

# New Mexico Educational Retirement Board Legislative Proposal

## **Investments and Pensions Oversight Committee**

Senator George Muñoz, Chair

Representative Patricia Roybal Caballero, Vice Chair

December 4, 2019

Jan Goodwin, Executive Director

Mary Lou Cameron, Board Chair

H. Russell Goff, Board Vice Chair



## 2019 Legislative Session: HB 360

1. Tiered Multipliers
2. Increase of Employer Contributions (.25% increase only)
3. Anti-spiking (Applies to annual salary after July 1, 2019)
4. Revise Return-to-Work provisions (contributions for those working less than .25 FTE applies after July 1, 2020)
5. Require PERA retirees who work for ERB employers to pay contributions (police officers currently working for LAUs are grandfathered in)
6. Reduce pension benefits for new members who retire before age 58
7. Substitute teachers who work more than .25 FTE will pay contributions (not effective until July 1, 2020)
8. Threshold for higher employee contributions raised from \$20,000 to \$24,000 (7.9% or 10.7%).

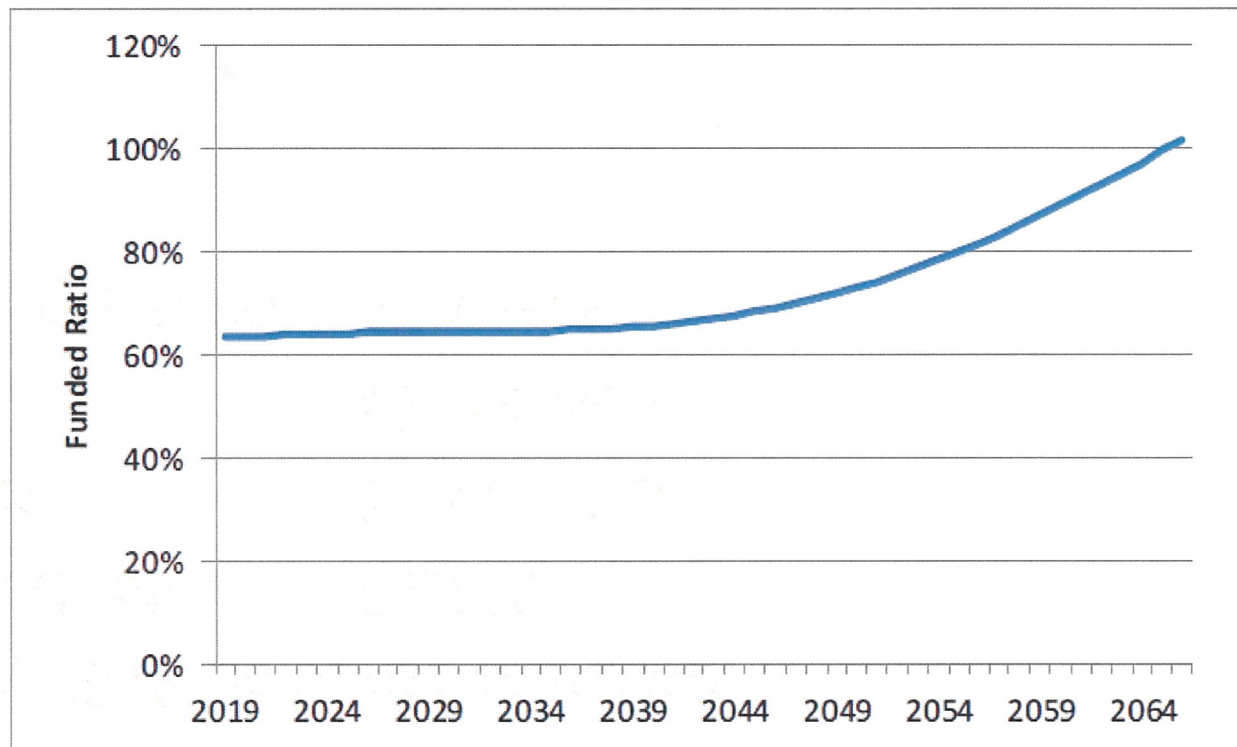
# ERB's Actuarial Metrics after HB 360

June 30, 2019 actuarial valuation:

Funded ratio	62.9%
Assets	\$13.5 billion
UAAL	\$7.9 billion
Funding period	47 years

