



**PERA**

## **Legislative Finance Committee**

*Senator John Arthur Smith, Chair*

*Representative Patricia Lundstrom, Vice-Chair*

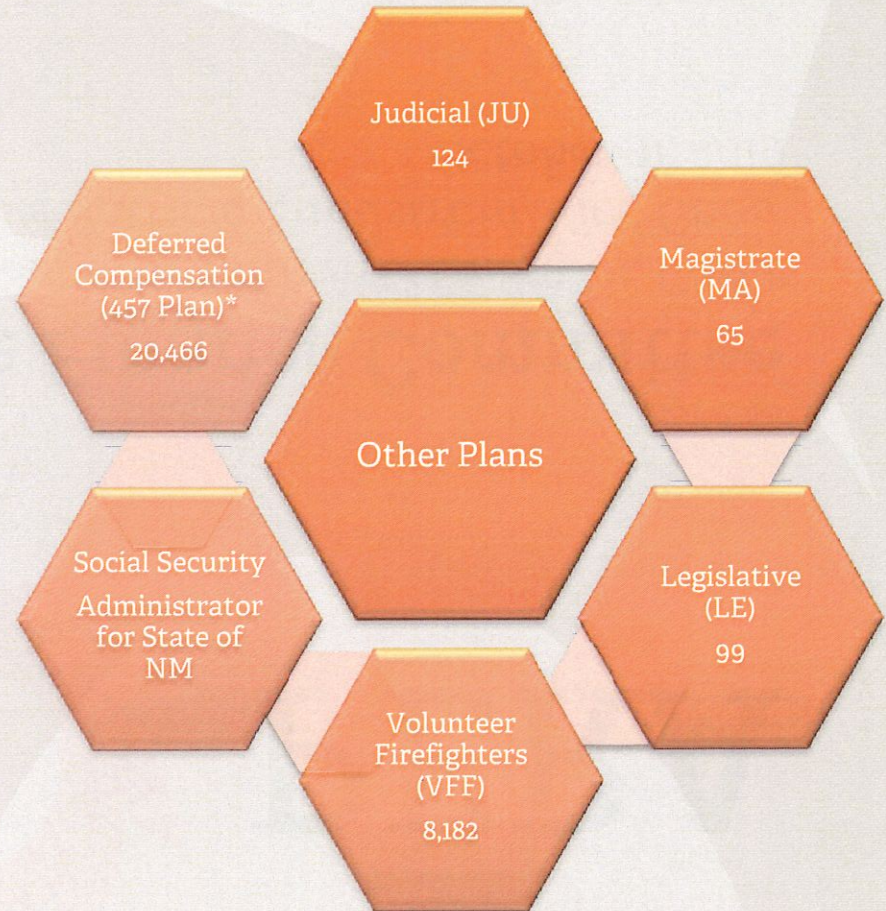
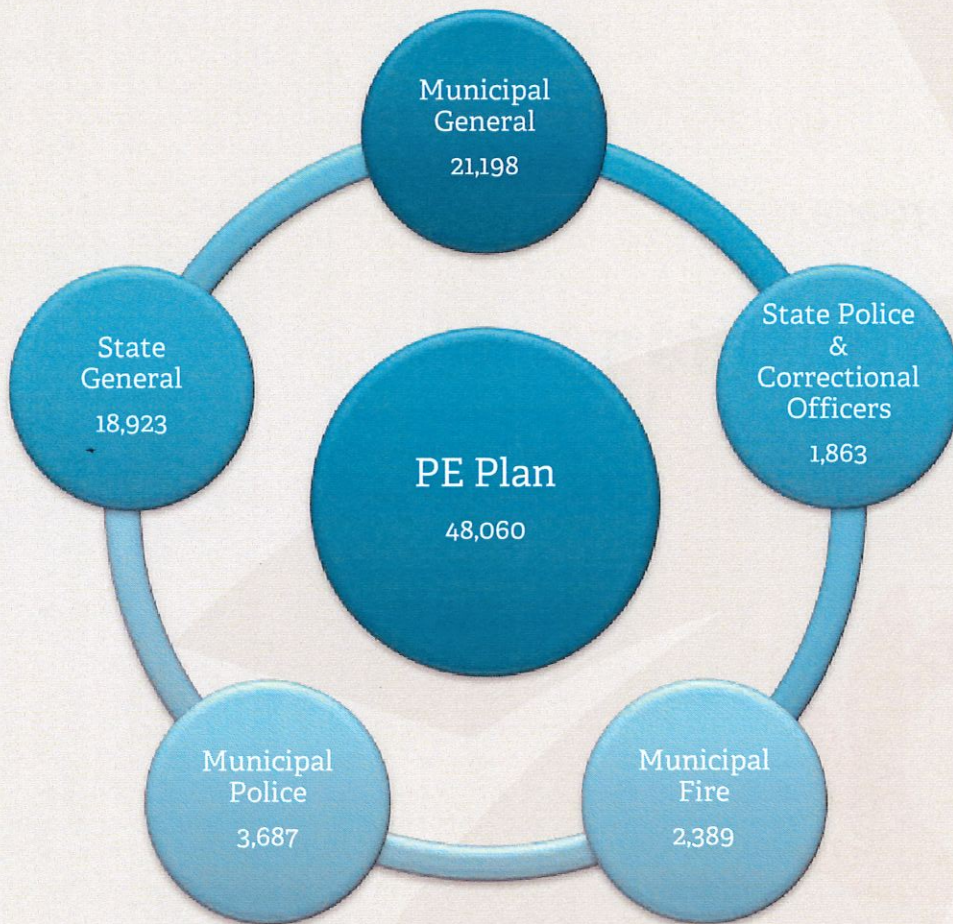
*October 31, 2019*

*Jacquelin Kohlasch, PhD, Board Chair*

*Wayne Propst, Executive Director*



# PERA – Who We Serve



Active membership as of 6/30/2019

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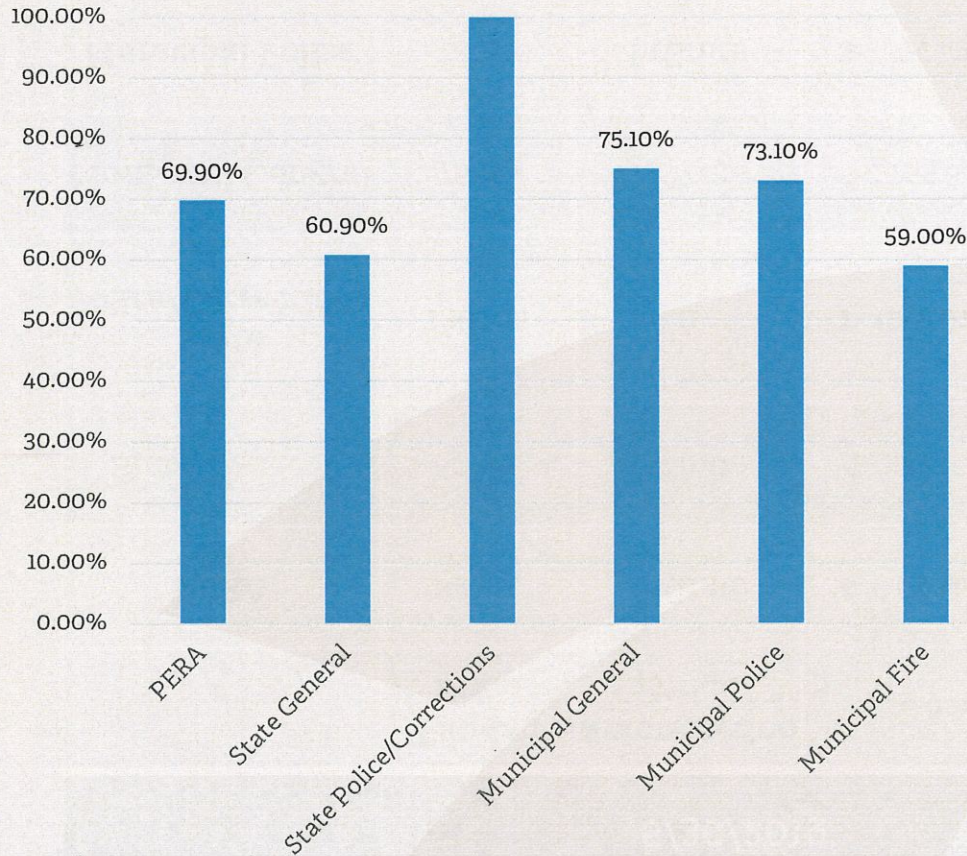
# PERA Fund by Division

