Model Pension Practices and State Trends

New Mexico Investments and Pensions Oversight Committee
October 9, 2025

Corryn Hall, Senior Manager
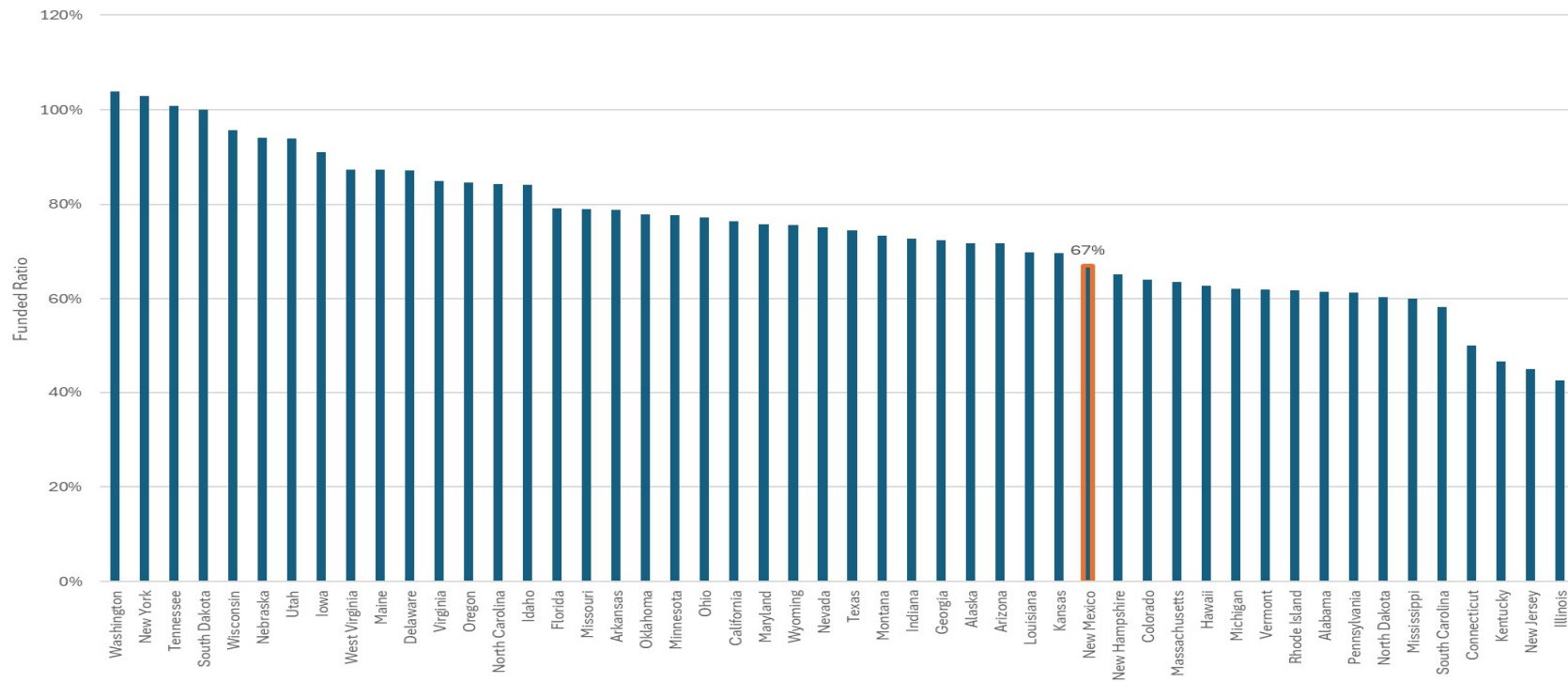State Fiscal Policy
The Pew Charitable Trusts

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Overview

- 50-state public pension overview

- How did Pew develop our model retirement system framework, and how does it apply to New Mexico