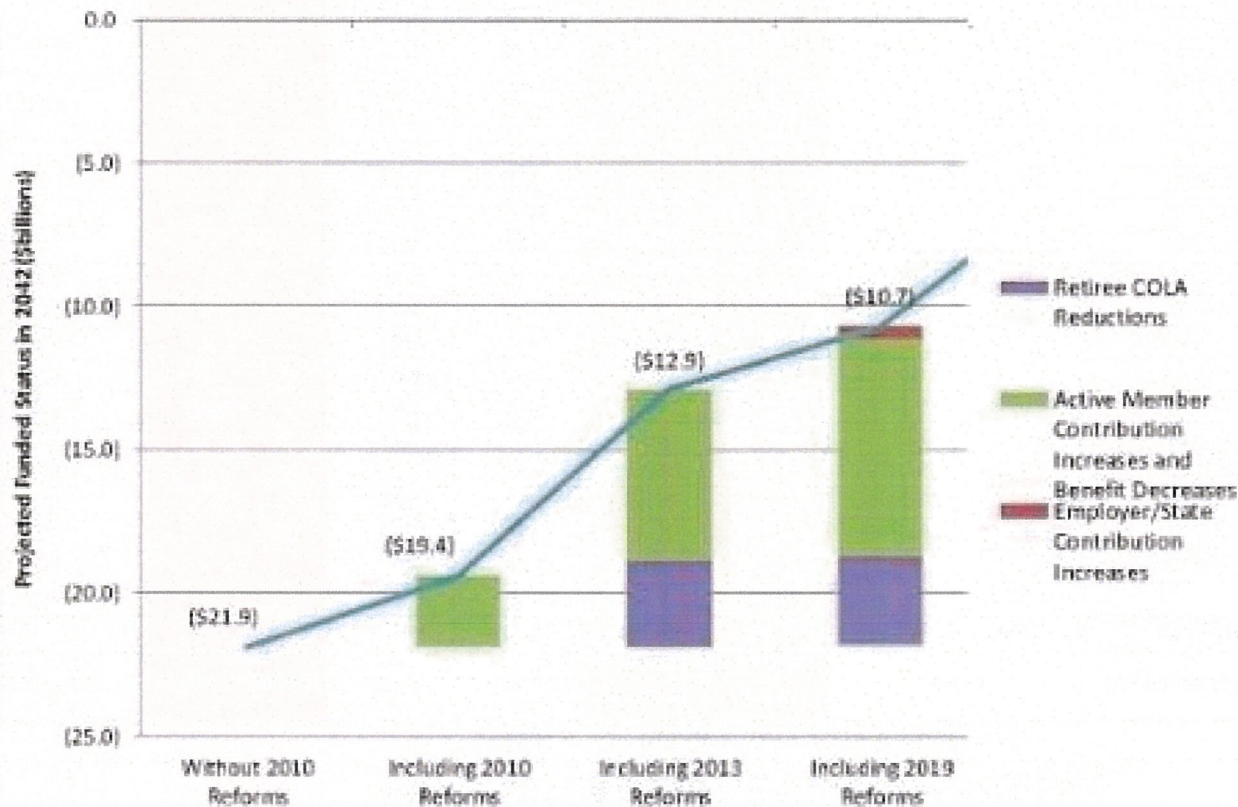
# Impact of HB 360

## New Mexico ERB Projected Funded Ratios Based on the Actuarial Valuation as of June 30, 2019



# Stakeholders Impacted by 2013 and 2019 Reforms

## New Mexico ERB Stakeholders Impacted by 