	6/30/2019			6/30/2018		
	Funded Ratio	Amortization Period	UAAL	Funded Ratio	Amortization Period	UAAL
<b>PERA</b>	69.9%	Infinite	\$ 6,662,667,681	71.60%	Infinite	\$ 6,060,590,511
<b>State General</b>	60.9%	Infinite	\$ 3,731,561,156	63.1	Infinite	\$ 3,395,590,697
<b>State Police/Corrections</b>	130.2%	0	\$ (297,076,434)	130.20%	0	\$ (286,008,756)
<b>Municipal General</b>	75.1%	49 Years	\$ 1,755,848,590	76.30%	43 Years	\$ 1,613,346,077
<b>Municipal Police</b>	73.1%	Infinite	\$ 774,929,157	74.80%	Infinite	\$ 691,974,186
<b>Municipal Fire</b>	59.0%	Infinite	\$ 697,405,212	60.20%	Infinite	\$ 645,688,307

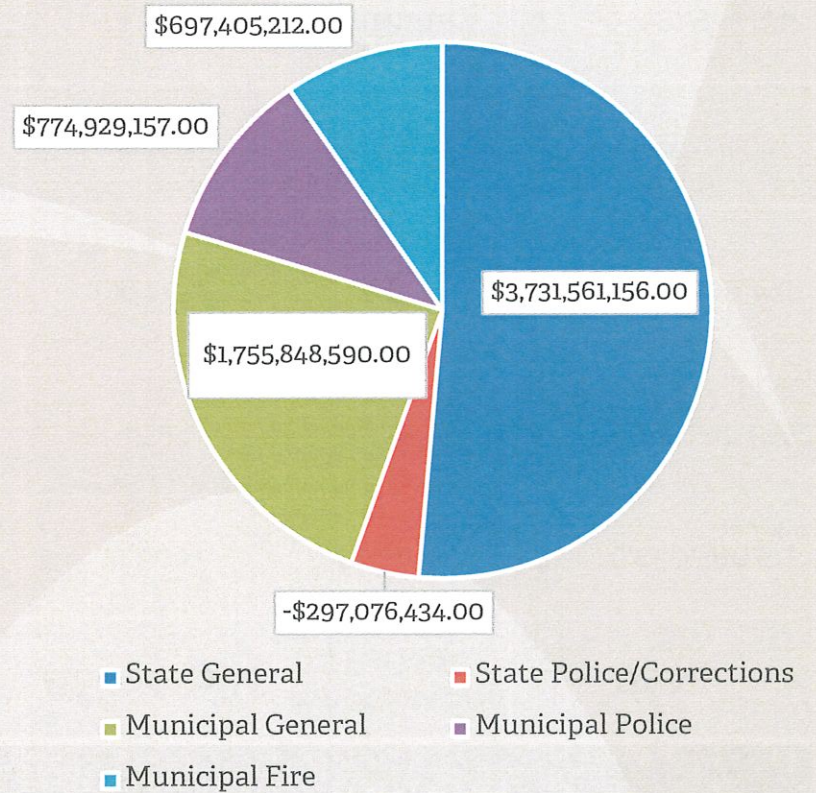


# PERA Fund by Division

## Funded Ratio by Division - PE



## UAAL by Division - PE



All divisions infinitely funded with exception of Municipal General (49 years) & State Police/Corrections (0 years)

State Divisions account for 51.55% of the UAAL, Municipal Divisions account for 48.45% of the UAAL

Data as of 6/30/2019

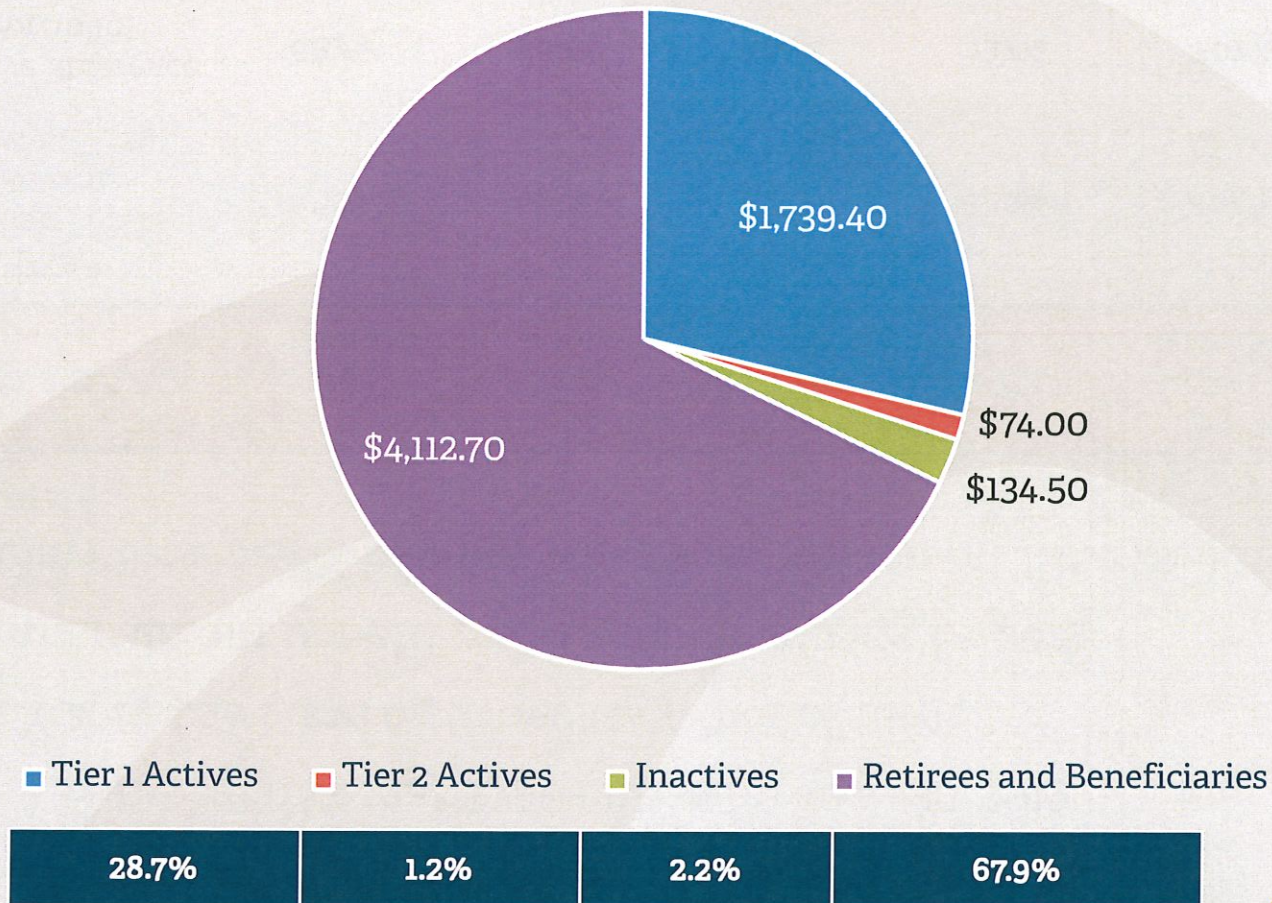
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# Breakdown of UAAL

