PERA

Investments and Pensions Oversight Committee

Representative Tomás E. Salazar, Chair
Senator George K. Muñoz, Vice-Chair
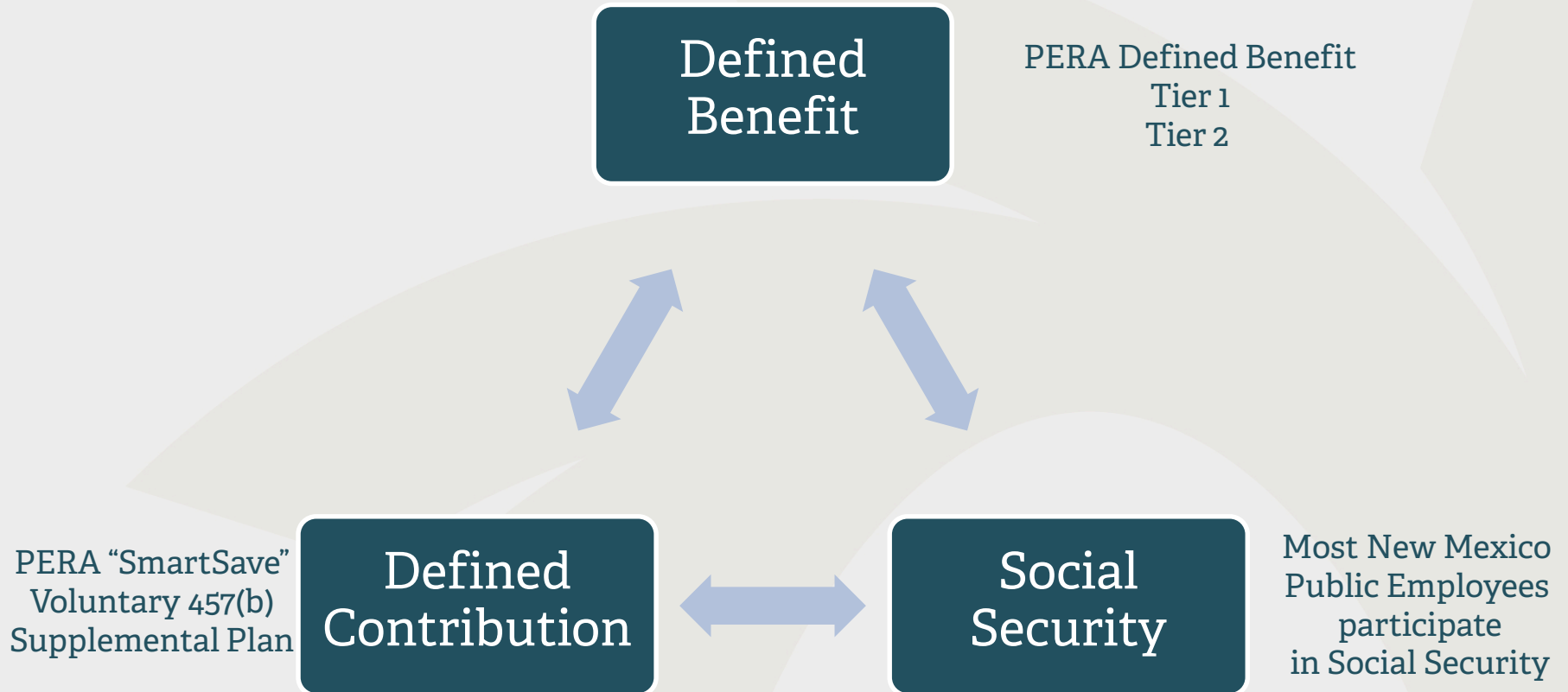*July 11, 2018*

James Maxon, Board Chair
Wayne Propst, Executive Director
Dominic Garcia, Chief Investment Officer

A Secure Retirement: the Three-Legged Stool

Defined Benefit

PERA Defined Benefit
Tier 1
Tier 2

PERA "SmartSave"
Voluntary 457(b)
Supplemental Plan

Defined Contribution

Social Security

Most New Mexico
Public Employees
participate
in Social Security

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Results of the Three-Legged Stool