2010, 2013 and 2019 Reforms



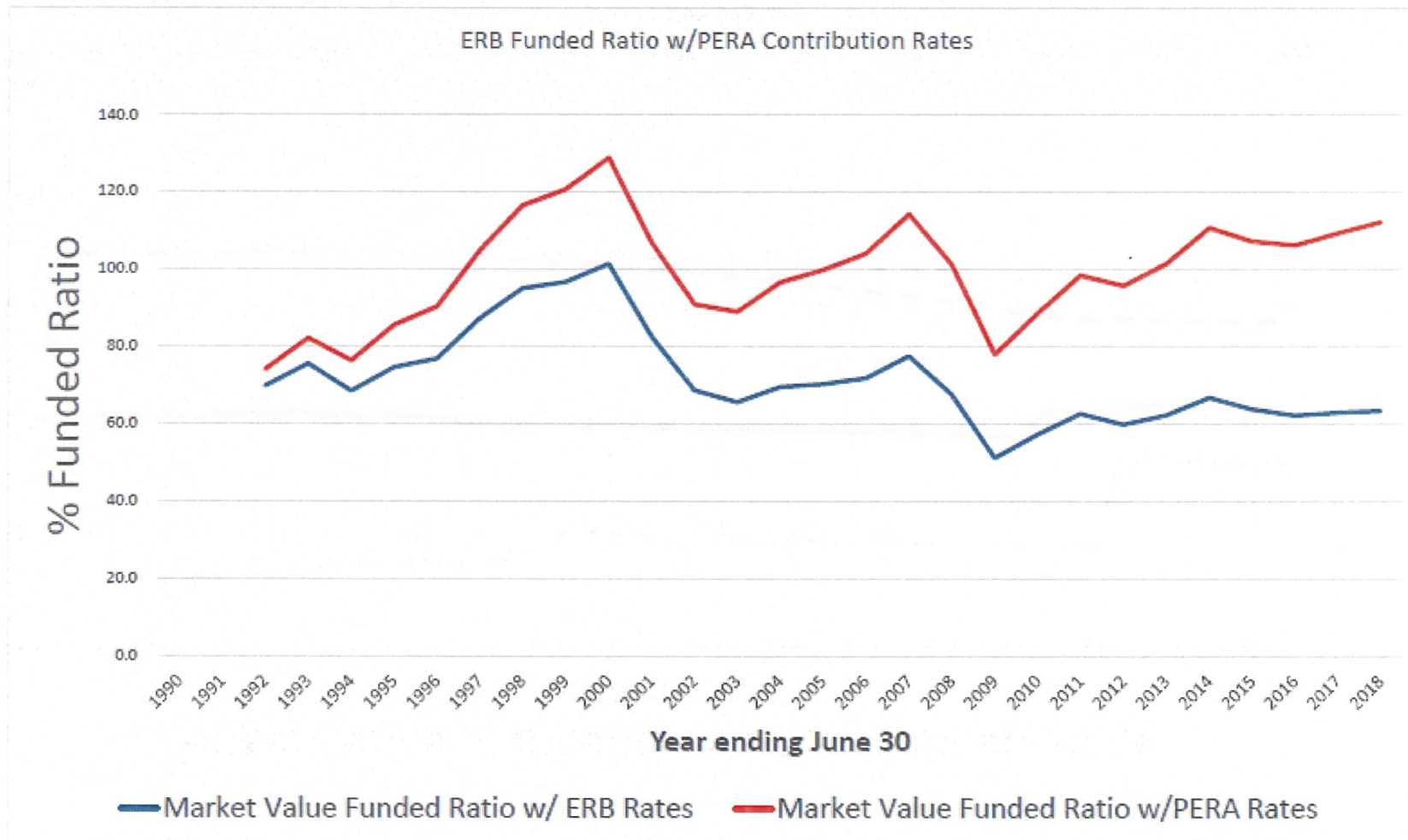
The projected funded status labeled "**Without 2010 Reforms**" illustrates what the projected funded status as of 2042 would have been if none of the 2010-2019 reforms had occurred.