Allocation of 2018 UAAL





# PERA Fund Performance

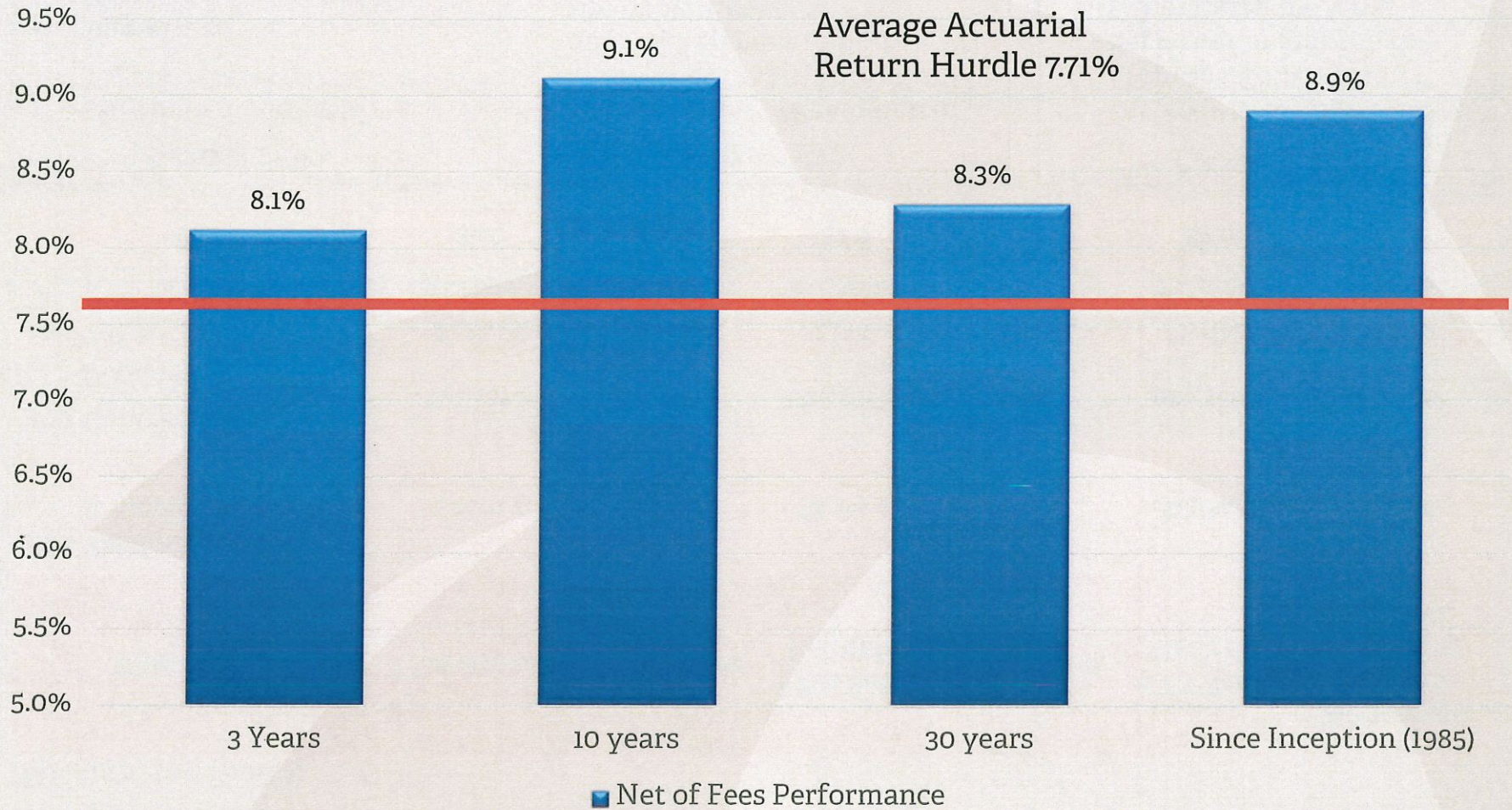
- The PERA Fund balance was \$15.6 billion on June 30, 2019
- During FY 2019, the Fund returned 6.4% (net of fees).
- PERA Fund paid out benefits of \$1.2 billion during FY 2019
- PERA Smart Save (457b) balance was \$642.7 million on June 30, 2019 with 22,863 participants

As of 6/30/2019	1 Year (FY18)	3 Year	10 Year	30 Year	Since Inception 6/30/1985
PERA Total Fund Returns (Net of Fees)	6.38%	8.11%	9.17%	8.30%	8.92%
Passive Reference Portfolio*	6.33%	7.69%	7.84%	7.17%	8.07%
Value Add	0.05%	0.42%	1.33%	1.13%	0.85%

\*Passive Reference Portfolio is indexed portfolio that matches the volatility of the PERA Total Fund, which is an allocation of roughly 60% global stocks and 40% bonds annualized. This is a Board approved reference benchmark.



# Meeting Long Term Assumed Returns as of 06/30/19





# Fiscal Year 2021 Budget Request

(Dollars in thousands)

Description	FY19 Actuals	FY20 OpBud	FY21 Base Request	Expansion	FY21 Total Request	% Increase/ Decrease over FY20 OpBud
200 Personal Services & Employee Benefits	\$7,110.2	\$8,164.8	\$8,184.0	\$0.0	\$8,184.0	0.24%
300 Contractual Services	\$22,437.8	\$27,069.2	\$26,306.8	\$0.0	\$26,306.8	-2.82%
400 Other	\$1,342.7	\$1,388.7	\$1,718.9	\$0.0	\$1,718.9	23.78%
<b>Total</b>	<b>\$30,890.7</b>	<b>\$36,622.7</b>	<b>\$36,209.7</b>	<b>\$0.0</b>	<b>\$36,209.7</b>	<b>-1.13%</b>
<b>FTE</b>	<b>84.0</b>	<b>87.0</b>	<b>87.0</b>	<b>0.0</b>	<b>87.0</b>	

## Category 200:

- 3% Applied Budgeted Vacancy Rate
- Increase of \$12.0 in Premiums for Workers' Comp GSD, Unemployment Comp, and Employee Liability Insurance