- Defined Benefit + SS Mean Replacement rate: 118%

- Hybrid Approach (DB+DC+SS) Mean Replacement rate: 87%

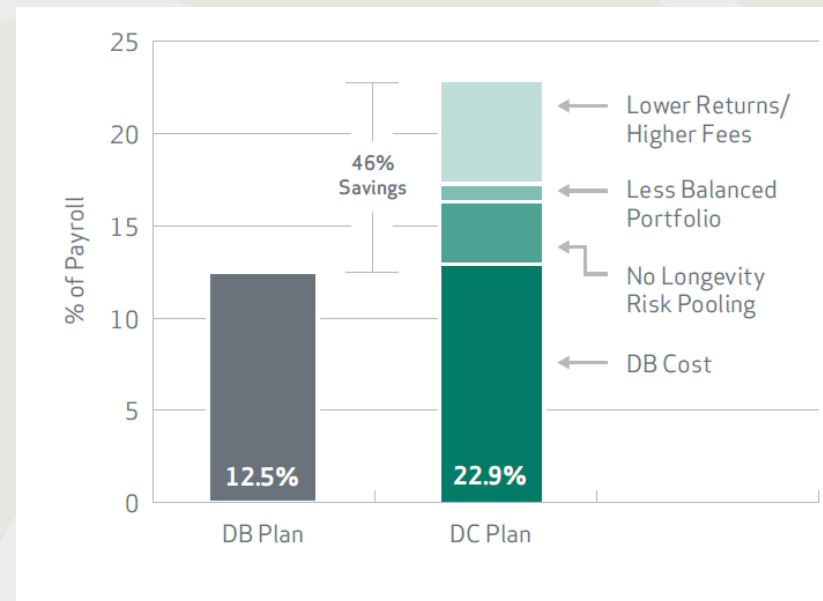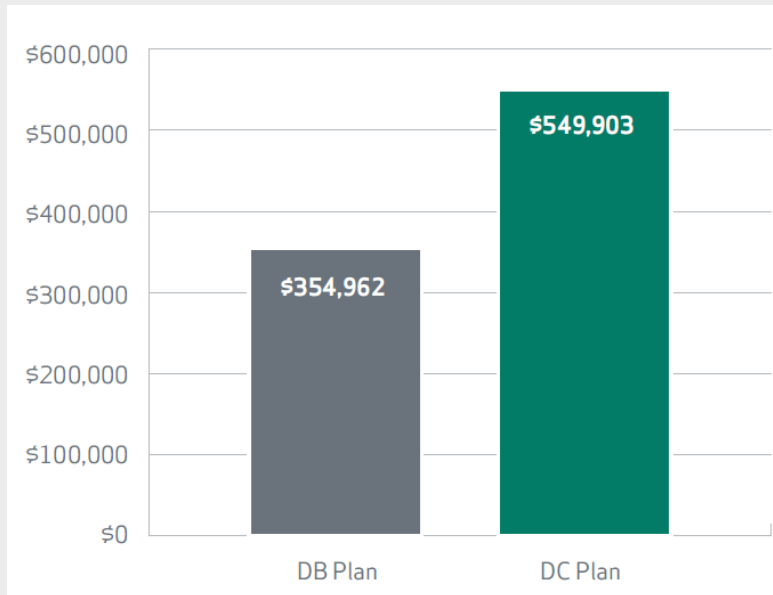- Defined Contribution Only Mean Replacement rate: 20%
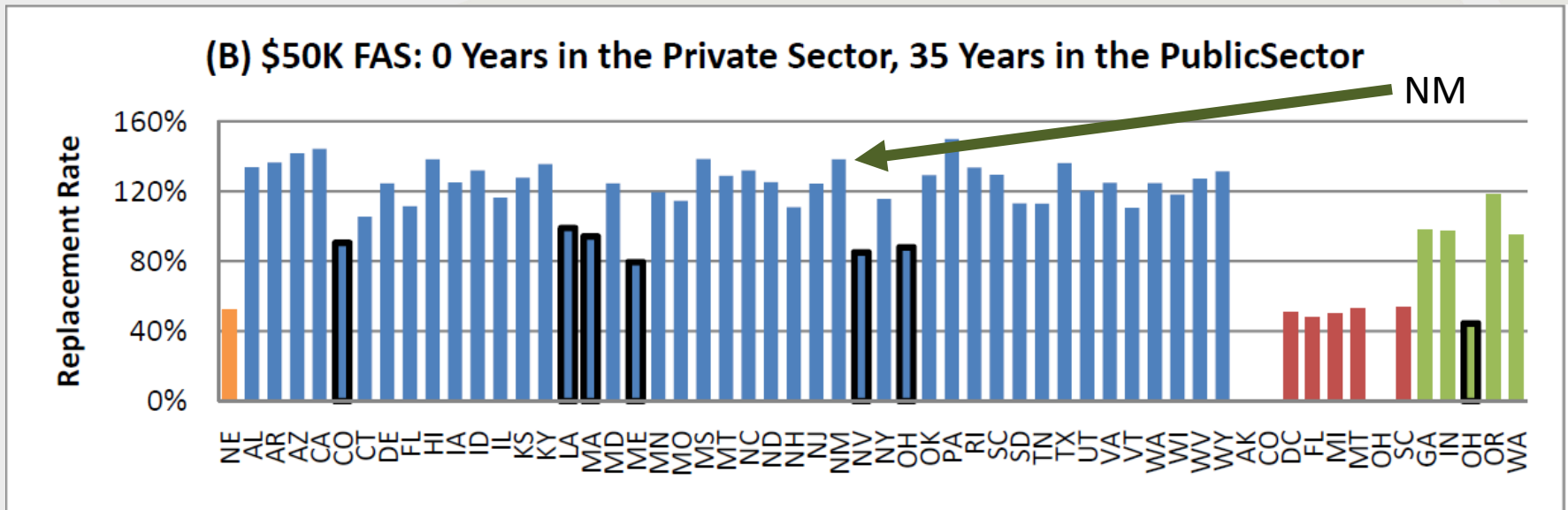
(B) $50K FAS: 0 Years in the Private Sector, 35 Years in the PublicSector — NM

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Comparing the Efficiency of a DB vs. DC

- To Replace 53% of final salary at 62
- DC: Must Save $549,903
- DB: Must Save $354,962

Three Main Differences:
- Risk Pooling
- Investment Consistency
- Better Returns

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Impact of Rising Inflation on PERA

- Two big macro drivers: Growth and Inflation.

- Markets are a big discounting machine, they price future expectations today

- What drives asset returns is how growth and inflation come in RELATIVE to what is already priced in.