- Recent policy and process pension trends
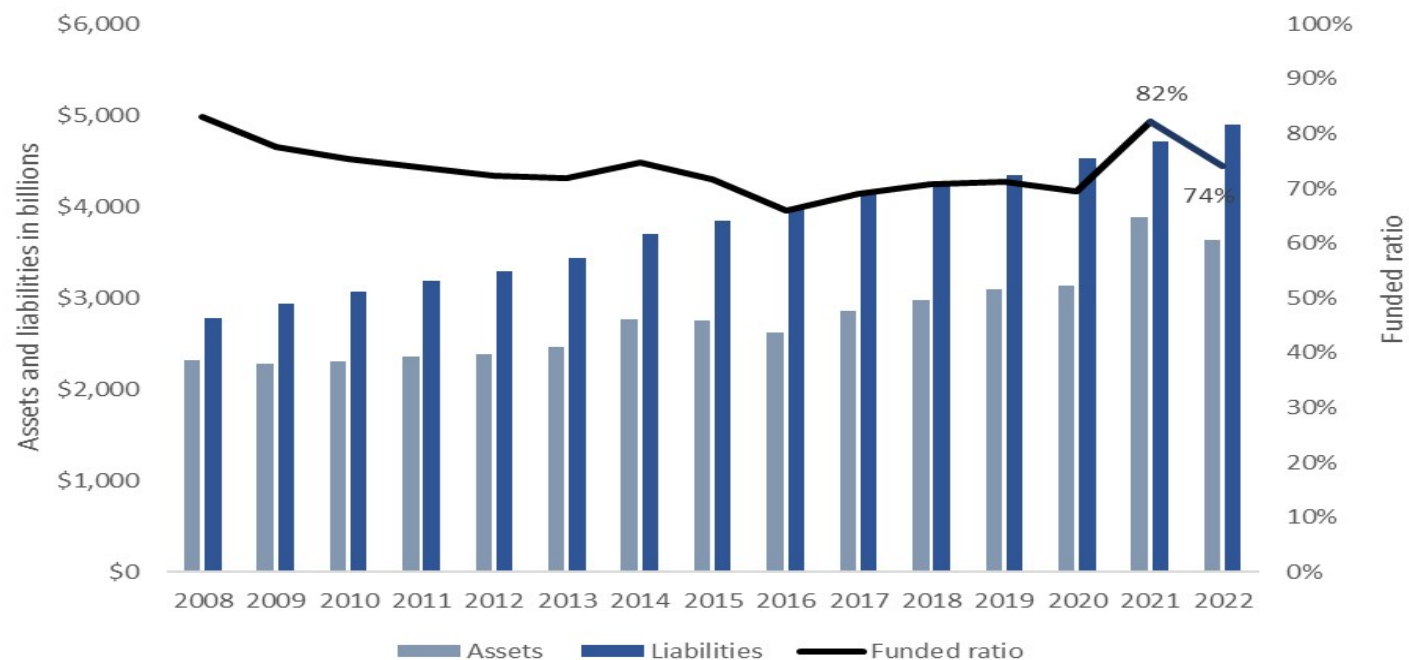
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New Mexico Remains Underfunded
Funded ratios for states' pension plans in 2022.

Funded Ratio

67%

Washington, New York, Tennessee, South Dakota, Wisconsin, Nebraska, Utah, Iowa, West Virginia, Maine, Delaware, Virginia, Oregon, North Carolina, Idaho, Florida, Missouri, Arkansas, Oklahoma, Minnesota, Ohio, California, Maryland, Wyoming, Nevada, Texas, Montana, Indiana, Georgia, Alaska, Arizona, Louisiana, Kansas, New Mexico, New Hampshire, Colorado, Massachusetts, Hawaii, Michigan, Vermont, Rhode Island, Alabama, Pennsylvania, North Dakota, Mississippi, South Carolina, Connecticut, Kentucky, New Jersey, Illinois