## Category 300:

- Decrease Due to Realignment of Strategic Asset Allocations and Realignment of Budget to the Other Category
- Investment Contracts at \$23,565.3 Which Includes an Assumed Rate of Return of 7.25% on Investment Manager Fees

## Category 400:

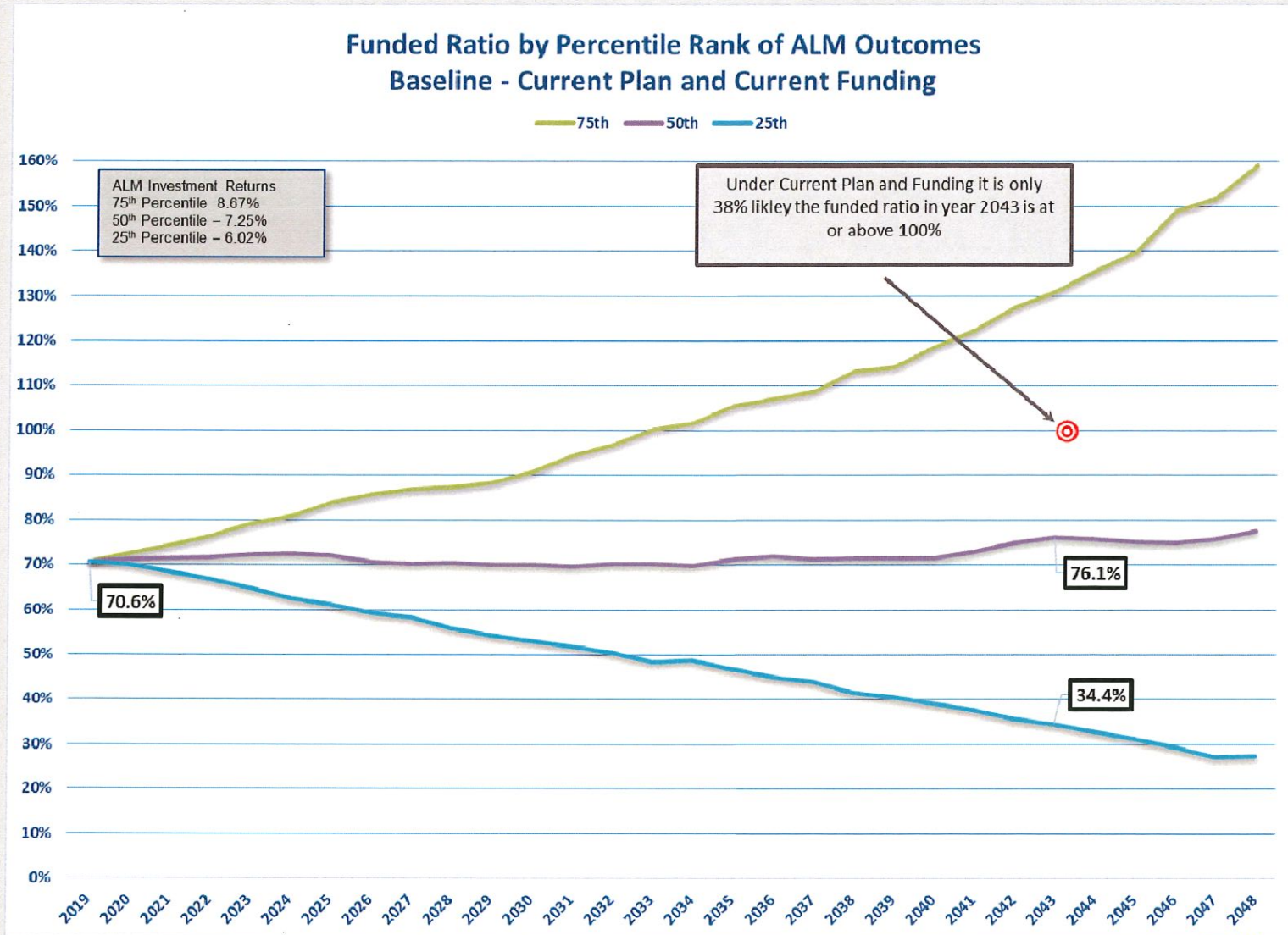
- Increase to Realign Budget From the Contractual Services Category to the Other Category for IT Maintenance
- \$242.1 for DoIT and GSD Services and Fees

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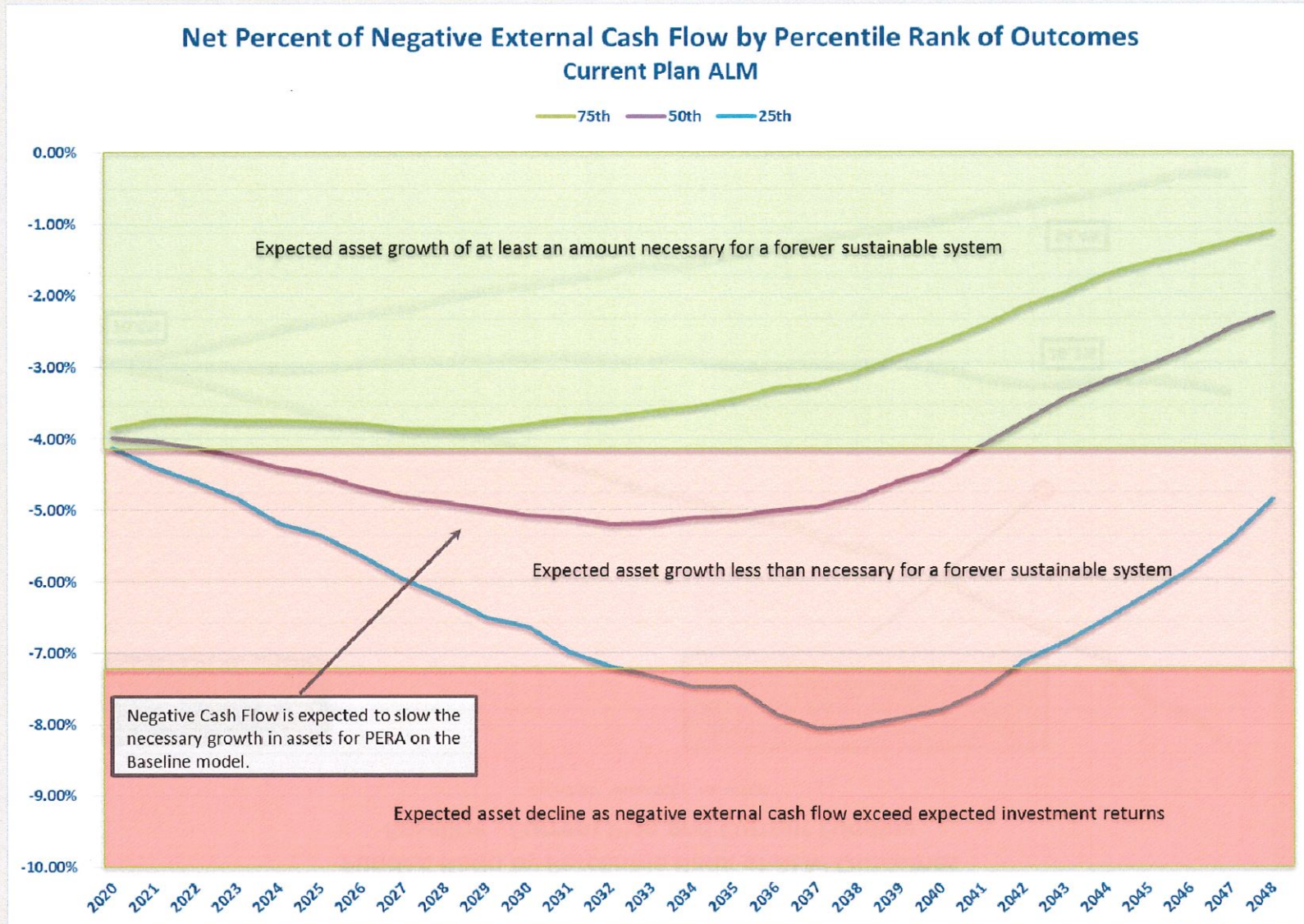