# Contribution Rate History

ERB and PERA Contribution Rate History									
(PERA = non public safety state employees)									
Fiscal Year	Wage Category	Employee Rate		Schools/ Colleges	State Agencies	TOTAL		% of Total Contribution Employee Pays	
		NMERB	PERA	NMERB	PERA	NMERB	PERA	NMERB	PERA
1953			5.00%		5.00%		10.00%		50.00%
1958		3.00%	5.00%	4.00%	5.00%	7.00%	10.00%	42.86%	50.00%
1973		4.00%	5.00%	6.50%	6.00%	10.50%	11.00%	38.10%	45.45%
1982		6.80%	7.85%	6.80%	7.85%	13.60%	15.70%	50.00%	50.00%
1986		7.60%	3.83%	7.60%	11.84%	15.20%	15.67%	50.00%	24.44%
1987		7.60%	6.18%	7.60%	13.83%	15.20%	20.01%	50.00%	30.88%
1995		7.60%	7.42%	8.65%	16.59%	16.25%	24.01%	46.77%	30.90%
2006		7.675%	7.42%	9.40%	16.59%	17.08%	24.01%	44.95%	30.90%
2007		7.75%	7.42%	10.15%	16.59%	17.90%	24.01%	43.30%	30.90%
2008		7.825%	7.42%	10.90%	16.59%	18.73%	24.01%	41.79%	30.90%
2009		7.90%	7.42%	11.65%	16.59%	19.55%	24.01%	40.41%	30.90%
2010 - 2011	\$20K or less	7.90%	7.42%	12.40%	16.59%	20.30%	24.01%	38.92%	30.90%
	Over \$20K	9.40%	8.92%	10.90%	15.09%	20.30%	24.01%	46.31%	37.15%
2012	\$20K or less	7.90%	7.42%	12.40%	16.09%	20.30%	23.51%	38.92%	31.56%
	Over \$20K	11.15%	10.67%	9.15%	13.34%	20.30%	24.01%	54.93%	44.44%
2013	\$20K or less	7.90%	7.42%	12.40%	16.59%	20.30%	24.01%	38.92%	30.90%
	Over \$20K	9.40%	8.92%	10.90%	15.09%	20.30%	24.01%	46.31%	37.15%
2014	\$20K or less	7.90%	7.42%	13.15%	16.59%	21.05%	24.01%	37.53%	30.90%
	Over \$20K	10.10%	8.92%	13.15%	16.59%	23.25%	25.51%	43.44%	34.97%
2015 to present	\$20K or less	7.90%	8.92%	13.90%	16.99%	21.80%	25.91%	36.24%	34.43%
	Over \$20K	10.70%	8.92%	13.90%	16.99%	24.60%	25.91%	43.50%	34.43%
2020 to present	\$20K or less	7.90%	8.92%	14.15%	17.24%	22.05%	26.16%	35.83%	34.10%
	Over \$20K	10.70%	8.92%	14.15%	17.24%	24.85%	26.16%	43.06%	34.10%