Source: State annual financial reports, pension plan financial reports, and plan actuarial valuations
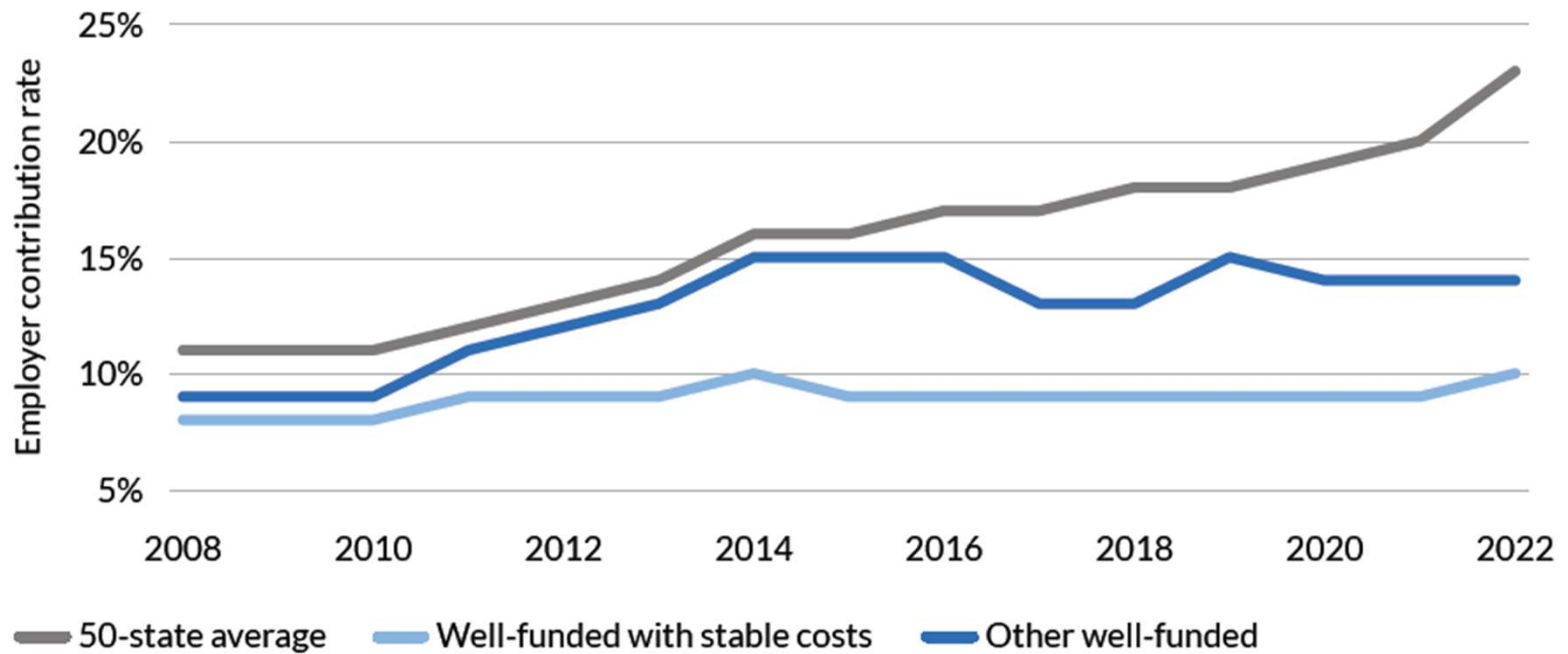
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Pension Plan Assets And Liabilities Over Time

Windfall investment returns pushed the funded ratio above 80% in 2021 but subsequent losses have erased those gains.

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# Examining Well-Funded States with Stable Contributions

Note: Well-funded states with stable costs are Idaho, Nebraska, South Dakota, Tennessee, and Wisconsin. Other well-funded states are Delaware, Iowa, New York, Utah, and Washington.
Source: State and pension plan financial reports and actuarial valuations

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Majority of States Meet Contribution Benchmarks

Net Amortization by State, 2018 to 2022
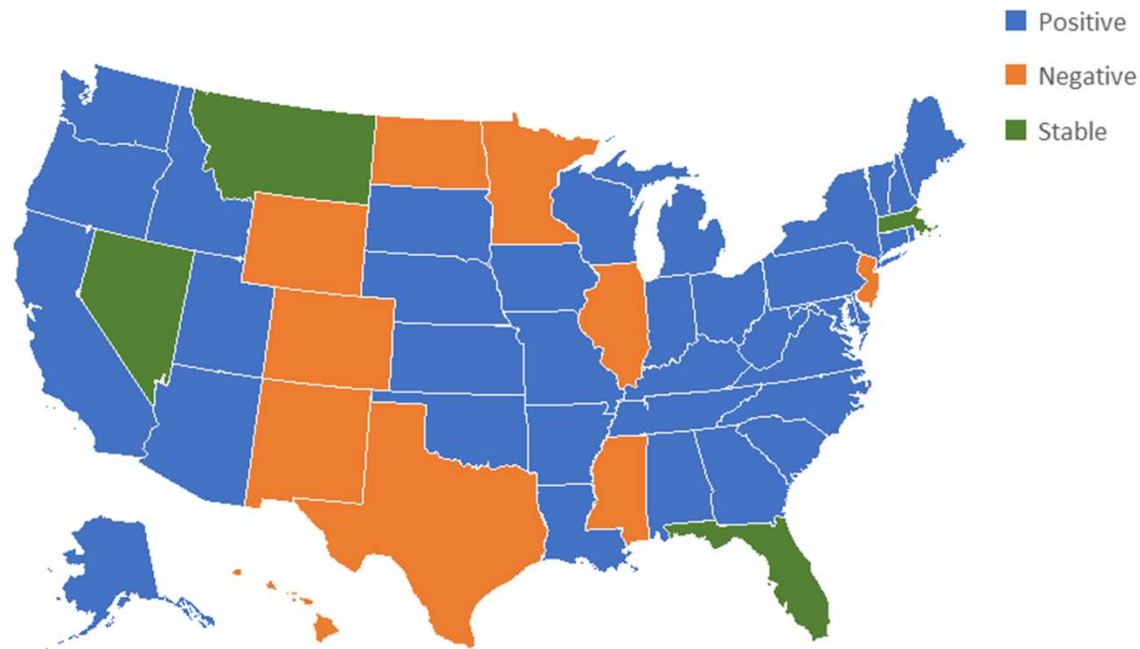
Legend:
- Positive (blue)
- Negative (orange)
- Stable (green)