# Current ALM Projections



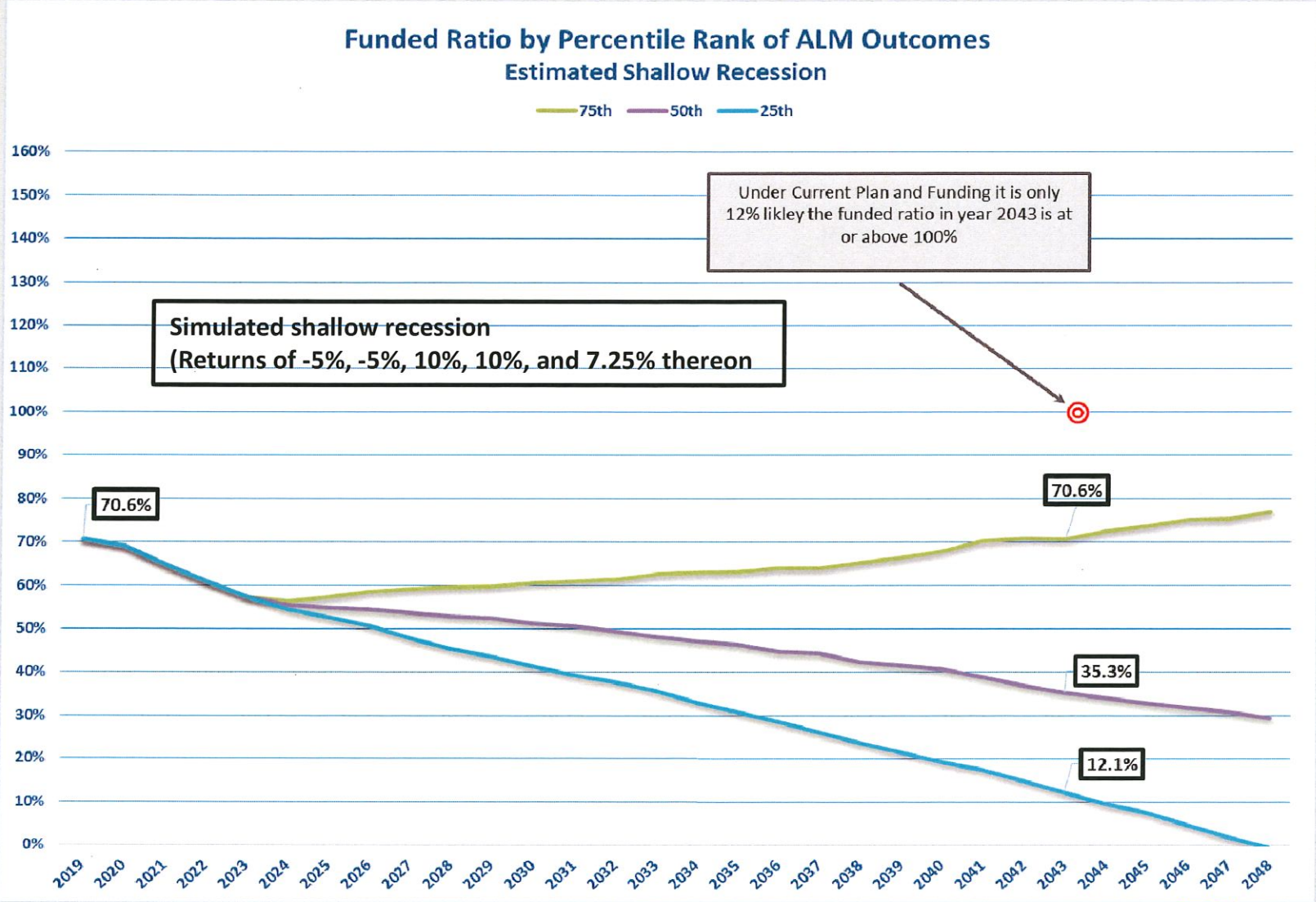


# Current ALM Cash Flow Projections



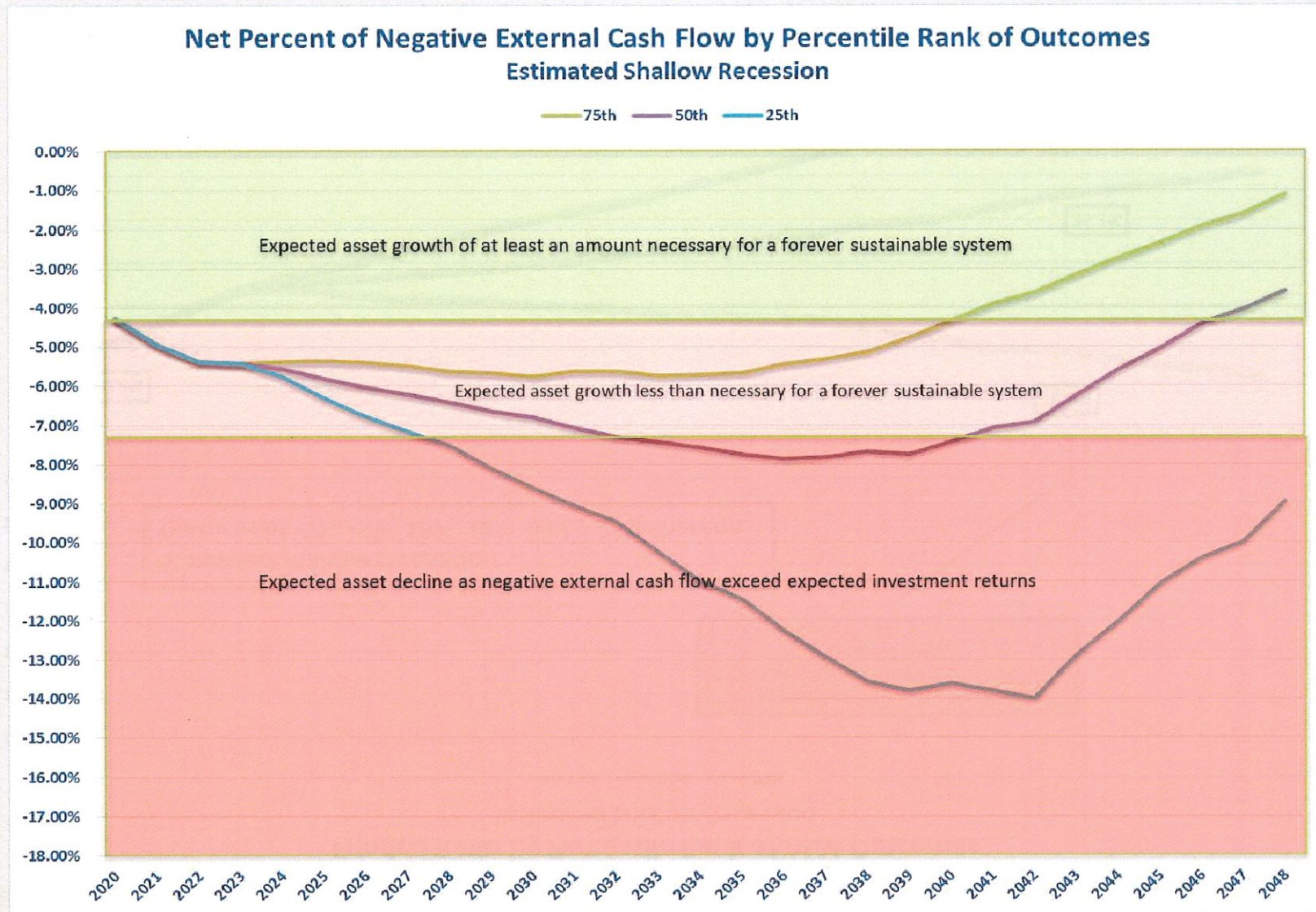


# Impact of a Shallow Recession





# Impact of a Shallow Recession on Cash Flow





# Summary of Governor's PERA Solvency Task Force Recommendations

- Recommendations projected to eliminate PERA's \$6.1 billion unfunded liability within 25 years
- Recommendations projected to result in an immediate \$700 million reduction to PERA's unfunded liability
- Recommendations replace previous proposals to freeze COLAs for three years with a 2% "13<sup>th</sup> Check" payment that pauses the compounding factor for the next 3 years
- Recommendations preserve a COLA for current and future retirees with a minimum COLA of .5% and a maximum of 3% based on a profit share model tied to investment performance. Once PERA achieves 100% funded level, maximum COLA increased to 5%
- Recommendations begin to address disparity in funding levels among PERA Divisions by exempting State Police and Adult Correctional Officers from proposed contribution increases
- Recommendations protect lowest income retirees by guaranteeing a COLA of 2.5% for retirees with pensions below \$25,000 who have worked 25 years or receiving disability retirement
- Recommendations protect lowest income active members by exempting those with incomes of \$25,000 or less from proposed contribution increases