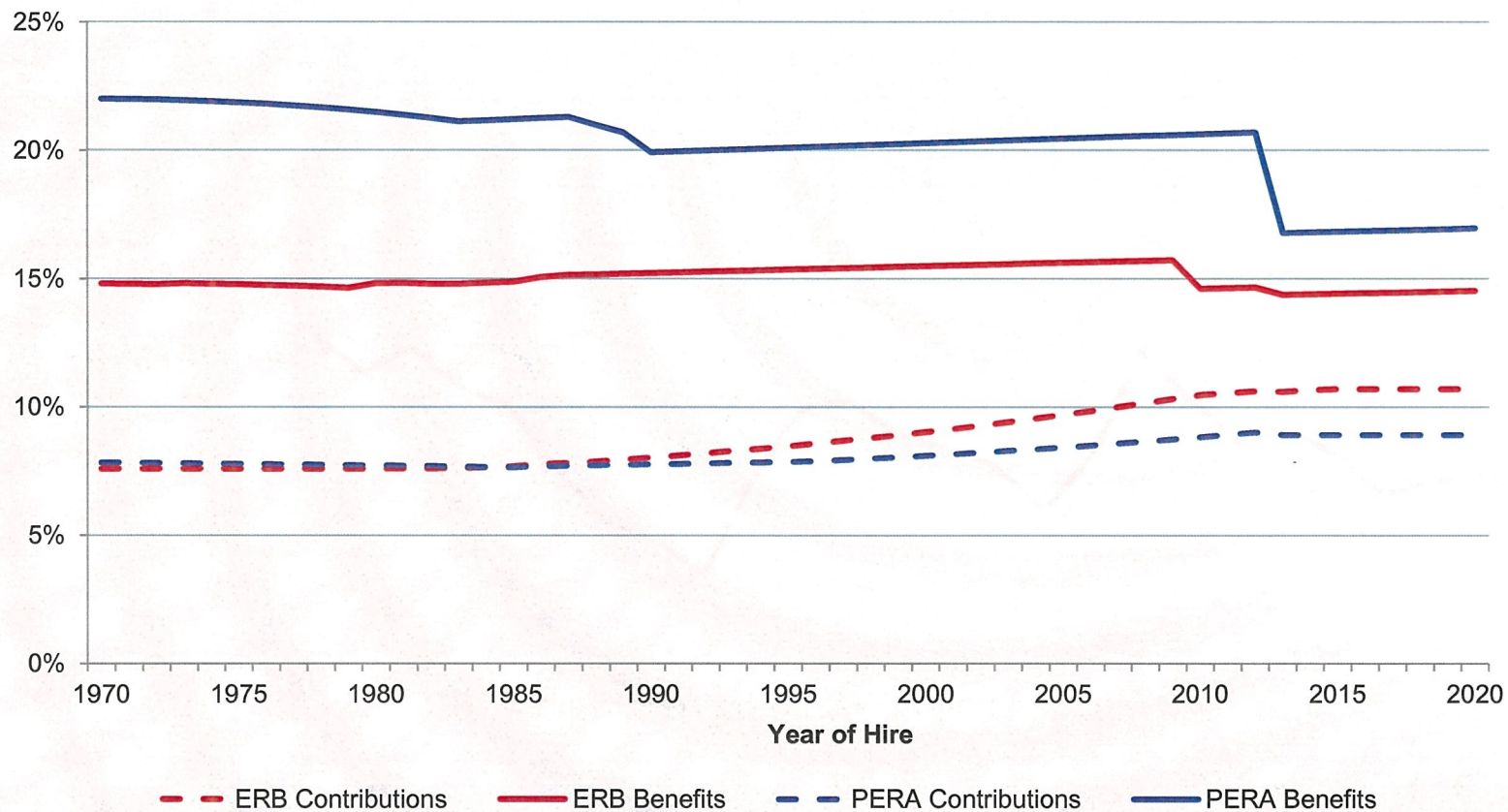


# Impact of Employer Contributions



# Benefit Comparison : ERB and PERA State General Plan 3

## Present Value of Benefits and Contributions (% of Lifetime Pay)





# Total Lifetime Compensation is \$630,000 to \$930,000 Lower for NMERB Members

## Sample Employees Who Start at Age 25, Work 25 Years, and Have a 30 Year Retirement

Employee Started in:	Difference in Total Take-Home Pay	Difference in Total Pension Benefit	Total Difference After a Lifetime of Work
1980	\$6,469	\$924,022	\$930,491
1985	\$9,204	\$647,004	\$656,208
1990	\$7,531	\$623,109	\$630,640

# Summary

- ❖ **PERA state members receive a more generous pension than NMERB members.**
  - **Higher pension multiplier and earlier cost-of-living adjustments**
  
- ❖ **Yet, PERA state members pay LESS toward their pensions than NMERB members.**
  
- ❖ **As a result, after a lifetime of work, NMERB members who begin work at the same age and same salary receive far less net compensation than their PERA state employee counterparts.**
  - **Both in terms of take home pay and total pension benefits.**
  
- ❖ **NMERB employers have paid less toward the pension than the state has paid for PERA state employees:**
  - **As a percentage of employee pay AND**
  - **As a percentage of total pension contributions.**
  
- ❖ **If NMERB employers paid more toward the pension, the overall pension system in New Mexico would be more equitable between NMERB and PERA state employees.**

## Why 100% Funding is Important to ERB

1. It's good public policy!
2. Will improve the state's and employers' credit ratings
3. Contribution rates can be 10% lower
4. COLA reductions for retirees can end
5. Better able to withstand market downturns
6. GASB 68 reporting will be simplified- employers will no longer show deficits

# The Cost of Delayed Action

Funding Period (Years)	Interest Cost	Employer Rate Needed	Annual \$ Needed
47	\$30.3 billion	14.15%	\$0
35	\$18.4 billion	15.85%	\$66
30	\$14.4 billion	17.08%	\$111
25	\$11.1 billion	18.84%	\$171
20	\$8.2 billion	21.57%	\$259
15	\$5.7 billion	26.20%	\$403
10	\$3.6 billion	35.48%	\$681
5	\$1.8 billion	63.25%	\$1,500

# 2020 Legislative Proposal

Proposal based on NMERB Board Action on October 18, 2019:

On July 1, 2020, fifty million dollars (\$50,000,000) plus an amount equivalent to 1% of the annual salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of June 30, 2019 plus the salary increases to members and participants in fiscal year 2020 in the General Appropriation Act of 2019 shall be transferred from the general fund to the educational retirement fund.