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Lessons from Three States

Wisconsin Pension Official Details State's Approach to Weathering Market Volatility

Tennessee's Road to Public Pension Plan Success

South Dakota: Piecing Together Elements of Public Pension Plan Success

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Identifying Four Common Practices

Provide a Path to Retirement Security
They offer benefits that provide a path to retirement security across the workforce.

Maintain Fiscal Sustainability
They fund their pension obligations sustainably in a way that's predictable and affordable for government budgets.

Plan for Uncertainty
They employ risk assessment and management policies that provide a plan for economic and demographic uncertainty.

Ensure Investment Transparency
They ensure that benefit, funding, and investment policies, their implementation, and their performance are fully transparent to all stakeholders.

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Are States Achieving a Path to Retirement Security?

Savings Rate Fills Out Picture of Workers' Retirement Security

Only a handful of state public pension systems deliver recommended benefit levels for employees who leave

Many Public Workers Without Social Security Face Insufficient Retirement Benefits

How Do We Measure Retirement Security?

- **Replacement income ratio**—the share of workers' preretirement take-home pay replaced by retirement benefit—of at least 90%.

- **Savings rate**—the share of their annual salary that workers who leave a public job can take with them—of at least 10% for workers with Social Security coverage and at least 18% for those without.

Provide a Path to Retirement Security: New Mexico

They offer benefits that provide a path to retirement security across the workforce.

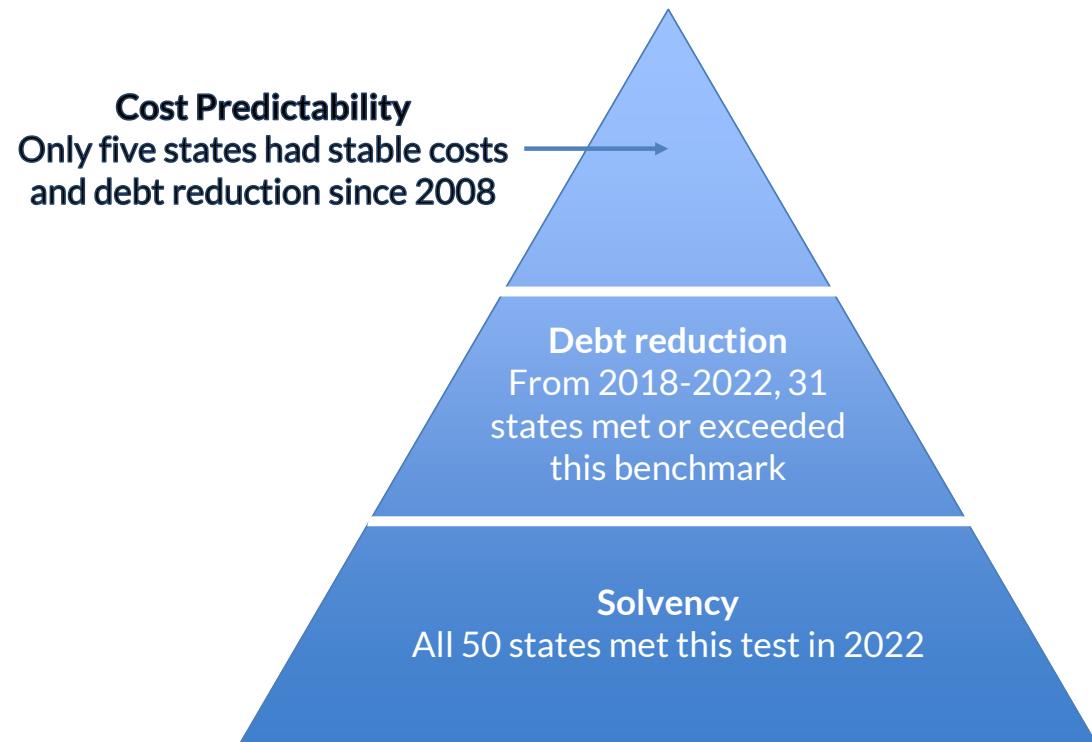| Measurements	New Mexico Roadmap
Replacement Income	PERA and ERB provide career workers with a replacement rate of over 100%.
Savings Rate	Under PERA and ERB, workers who leave early or mid-career can expect to save over 10% of their annual salary. This is due only to employee contributions and they do not receive any employer contributions made on their behalf at separation.