Percent of Time in Different Environments Since 1970

Growth	Rising	49%
	Falling	51%
Inflation	Rising	48%
	Falling	52%

Source: Bridgewater

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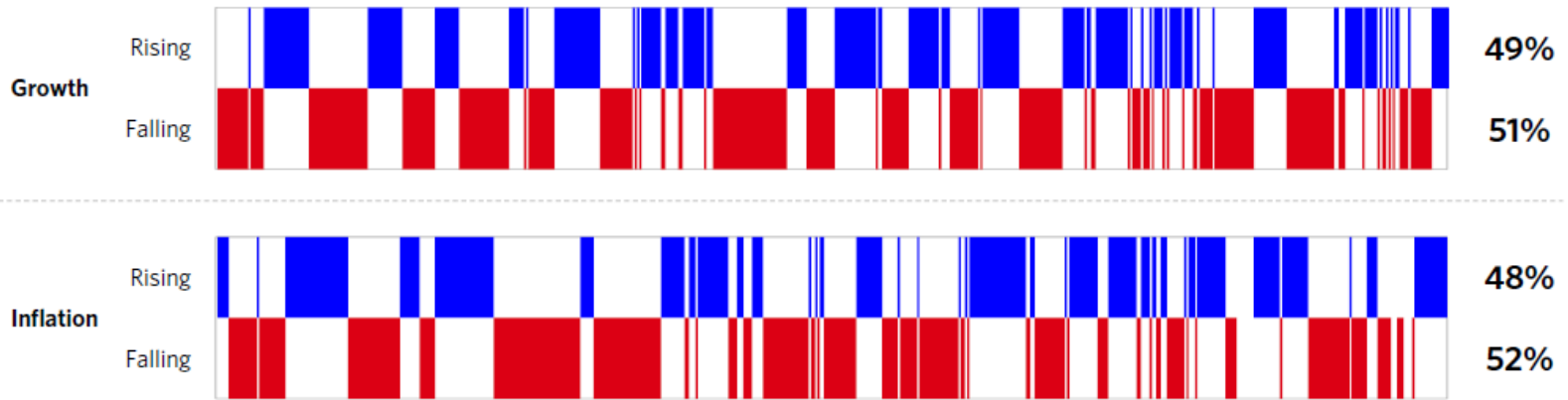
Assets Have an Environmental Bias
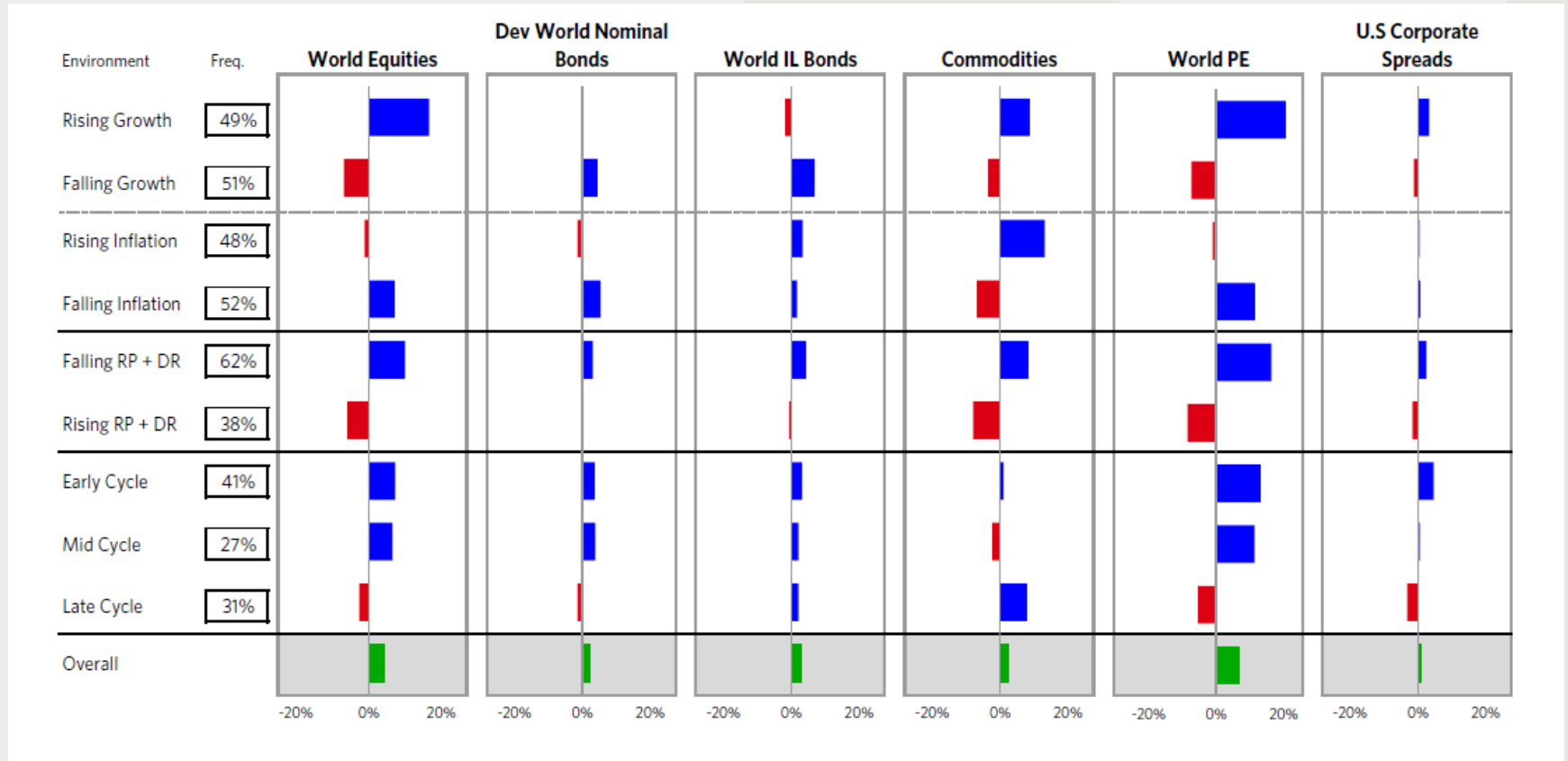
Source: Bridgewater

Impact of Vacancies on State General Division

	2017 UAAL	2043 UAAL	2017 Funded Ratio	2043 Funded Ratio
Baseline	$ 2,979,900,858	$ 7,252,605,398	66.18%	44.49%
Increase Actives 1%	$ 2,979,900,858	$ 7,126,247,664	66.18%	45.78%
Increase Actives 5% (1%/Yr)	$ 2,979,900,858	$ 6,689,555,881	66.18%	50.18%

- *The impact is based on the projection of the 2017 valuation results using a one-time 1% increase in the current active population headcount (19,213 as of June 3-, 2017) and annual 1% increases over the 5 years following the valuation. New active members are assumed to be demographically similar to the profile of recently hired state general employees.*

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PERA in the News

Moody's downgrades NM's bond rating

By Dan Boyd and Dan Mckay / Journal Capitol Bureau
Tuesday, June 19th, 2018 at 12:02am

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SANTA FE – Concerns over New Mexico's pension liabilities and deeply rooted spending challenges prompted a national credit rating agency to downgrade the state's bond rating on Monday – a blow to the state's fiscal reputation and its second downgrade in two years.

MY VIEW

The next decade for PERA

By Dominic Garcia   Jan 13, 2018

Lawmakers tie pension shortfall to fewer state employees

By Andrew Oxford | aoxford@sfnewmexican.com   Jun 7, 2018

"We don't expect returns to be fruitful over the next 10 years," Chief Investment Officer Dominic Garcia told the Legislative Investment and Pensions Oversight Committee.

💬 Guest Columns

PERA works hard to sustain trust fund

By Dominic Garcia / Chief Investment Officer, Public Employees Retirement Association
Saturday, March 10th, 2018 at 12:02am

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A guest editorial from Communications Workers of America-New Mexico in the Albuquerque Journal made suggestions on how the Public Employees Retirement Associa...

