	Nevada Regular Employees	74.7%
<b>New Mexico</b>	<b>New Mexico PERA</b>	<b>71.6%</b>
New Mexico	New Mexico ERB	63.5%
Oklahoma	Oklahoma City ERS	103.5%
Oklahoma	Oklahoma Police	102.8%
Oklahoma	Oklahoma PERS	97.7%
Oklahoma	Oklahoma Teachers	72.9%
Texas	Texas County & District	88.5%
Texas	Texas Municipal	87.1%
Texas	Houston Firefighters	80.6%
Texas	Texas Teachers	76.9%
Texas	Texas ERS	70.2%
Texas	Austin ERS	67.6%
Texas	Texas LECOS	65.6%
Texas	Dallas Police and Fire	47.7%
Utah	Utah Noncontributory	87.7%
Utah	Utah Public Safety	84.9%

Source: Public Plans Database

\*Prior 2005, data for Colorado State and School plans are reported as one unit.

### Actuarial Funded Ratio - 2018

#	State	Pension Plans	Ratio
1	Oklahoma	Oklahoma City ERS	103.5%
2	Oklahoma	Oklahoma Police	102.8%
3	Oklahoma	Oklahoma PERS	97.7%
4	Kansas	Wichita	90.9%
5	Texas	Texas County & District	88.5%
6	Utah	Utah Noncontributory	87.7%
7	Texas	Texas Municipal	87.1%
8	Utah	Utah Public Safety	84.9%
9	Texas	Houston Firefighters	80.6%
10	Colorado*	Colorado Municipal	77.7%
11	Texas	Texas Teachers	76.9%
12	Colorado	Denver Schools	76.8%
13	Nevada	Nevada Police Officer and Firefighter	76.5%
14	Arizona	Tucson Supplemental RS	76.2%
15	Nevada	Nevada Regular Employees	74.7%
16	Oklahoma	Oklahoma Teachers	72.9%
17	<b>New Mexico</b>	<b>New Mexico PERA</b>	<b>71.6%</b>
18	Arizona	Arizona SRS	71.2%
19	Texas	Texas ERS	70.2%
20	Kansas	Kansas PERS	68.4%
21	Texas	Austin ERS	67.6%
22	Texas	Texas LECOS	65.6%
23	New Mexico	New Mexico ERB	63.5%
24	Colorado	Denver Employees	62.2%
25	Arizona	Phoenix ERS	58.2%
26	Colorado*	Colorado School	57.9%
27	Colorado*	Colorado State	56.1%
28	Arizona	Arizona State Corrections Officers	54.1%
29	Texas	Dallas Police and Fire	47.7%
30	Arizona	Arizona Public Safety	45.8%

Source: Public Plans Database

\*Prior 2005, data for Colorado State and School plans are reported as one unit.

Return on Investment as of June 30, 2018

State	Pension Plans	1-yr Return on Investment	5-yr Return on Investment	10-yr Return on Investment
Arizona	Tucson Supplemental RS	9.9%	10.1%	7.5%
Arizona	Arizona SRS	9.4%	8.9%	7.4%
Arizona	Arizona Public Safety	7.1%	7.2%	5.5%
Arizona	Arizona State Corrections Officers	7.1%	7.2%	5.5%
Arizona	Phoenix ERS	7.1%	7.2%	5.4%
Colorado	Denver Schools	-3.5%	5.6%	8.8%
Colorado	Denver Employees	-2.4%	4.6%	8.0%
Colorado*	Colorado Municipal	-3.5%	5.6%	8.8%
Colorado*	Colorado School	-3.5%	5.6%	8.8%
Colorado*	Colorado State	-3.5%	5.6%	8.8%
Kansas	Wichita ERS	-6.0%	4.7%	9.2%
Kansas	Kansas PERS	8.0%	8.2%	6.8%
Nevada	Nevada Police Officer and Firefighter	8.6%	8.8%	7.2%
Nevada	Nevada Regular Employees	8.6%	8.8%	7.2%
New Mexico	New Mexico ERB	8.3%	8.1%	6.8%
<b>New Mexico</b>	<b>New Mexico PERA</b>	<b>6.5%</b>	<b>7.3%</b>	<b>5.5%</b>
Oklahoma	Oklahoma Teachers	9.7%	9.1%	8.7%
Oklahoma	Oklahoma PERS	8.4%	8.3%	7.2%
Oklahoma	Oklahoma City ERS	8.4%	7.9%	6.4%
Oklahoma	Oklahoma Police	8.3%	7.3%	5.9%
Texas	Texas County & District	-1.9%	5.1%	9.0%
Texas	Austin ERS	-5.9%	4.0%	8.6%
Texas	Texas ERS	9.6%	8.3%	7.1%
Texas	Texas LECOS	9.6%	8.3%	7.1%
Texas	Texas Municipal	-2.1%	5.0%	6.6%
Texas	Texas Teachers	9.2%	8.7%	6.6%
Texas	Houston Firefighters	8.3%	8.1%	5.9%
Texas	Dallas Police and Fire	7.3%	1.2%	0.9%
Utah	Utah Noncontributory	-0.2%	6.7%	8.7%
Utah	Utah Public Safety	-0.2%	6.7%	8.7%

Source: Public Plans Database

\*Prior 2005, data for Colorado State and School plans are reported as one unit.

### Return on Investment as of June 30, 2018

#	State	Pension Plans	10-yr Return on Investment
1	Kansas	Wichita ERS	9.2%
2	Texas	Texas County & District	9.0%
3	Colorado	Denver Schools	8.8%
4	Colorado*	Colorado Municipal	8.8%
5	Colorado*	Colorado School	8.8%
6	Colorado*	Colorado State	8.8%
7	Utah	Utah Noncontributory	8.7%
8	Utah	Utah Public Safety	8.7%
9	Oklahoma	Oklahoma Teachers	8.7%
10	Texas	Austin ERS	8.6%
11	Colorado	Denver Employees	8.0%
12	Arizona	Tucson Supplemental RS	7.5%
13	Arizona	Arizona SRS	7.4%
14	Nevada	Nevada Police Officer and Firefighter	7.2%
15	Nevada	Nevada Regular Employees	7.2%
16	Oklahoma	Oklahoma PERS	7.2%
17	Texas	Texas ERS	7.1%
18	Texas	Texas LECOS	7.1%
19	Kansas	Kansas PERS	6.8%
20	New Mexico	New Mexico ERB	6.8%
21	Texas	Texas Municipal	6.6%
22	Texas	Texas Teachers	6.6%
23	Oklahoma	Oklahoma City ERS	6.4%
24	Texas	Houston Firefighters	5.9%
25	Oklahoma	Oklahoma Police	5.9%
26	New Mexico	New Mexico PERA	5.5%
27	Arizona	Arizona Public Safety	5.5%
28	Arizona	Arizona State Corrections Officers	5.5%
29	Arizona	Phoenix ERS	5.4%
30	Texas	Dallas Police and Fire	0.9%

Source: Public Plans Database

\*Prior 2005, data for Colorado State and School plans are reported as one unit.