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Fund Pension Obligations Sustainably

How Do We Measure Fiscal Sustainability?

Pew assesses whether pension systems meet fund sustainability by evaluating plans' risk of **insolvency**, sufficiency of current contribution levels to **reduce pension debt**, and **predictability of costs** given various fiscal conditions, including whether investment returns fall short of expectations or whether other demographic or economic problems arise.

Cost Predictability
Only five states had stable costs and debt reduction since 2008

Debt reduction
From 2018-2022, 31 states met or exceeded this benchmark

Solvency
All 50 states met this test in 2022

15

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Fiscal Sustainability: New Mexico

They fund their pension obligations sustainably, so costs are predictable and affordable for government budgets.

Measurements	New Mexico Roadmap
Funded Ratio	New Mexico had a funded ratio of 66% in 2023, below the 50-state average of 74%. PERA had a funded ratio of 67% and ERB was 65% funded.
Net Amortization	No, New Mexico's net amortization was negative in 2023, meaning that if plan assumptions hold, the fund funding gap will grow. New Mexico's funding policy is statutorily fixed, meaning that the current policy will not raise contributions to needed levels.
Operation Cash Flow	New Mexico's operating cash flow ratio in 2023 was –3.1%, above the 50-state average of –1.8%. PERA had a cash flow ratio of -4% in 2023, while ERB had a cash flow ratio of –2.1%.
Historical Contribution	New Mexico has had stable contribution rates. The state had a historic contribution volatility rate of 4.6% between 2007 and 2023. If smoothing the volatility rate, PERA had a historic volatility rate of 8% and ERB had a rate of 4.2%.

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PERS's Risk Reporting Results

As the number of Tier 2 members grows, the PERA amortization period should improve over time.

2023 Valuation (after Experience Study):
Fully Funded in 61 years (year 2084)
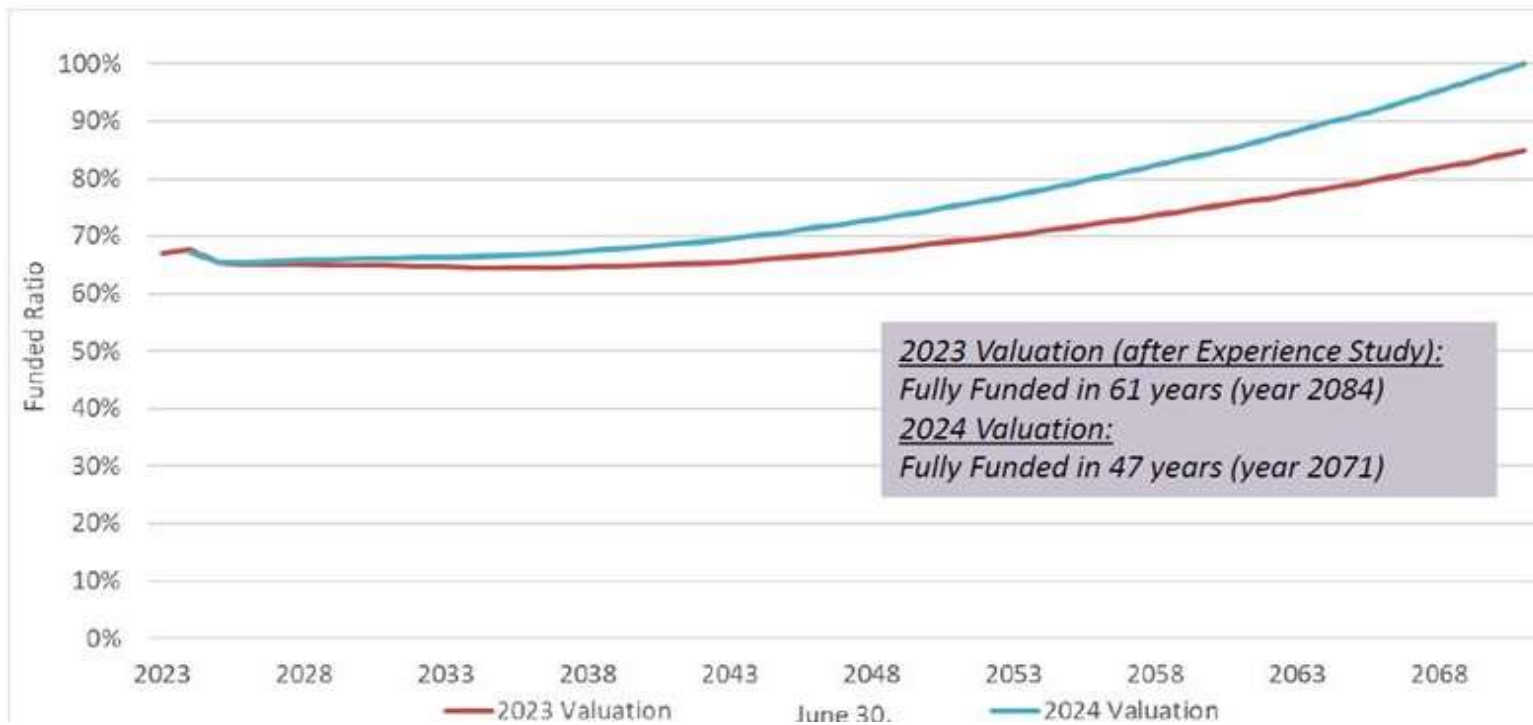2024 Valuation:
Fully Funded in 47 years (year 2071)