Despite strong markets, state pension fund still short $5 billion

By Bruce Krasnow | The New Mexican   Oct 19, 2017   💬 (...)
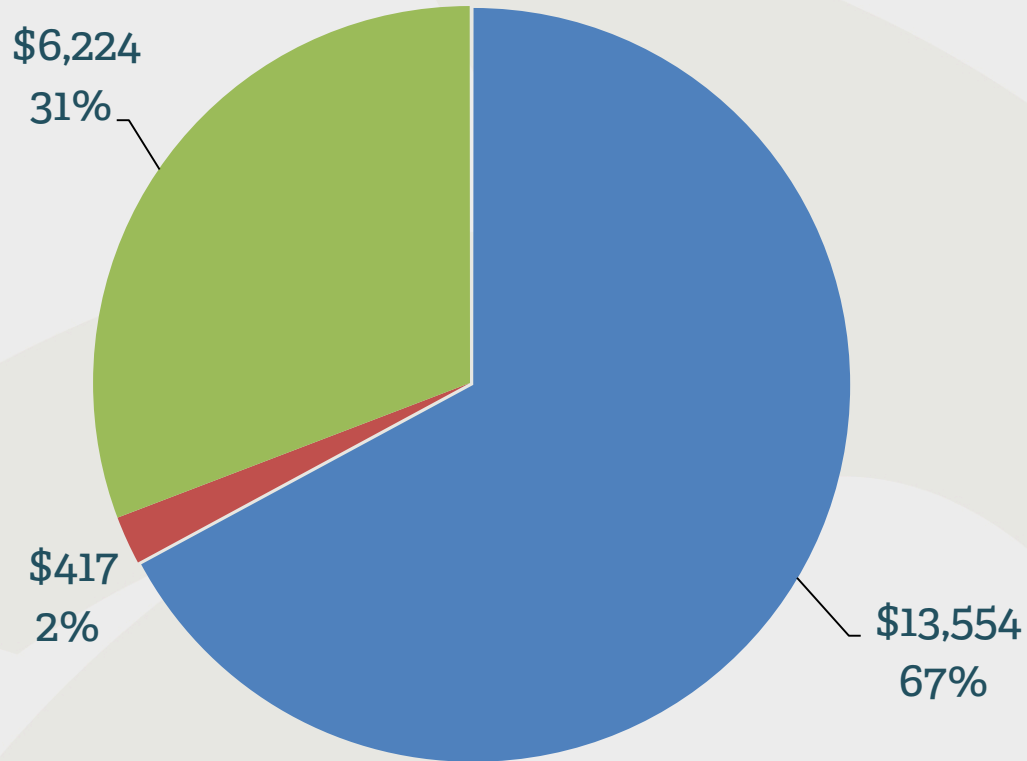
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Understanding Moody's

	PERA*	ERB*
NPL	$5.3 billion	$11.1 billion
UAAL	$5.07 billion	$7.3 billion
Funded Ratio	74.9%	62.90%
Funded Period	55 years	61 years

PENSIONS AND OPEB

"*The state's direct pension liabilities are moderate.* Pensions for most state employees are provided through the multiemployer Public Employees Retirement Association (PERA). Moody's adjusted net pension liability (ANPL) for the state for fiscal 2016 is $6.6 billion or 81.2% of total governmental own-source revenues, roughly equal to the 82.2% median for all US states. The state also reports a UAAL for other postemployment benefits (OPEB) of approximately $3.8 billion. The state's fixed costs--including debt service, Moody's calculated "tread water" pension cost, and OPEB contribution—equal 7.6% of revenues, below the median of 9.1%.

The state is, however, indirectly responsible for funding the large liability in its teachers' retirement plan, the Educational Employees Retirement System, since it provides K-12 school districts with essentially 100% of their operational funding. If the districts' liabilities were allocated to the state, its ANPL would increase from $6.6 billion to $17.6 billion and all of its pension ratios would increase by a similar amount, placing the state well above the medians. The need to assist districts in addressing their pension liabilities represents one of the largest financial pressures facing the state."

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*Data from PERA & ERB 2017 Comprehensive Annual Financial Report (CAFR)