On July 1, 2021, an amount equivalent to 2% of the annual salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of June 30, 2021 shall be transferred from the general fund to the educational retirement fund.

On July 1, 2022, fifty million dollars (\$50,000,000) plus an amount equivalent to 3% of the salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of June 30, 2022 shall be transferred from the general fund to the educational retirement fund.

On July 1, 2023 and subsequent years until the educational retirement fund reaches 100% funded status, an amount equivalent to 3% of the salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of the last day for the immediate prior fiscal year shall be transferred from the general fund to the educational retirement fund.



## Projected Fiscal Impact

Based on FY20's projected payroll of \$3,080 million, a 1% increase in the employer cost would be \$30,806,437 in FY21. If there are any employee salary raises, the employer contribution would increase by 1% of the salary increase.

If there are no additional increases in compensation, projected fiscal impacts are:

FY21 \$81 million (\$50 million + \$31 million)

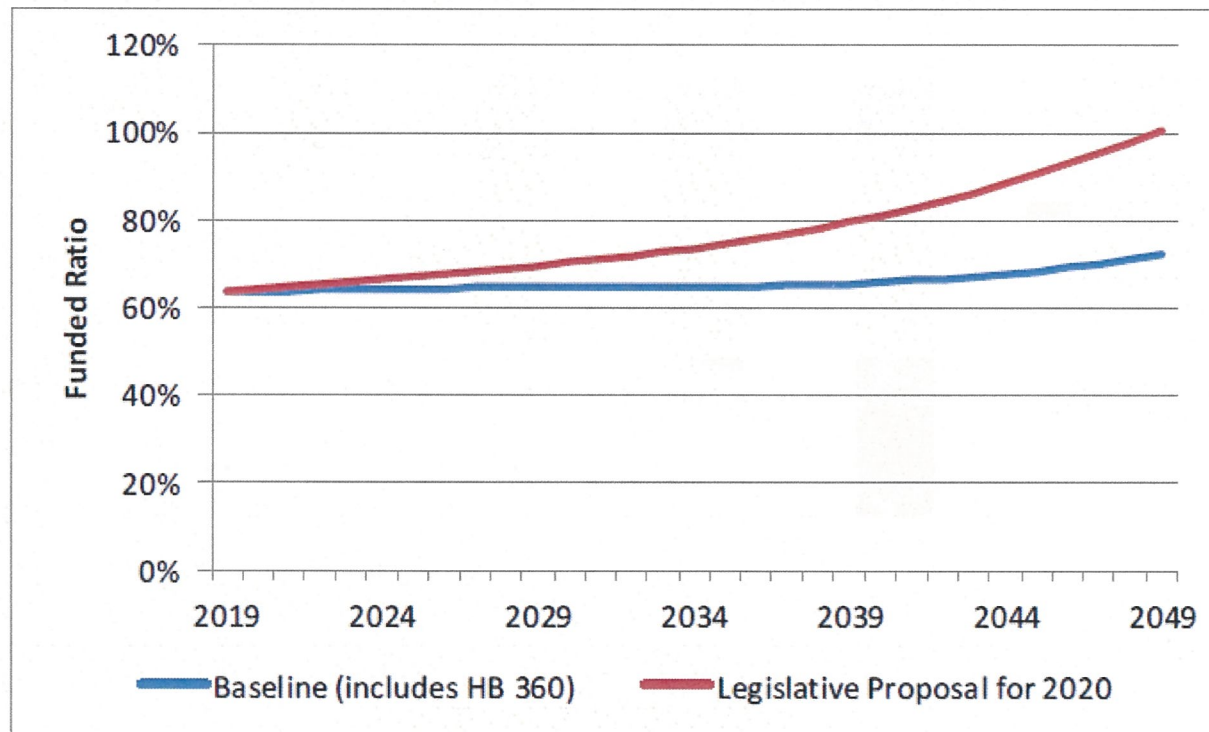
FY22 \$31 million

FY23 \$81 million (\$50 million + \$31 million)