- Recommendations eliminate the current 7 year wait to receive a COLA and reinstates the 2 calendar year wait
- Recommendations eliminate current earnings cap of 90% to encourage employees to work longer



# NM Profit Share Recommendations

- **Current COLA Structure Ends FY 2020**
  - Increase employee and employer contributions by 4% (2% employee, 2% employer)
    - 1% increase (0.5% from both) per year for 4 years
    - Would not apply to State Police/Adult Correctional Officers Division
  - Eliminate current earnings cap of 90% to encourage employees to work longer
- **COLA Structure for FYs 2021, 2022, 2023**
  - Retirees with 25 years of service and annual pension less than \$25,000 receive 2.5% compounded COLA
  - Disabled retirees with annual pension less than \$25,000 receive 2.5% compounded COLA
  - All others retired at least 24 months receive 2% “13<sup>th</sup> Check” Payment



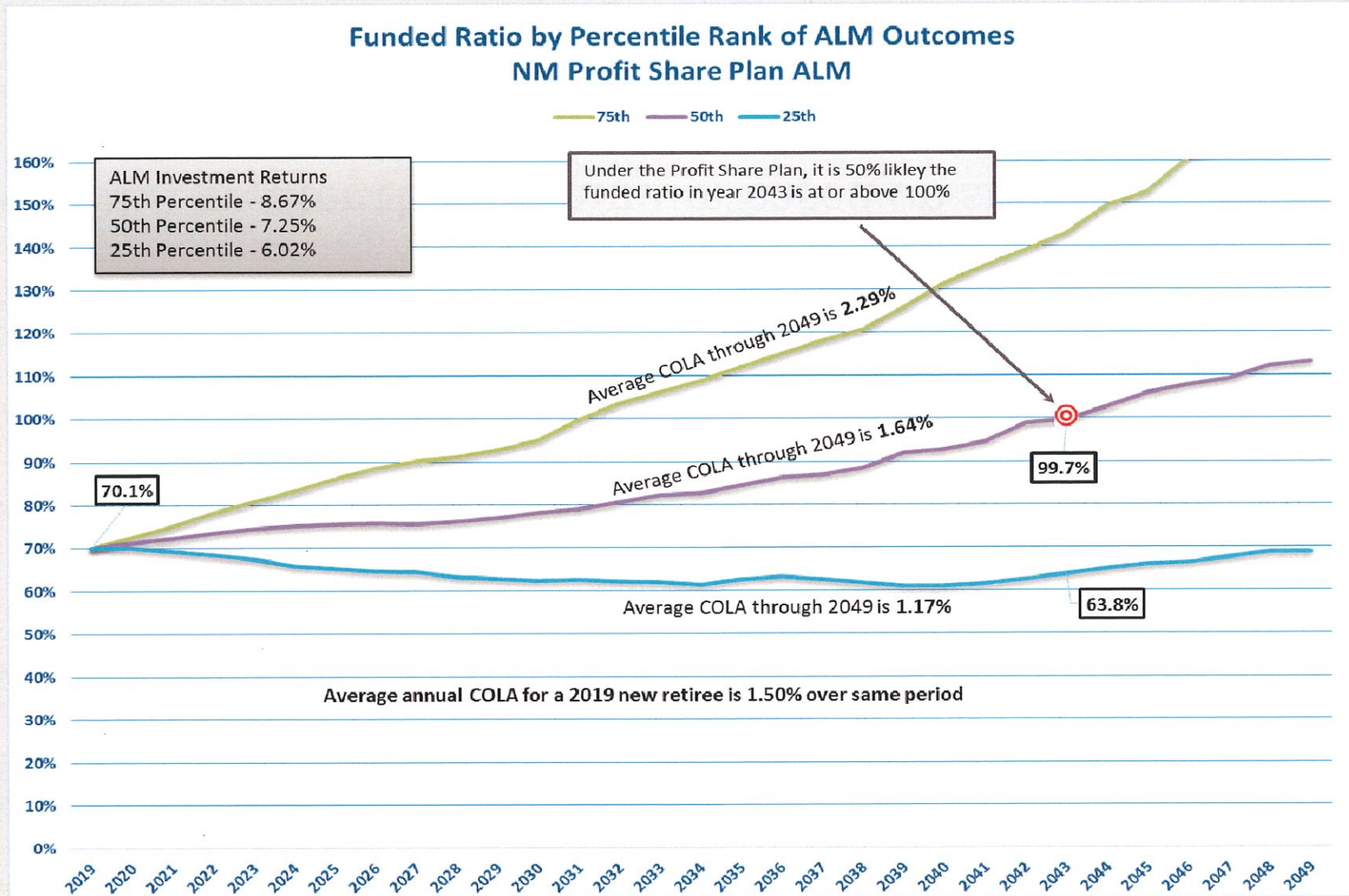
# NM Profit Share Recommendations

- **Profit Share COLA FY 2024 +**
  - Eliminate 7 year COLA waiting period and replace with 2 year waiting period (same as before SB 27)
  - Minimum COLA is 0.5% per year
  - Maximum COLA is 3.0% per year if funded ratio < 100%
  - Maximum COLA is 5.0% per year if funded ratio  $\geq$  100%
  - COLA greater than minimum based on smoothed asset returns exceeding 6.0%