Understanding Our Funded Ratio For the Public Employees (PE) Plan

Current vs: Proposed Assumptions

2043 Ratio Highlighted
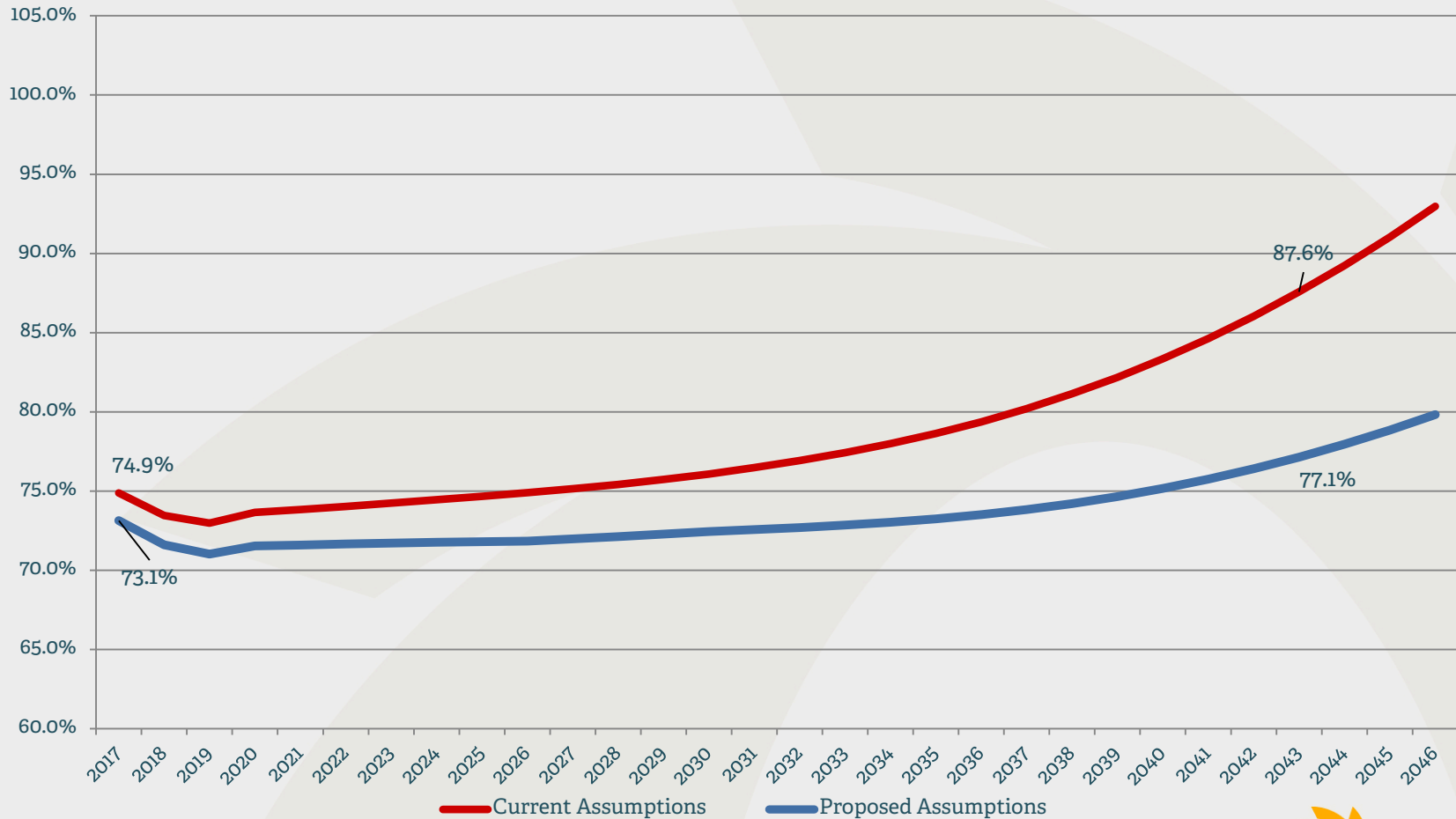
Current Assumptions — Proposed Assumptions

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Understanding Liabilities by Division

2017 Projected Funded Ratio of PERA and Each Division with FY2017 Valuation Assumptions
2043 Ratio Highlighted
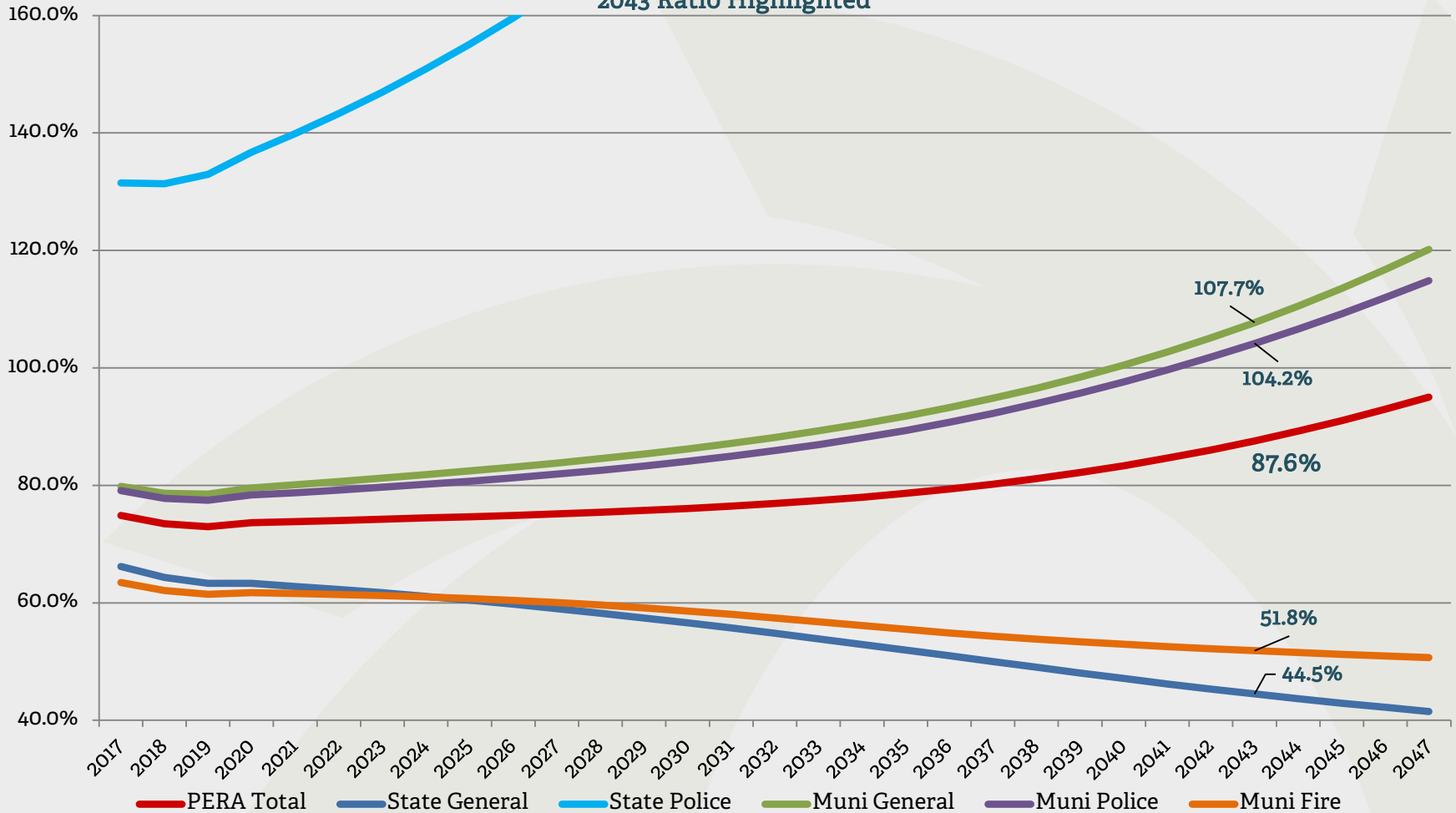
Understanding Liabilities by Division