Exhibit from the GRS Valuation report, OCT 2024. 2025-COLA-and-Projections.pdf

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PERS's Risk Reporting Results

Stochastic Projection by Percentile Rank

Funded Ratio by Percentile Rank

33% chance that PERA is fully funded after 30 years (30% last year)

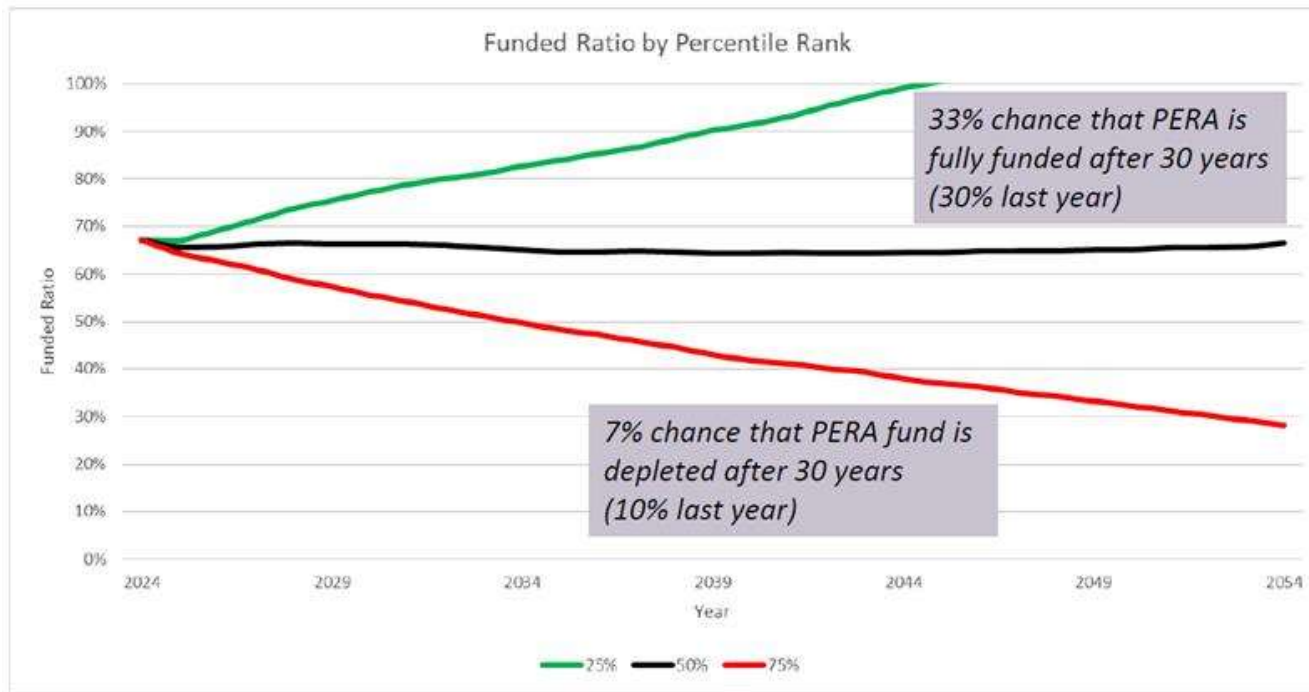7% chance that PERA fund is depleted after 30 years (10% last year)