# NM Profit Share Recommendations

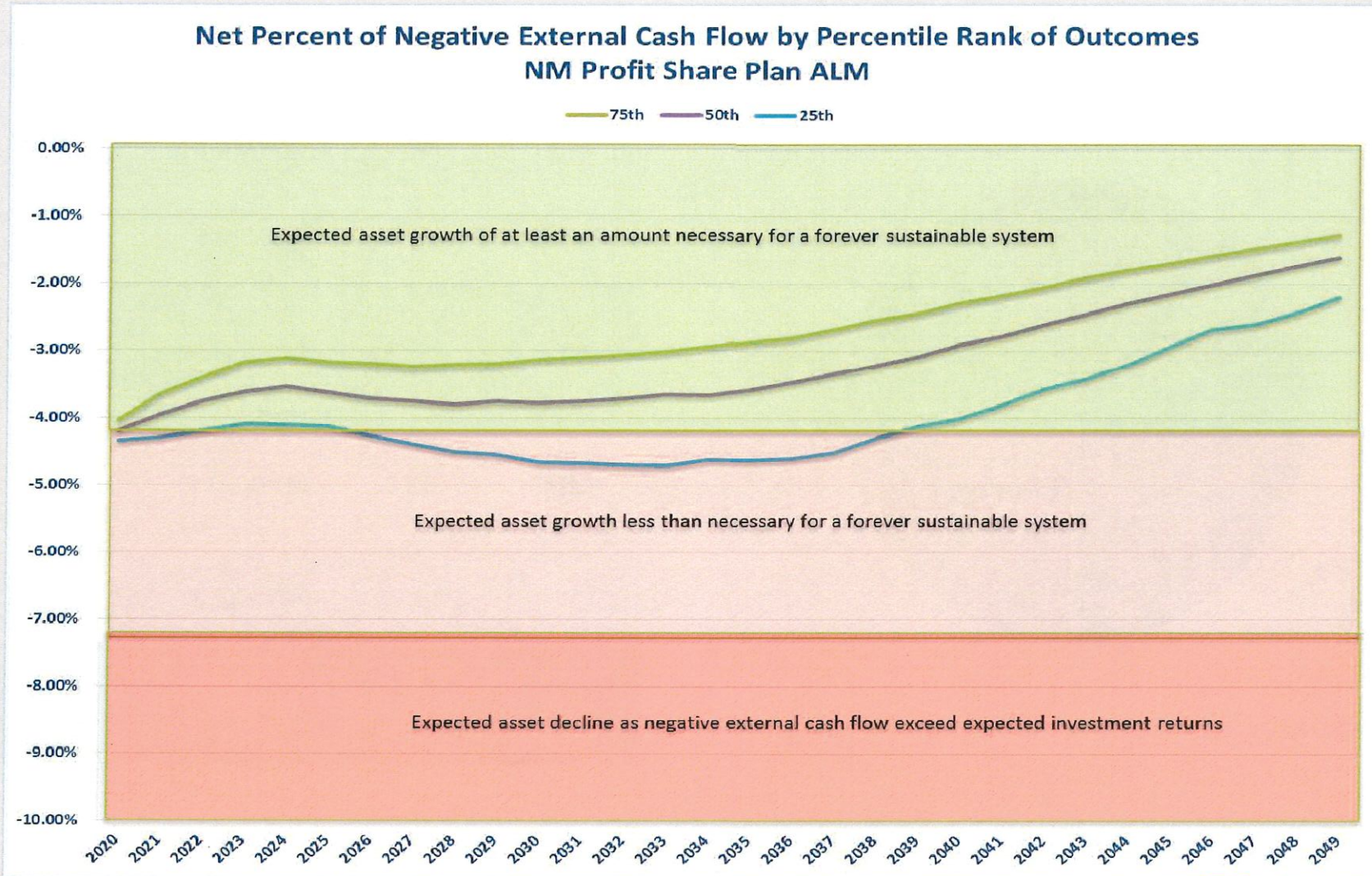
## ALM Results





# NM Profit Share Recommendations

## Cash Flow Results

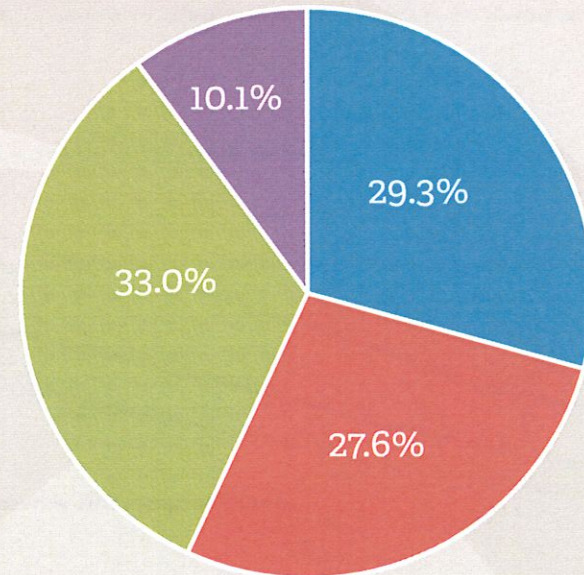




# Impact of Task Force Recommendations on UAAL in 2043

	2043 UAAL (\$ Million)	2043 Funded Ratio	Portion of Savings
<b>Current Baseline Projection</b>	<b>\$ 10,332.3</b>	<b>70.6%</b>	
ER Contribution Increase (2% phased in)	\$ (3,004.8)	8.5%	29.3%
EE Contribution Increase (2% phased in)	\$ (2,824.1)	8.0%	27.6%
3 Year COLA Suspension	\$ (3,375.2)	9.6%	33.0%
Profit Sharing COLA	\$ (1,035.3)	3.0%	10.1%
<b>Task Force Recommendation</b>	<b>\$ 92.9</b>	<b>99.7%</b>	

Task Force Recommendation Savings



- Employer Contribution Increase
- Employee Contribution Increase
- 3 Year COLA Suspension
- Profit Sharing COLA



# Estimated Savings of 2% “13<sup>th</sup> Check” COLA for FY 2021, 2022, and 2023

<b>6/30/2020 UAAL Reduction for 3-Year Suspension of Current COLA</b>	<b>Cost of 3 Annual 2% “13<sup>th</sup> Check” Payments</b>
<b>\$693,000,000</b>	<b>\$76,000,000</b>



# Examples of NM Profit Share COLA

0.5% Minimum and 3.0% Maximum if Funded Ratio < 100%

		<i>Funded Ratio</i>				
		60%	70%	80%	90%	100%
<i>Smoothed Investment Return</i>	5.00	0.50%	0.50%	0.50%	0.50%	0.50%
	5.50	0.50%	0.50%	0.50%	0.50%	0.50%
	6.00	0.50%	0.50%	0.50%	0.50%	0.50%
	6.50	0.80%	0.85%	0.90%	0.95%	1.00%
	7.00	1.10%	1.20%	1.30%	1.40%	1.50%
	7.50	1.40%	1.55%	1.70%	1.85%	2.00%
	8.00	1.70%	1.90%	2.10%	2.30%	2.50%
	8.50	2.00%	2.25%	2.50%	2.75%	3.00%
	9.00	2.30%	2.60%	2.90%	3.00%	3.50%
	9.50	2.60%	2.95%	3.00%	3.00%	4.00%