2017 Projected Funded Ratio of PERA and Each Division with New Assumptions
2043 Ratio Highlighted

Legend: PERA Total — State General — State Police — Muni General — Muni Police — Muni Fire

Highlighted 2043 values: 97.4%, 91.2%, 77.1%, 47.6%, 36.5%
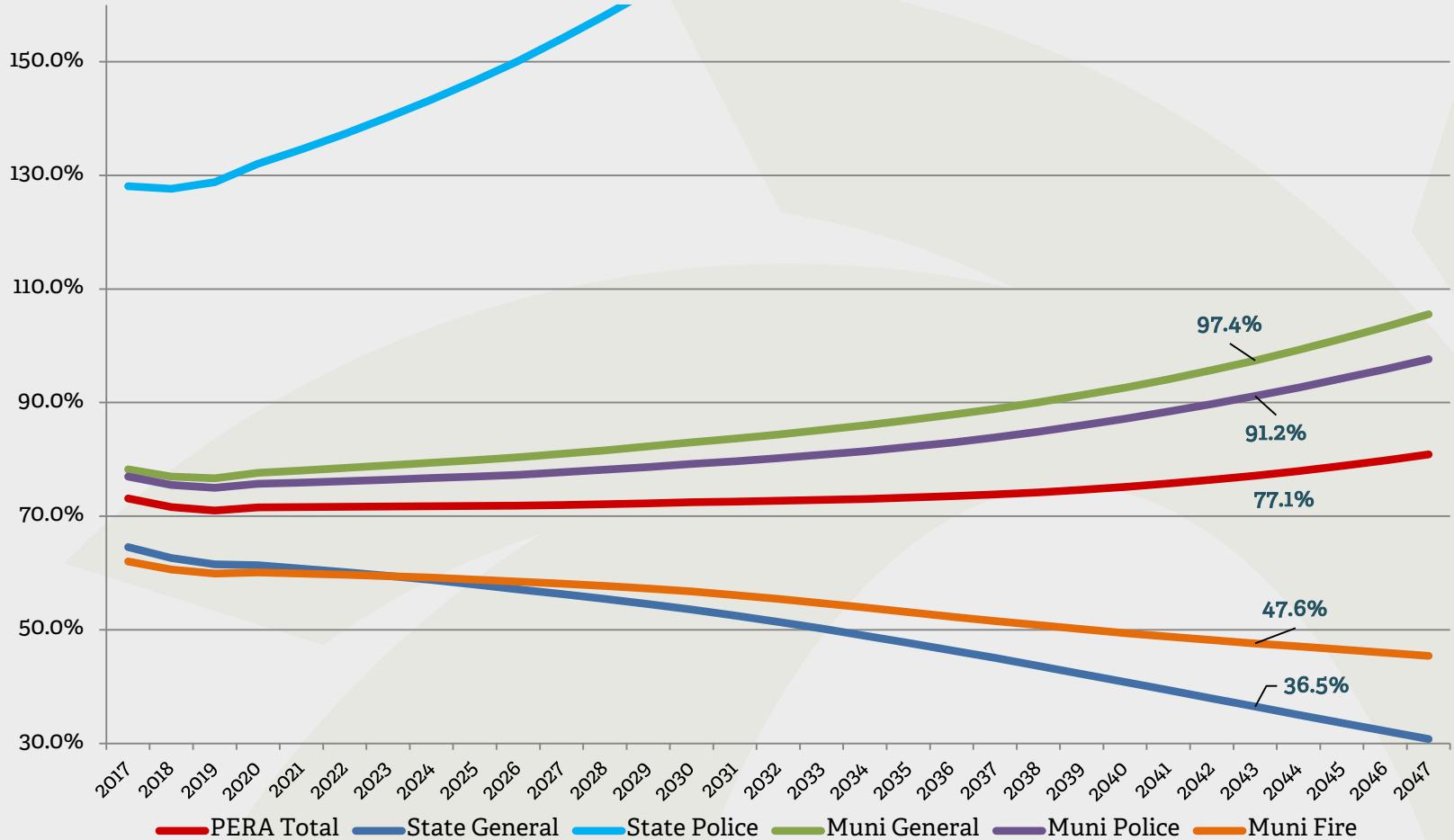
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PERA (PE) Plan – Total and By Division
UAAL/Funded Ratio/Amortization Period
As of FY2017 Valuation

Municipal General

$1.3 billion

79.9%

26 years

State Police & Correctional Officers

($286.5 million)