Exhibit from the GRS Valuation report, OCT 2024. 2025-COLA-and-Projections.pdf

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Plan for Uncertainty

How Can States Plan for Uncertainty?

- **Adopt pension risk reporting practices** to assess impact of investment risk on plan balance sheets and government budgets.

- **Incorporate risk sharing features into plan design.** Retirement systems with low normal cost sensitivity include features that limit volatility of employer costs for future benefits.

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State Risk Reporting Practices

25 states conducted forward-looking assessments of investment risk as of 2023, compared to seven in 2012.
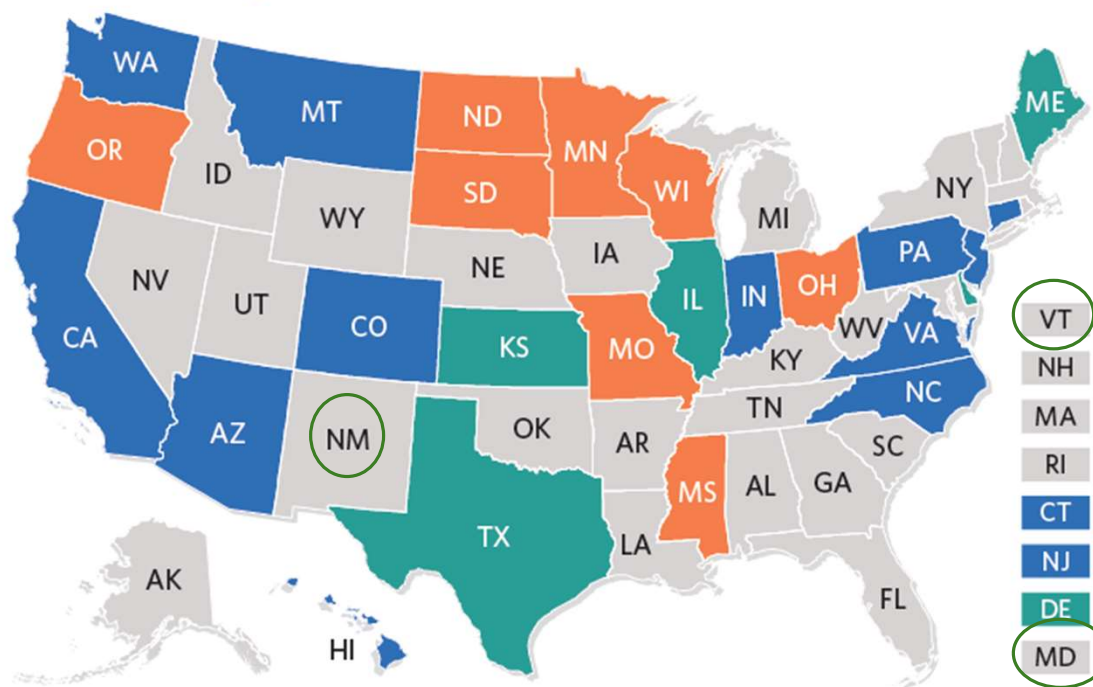
Statutory requirement | Formal policy | Included in actuarial valuation

Source: Pew analysis of actuarial and financial reports

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Key Elements of Effective Risk Reporting Policies

	Routine and transparent	Forward-looking	Policy-relevant
An effective risk reporting policy ...	Requires regular stress testing with results made publicly available.	Assesses the effects of low or volatile investment returns on plan funding levels and contributions.	Analyzes budgetary implications of potential plan costs.
Reports ...	Are targeted to plan fiduciaries and governmental sponsors among other stakeholders.	Provide a framework for tailoring analyses to reflect plan circumstances and relevant economic scenarios.	Include information vital to long-term decision-making.

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Establishing Risk Sharing Features

- Variable benefits, particularly adjustable COLAs, play a large role in mitigating risk in the plans we examined.