FY24 and future years \$31 million

# Projected Actuarial Impact

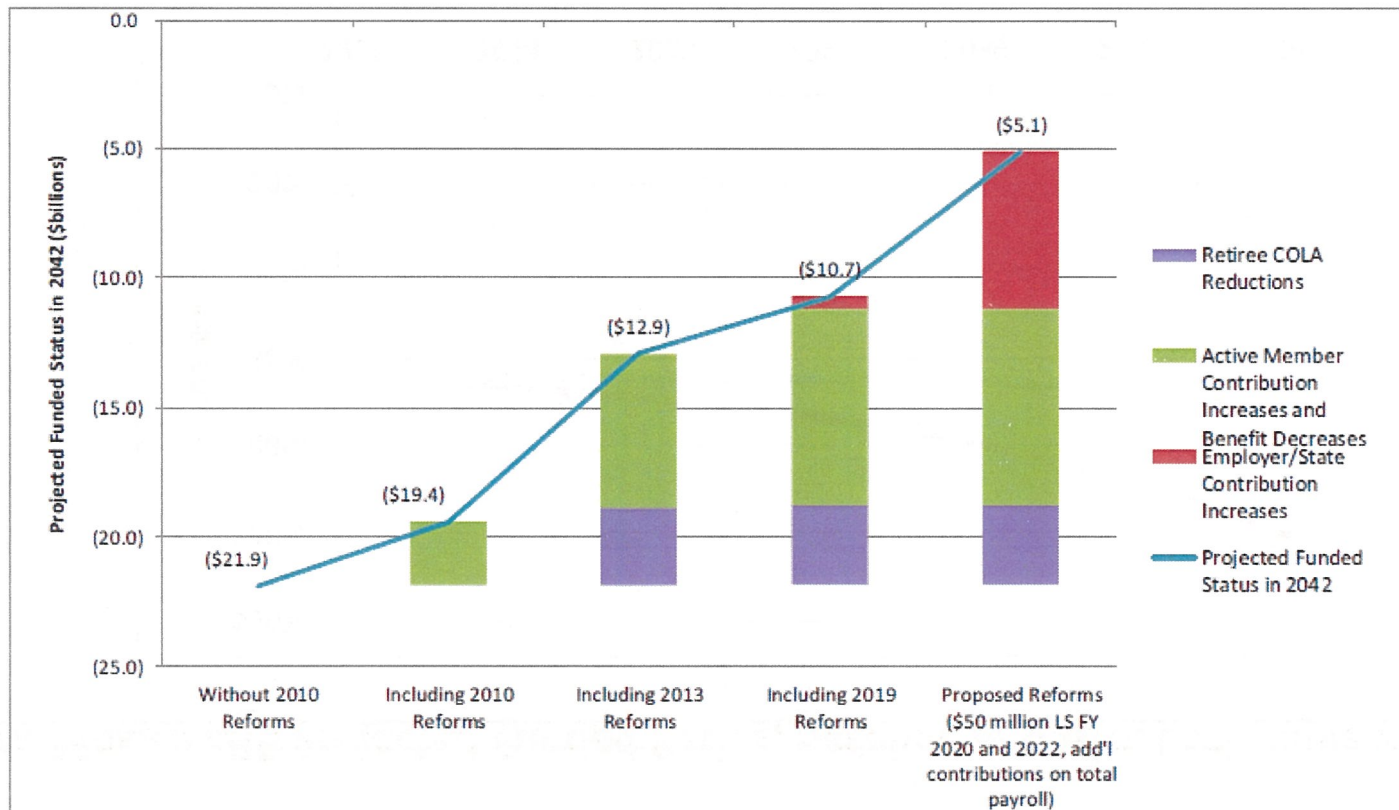
## New Mexico ERB Projected Funded Ratios, Baseline and with Legislative Proposal



The projected funded ratio labeled "Baseline (includes HB 360)" is based on the actuarial valuation as of June 30, 2019.

# Impact on Stakeholders

## New Mexico ERB Stakeholders Impacted by 2010, 2013 and 2019 Reforms, and Proposed 2020 Reforms



The projected funded status labeled "Without 2010 Reforms" illustrates what the projected funded status as of 2042 would have been if none of the 2010-2019 reforms had occurred.





Questions??????????????

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