131.5%

0 years

State General

$2.9 billion

66.2%

Infinite

PE Plan

$5,070,530,993

74.9%

55 years

Municipal Police

$535.2 million

79.1%

42 Years

Municipal Fire

$553.4 million

63.5%

Infinite
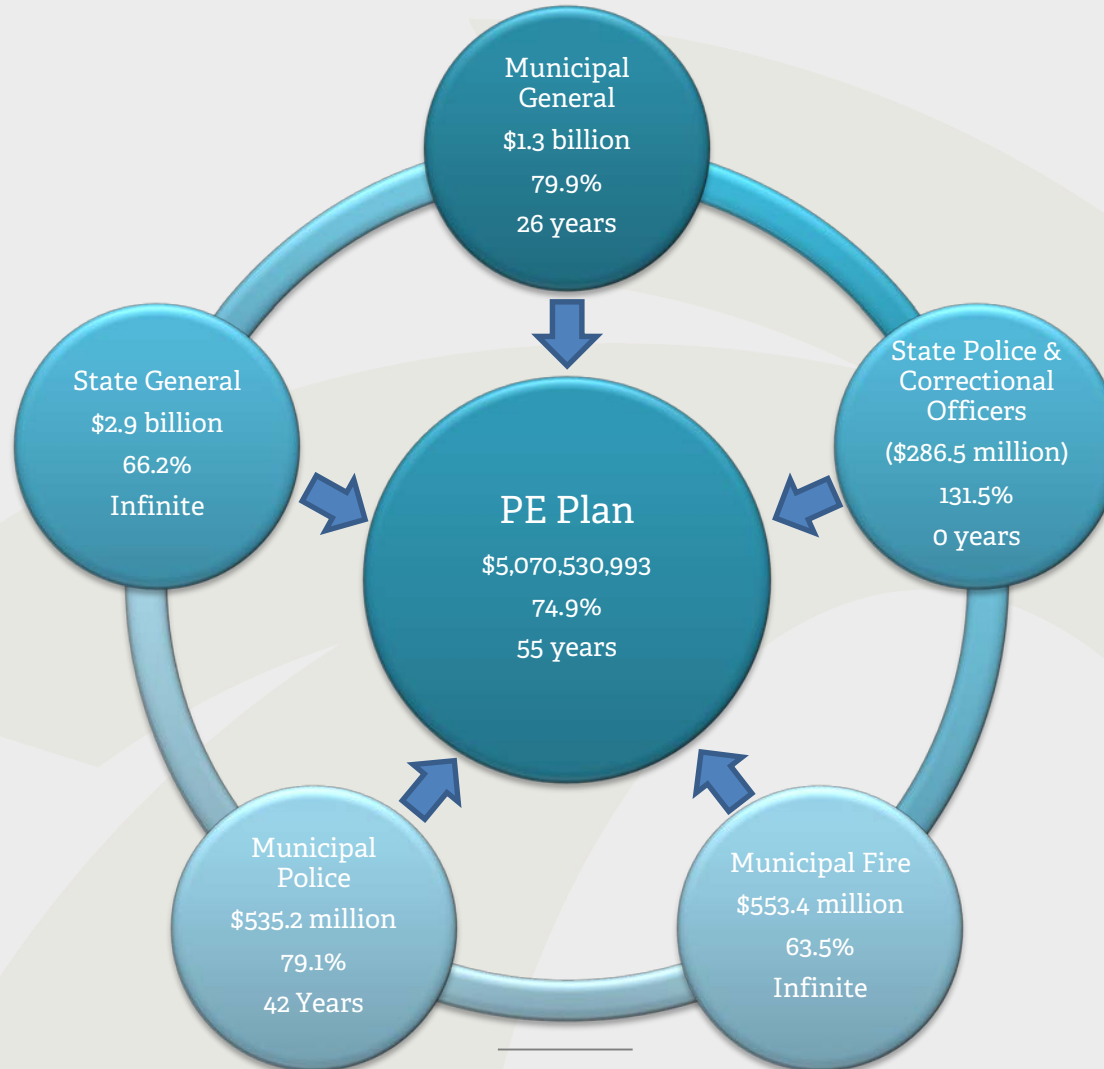
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PERA (PE) Plan – Total and By Division
UAAL/Funded Ratio/Amortization Period
New Assumptions

Municipal General
$1.4 billion
78.3%
35 years

State Police & Correctional Officers
($262.5 million)
128.1%
0 years

State General
$3.2 billion
64.6%
Infinite

PE Plan
$5,556,547,348
73.1%
Infinite

Municipal Police
$607.3 million
77.0%
93 Years

Municipal Fire
$588.6 million
62.0%
Infinite
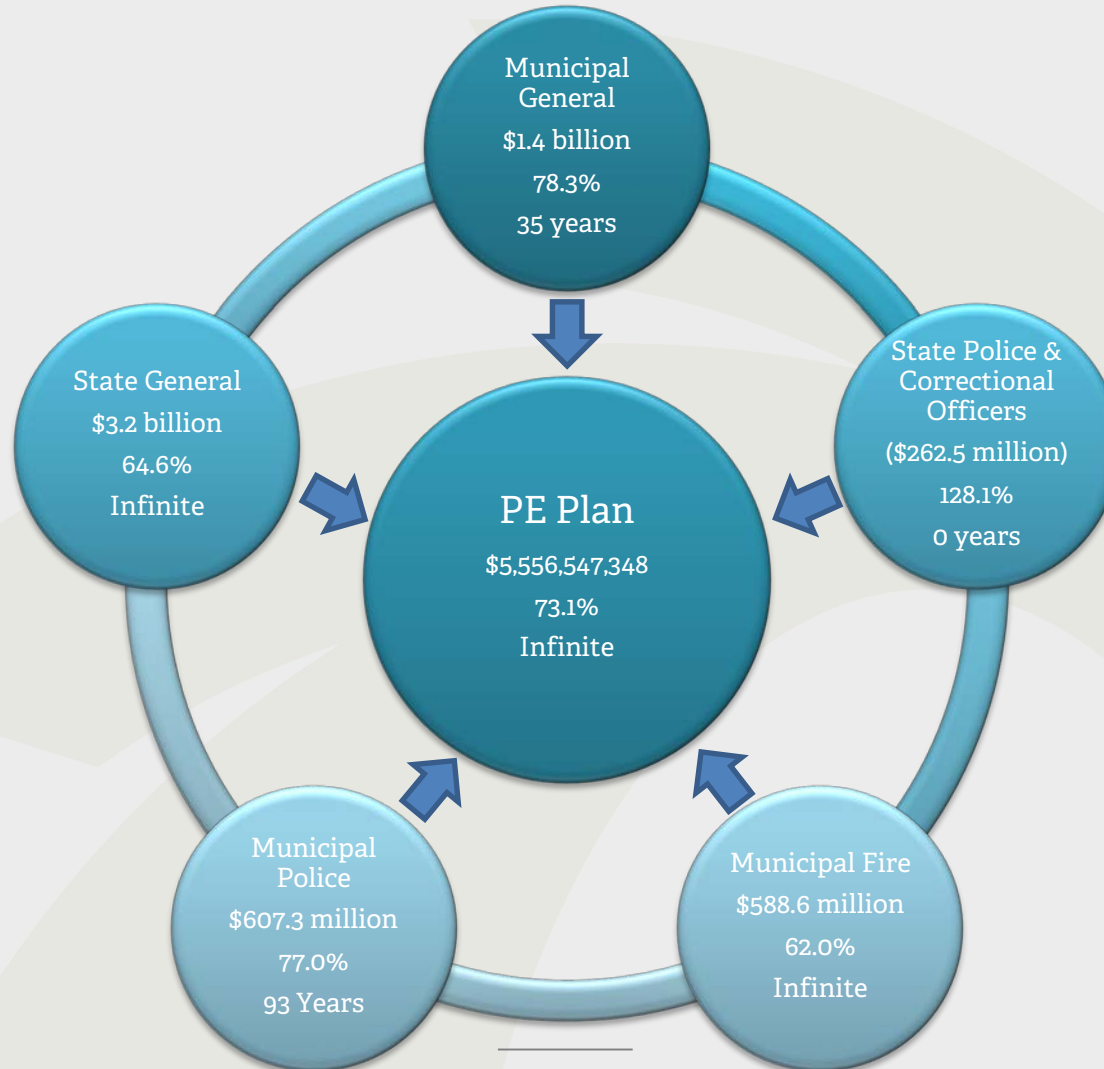
Proposed assumption changes from draft 2018 Actuarial Experience Study

Slide 15

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Assessing Where We Are

- PERA has provided a secure retirement for 100,000's of thousands of public employees and their beneficiaries since 1947. We've done this not only during the "good" times but through challenging times as well. Even during the Great Recession, PERA never missed a promised benefit payment and now contributes more than $1 billion annually to the state's economy.