# Look Back of NM Profit Share COLA Since SB 27

FYE	AAV Return	AAV Assmpt.	Hurdle Rate	Shared Gain	Funded Ratio	COLA
2013	10.45%	7.75%	6.50%	3.95%	72.90%	2.88%
2014	11.94%	7.75%	6.50%	5.44%	75.80%	3.00%
2015	7.64%	7.75%	6.50%	1.14%	74.90%	0.85%
2016	7.65%	7.75%	6.50%	1.15%	75.30%	0.87%
2017	6.97%	7.25%	6.00%	0.97%	74.90%	0.73%
2018	4.85%	7.25%	6.00%	0.00%	71.60%	0.50%

\* Member that retires with 7 year deferral period will receive a COLA of 1.50% on average

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# NM Profit Share Recommendations Phase in Period for 3 Years

COLA Difference based on \$50,000 Annual Benefit

## COMPOUNDING COLA - CURRENT MODEL

	6/30/2020 Benefit	+	Current 2% COLA	=	Ending Benefit
Year 1	\$ 50,000.00	+	\$ 1,000.00	=	\$ 51,000.00
Year 1 COLA (\$1,000) + Year 2 COLA (\$1,020) = \$2,020					
Year 2	\$ 50,000.00	+	\$ 2,020.00	=	\$ 52,020.00
Year 1 COLA (\$1,000) + Year 2 COLA (\$1,020) + Year 3 COLA (\$1,040.40)					
Year 3	\$ 50,000.00	+	\$ 3,060.40	=	\$ 53,060.40

## 2% 13<sup>th</sup> Check - PROPOSED MODEL for 3 YEAR PERIOD

	6/30/2020 Benefit	+	2% 13 <sup>th</sup> Check	=	Ending Benefit
Year 1	\$ 50,000.00	+	\$ 1,000.00	=	\$ 51,000.00
Year 2	\$ 50,000.00	+	\$ 1,000.00	=	\$ 51,000.00
Year 3	\$ 50,000.00	+	\$ 1,000.00	=	\$ 51,000.00

**Total COLA Over 3 Years = \$ 6,080.40**

**Total COLA Over 3 Years = \$ 3,000.00**

**Difference in COLA \$ 3,080.40**



# NM Profit Share Recommendations

## Contribution Increases Impact

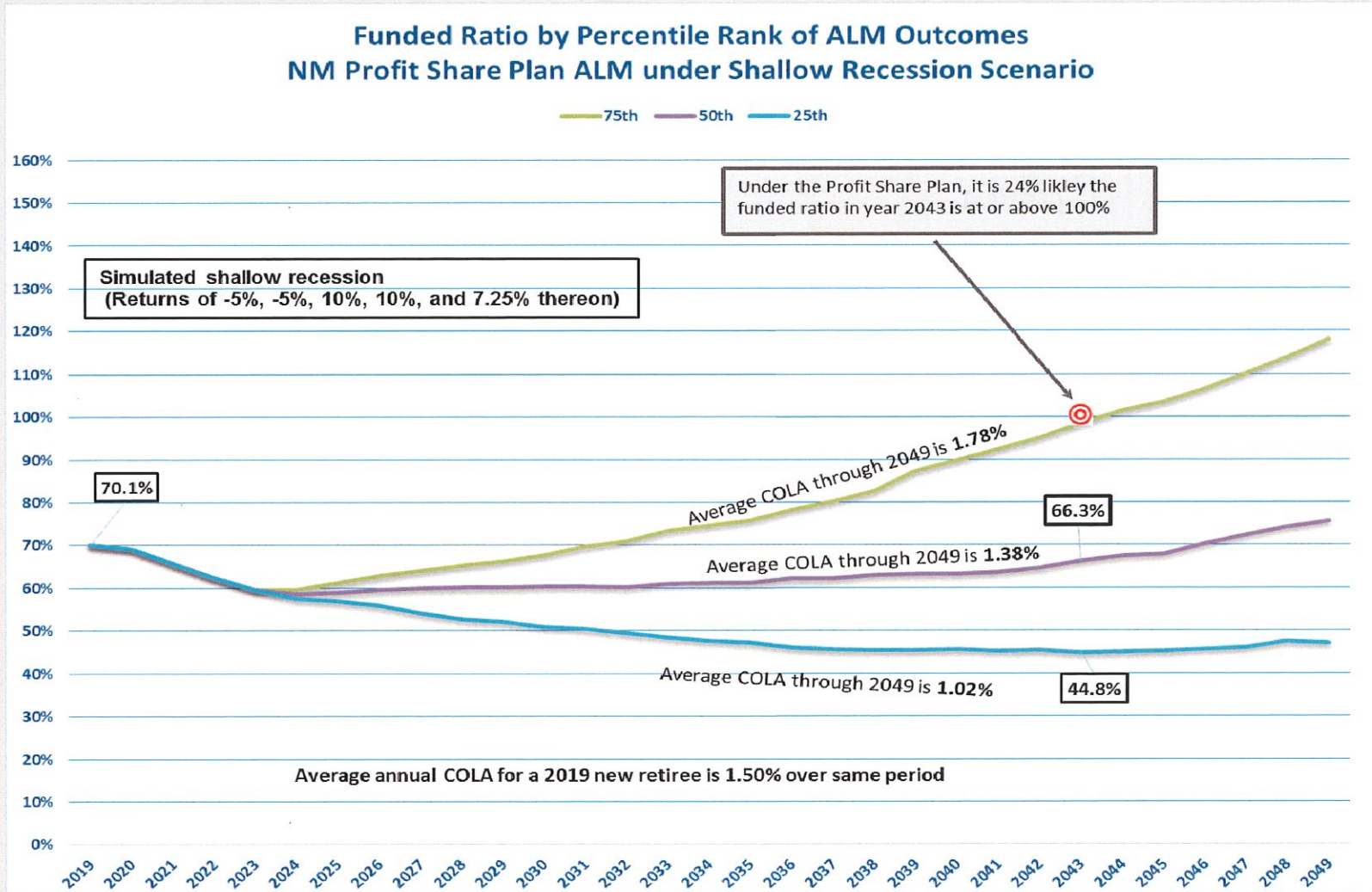
### Contribution Increase Based on \$50,000 Annual Salary

Salary	Employee Contribution = 8.92%	Employer Contribution = 17.24%
\$ 50,000.00	\$ 4,460.00	\$ 8,620.00
<b>PROPOSED CONTRIBUTION 2% INCREASE (STATE PLAN 3)</b>		
Salary	Employee Contribution = 10.92%	Employer Contribution = 19.24%
\$ 50,000.00	\$ 5,460.00	\$ 9,620.00
<b>Annual Increase</b>	\$ 1,000.00	\$ 1,000.00
<b>Increase x 3 Years</b>	\$ 3,000.00	\$ 3,000.00
<b>Total Increase Employee/Employer</b>		\$ 6,000.00



# NM Profit Share Recommendations

## Stress Testing in a Shallow Recession Scenario





# NM Profit Share Recommendations

## Stress Testing in a Shallow Recession Scenario