- SB 27 has worked, and in fact has worked well, but factors both within and outside our control post 2013 reform, have muted it's impact. NM is not alone in this regard and any challenges we face can be addressed just as they've been addressed elsewhere (CO, MN, etc.).

- The Board was right to ask for "five years" post pension reform. We now have a far better understanding of the positive impact of SB 27 and why we may be falling short of the goals set by the Board in 2012.

- This is largely a "math" problem but one with important "human" implications.

- We need to be as prepared as possible for the next significant market correction and smaller adjustments now may help prevent the need for major changes later.

- Virtually any refinement made today will still leave NM PERA members with one of the most stable pension benefits in the public sector, along with Social Security and a 457b plan.

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Next Steps

- Approve baseline economic and demographic assumptions and amortization period for PE Plan (July)
- Establish guiding principles for any proposal to refine benefits or change contributions (July). Examples:

    1. Refinements should avoid further "generational shifts" (i.e. making future generations of employers and employees pay for liabilities already incurred)

    2. Refinements should eliminate the UAAL within a reasonable period and significantly reduce amortization period for the Public Employees Plan

    3. Refinements should focus first on sustainability of the base benefit

    4. Refinements should focus second on providing a COLA that, taking into account the Social Security COLA, affords reasonable inflation protection especially for vulnerable populations (elderly and individuals with disabilities)

    5. Refinements should ensure sustainable contribution levels that take into account employer, employee and taxpayer impacts

    6. Funding levels should be better aligned among Divisions within the Public Employees Plan

- Develop options for actuarial analysis (July/August)
- Analysis presented to the PERA Board (July/August)
- Conduct membership outreach meetings (September/October)
- Final legislative package presented to PERA Board (October/November)
- Legislative proposal presented to IPOC (October/November)

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Retirement Plans Administered by PERA – Tier 1

Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factors per Year of Service	Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary $20,000 or less	Annual Salary greater than $20,000			
State Plan 3	7.42%	8.92%	16.99%	3.0%	90%
Municipal Plan 1 (plan open to new employers)	7.00%	8.50%	7.4%	2.0%	90%
Municipal Plan 2 (plan open to new employers)	9.15%	10.65%	9.55%	2.5%	90%
Municipal Plan 3 (plan closed to new employers 6/95)	13.15%	14.65%	9.55%	3.0%	90%
Municipal Plan 4 (plan closed to new employers 6/00)	15.65%	17.15%	12.05%	3.0%	90%
Municipal Police Plan 1	7.00%	8.50%	10.40%	2.0%	90%
Municipal Police Plan 2	7.00%	8.50%	15.40%	2.5%	90%
Municipal Police Plan 3	7.00%	8.50%	18.90%	2.5%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.0%	90%
Municipal Police Plan 5	16.30%	17.80%	18.90%	3.5%	90%
Municipal Fire Plan 1	8.00%	9.50%	11.40%	2.0%	90%
Municipal Fire Plan 2	8.00%	9.50%	17.90%	2.5%	90%
Municipal Fire Plan 3	8.00%	9.50%	21.65%	2.5%	90%
Municipal Fire Plan 4	12.80%	14.30%	21.65%	3.0%	90%
Municipal Fire Plan 5	16.20%	17.70%	21.65%	3.5%	90%
Municipal Detention Officer Plan 1*	16.65%	18.15%	17.05%	3.0%	90%
State Police and Adult Correctional Officer Plan 1*	7.60%	9.10%	25.50%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	90%

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Retirement Plans Administered by PERA – Tier 2

Coverage Plan	Employee Contribution Percentage		Employer Contribution Percentage	Pension Factors per Year of Service	Pension Maximum as a Percentage of the Final Average Salary
	Annual Salary $20,000 or less	Annual Salary greater than $20,000			
State Plan 3	7.42%	8.92%	16.99%	2.5%	90%
Municipal Plan 1 (plan open to new employers)	7.00%	8.50%	7.4%	2.0%	90%
Municipal Plan 2 (plan open to new employers)	9.15%	10.65%	9.55%	2.0%	90%
Municipal Plan 3 (plan closed to new employers 6/95)	13.15%	14.65%	9.55%	2.5%	90%
Municipal Plan 4 (plan closed to new employers 6/00)	15.65%	17.15%	12.05%	2.5%	90%
Municipal Police Plan 1	7.00%	8.50%	10.40%	2.0%	90%
Municipal Police Plan 2	7.00%	8.50%	15.40%	2.0%	90%
Municipal Police Plan 3	7.00%	8.50%	18.90%	2.0%	90%
Municipal Police Plan 4	12.35%	13.85%	18.90%	2.5%	90%
Municipal Police Plan 5	16.30%	17.80%	18.90%	3.0%	90%
Municipal Fire Plan 1	8.00%	9.50%	11.40%	2.0%	90%
Municipal Fire Plan 2	8.00%	9.50%	17.90%	2.0%	90%
Municipal Fire Plan 3	8.00%	9.50%	21.65%	2.0%	90%
Municipal Fire Plan 4	12.80%	14.30%	21.65%	2.5%	90%
Municipal Fire Plan 5	16.20%	17.70%	21.65%	3.0%	90%
Municipal Detention Officer Plan 1*	16.65%	18.15%	17.05%	3.0%	90%
State Police and Adult Correctional Officer Plan 1*	7.60%	9.10%	25.50%	3.0%	90%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.0%	90%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.0%	90%

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