- Other common approaches include shared employee contributions, hybrid pension plan designs, and more predictable actuarial funding policies.

- Well-designed plans can balance risk-sharing with retirement security.

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Plan for Uncertainty: New Mexico

They adopt and follow risk assessment and management policies that provide a plan for economic and demographic uncertainty.

Measurements	New Mexico Roadmap
Risk Reporting	PERA publishes annual projections of COLA and funded status, alongside the annual valuation reports, that provide a forward-looking assessment of investment risk. Pew has not identified public-facing risk reporting from ERB in line with Pew's benchmark.
Risk Sharing Practices	Effective FY2024, PERA has a variable cost-of-living adjustment (COLA) determined by investment performance and system funding. Under ERB, COLAs are contingent on system funding and CPI, with retirees receiving a reduced COLA until the system is 100% funded.
Normal Cost Sensitivity	New Mexico had a mid-level normal cost sensitivity

Ensure Investment Transparency

How Do We Measure Transparency?

- **Fee disclosures that reflect the returns net of fees**—that is, adjusted to account for fees paid to investment managers.

- **Making investment policy statements publicly available online.** These should outline objectives, risk parameters, and asset allocations.

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Most State Public Pension Plans Report Total Returns Less Fees

Performance Disclosure Method by State, 2021

Gross of fees · Net of fees · Multiple
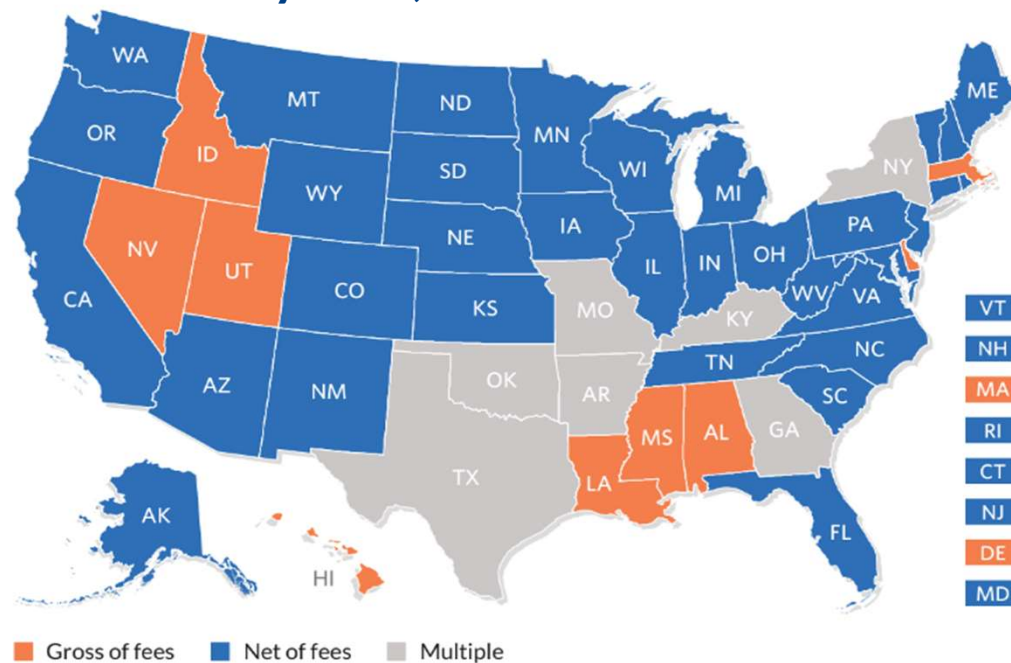
Note: "Multiple" means the state has two pension funds that reported performance differently.
Sources: Comprehensive annual financial reports, 2021; state treasury reports; quarterly investment reports; and plan responses to data inquires.

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Investment Transparency: New Mexico

Ensure that benefit, funding, and investment policies, their implementation, and their performance are fully transparent to all stakeholders.

Measurements	New Mexico Roadmap
Fee Disclosures	Yes, PERA and ERB report performance net of fees.
Investment Policy Statement	Yes, New Mexico pension plans publish and make their investment policy statements publicly available.

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Lessons Learned from Other States

Effective and sustainable pension policy has allowed successful states to offer retirement benefits that are well-funded and have affordable and stable costs.

A decade of reforms and increased contributions has stabilized the funding gap for state pension plans.

Investment risk remains a significant challenge, though states have looked to stress testing, plan design changes, and other policy adjustments to better measure and manage that risk.

Recent Trends and likely considerations into 2026

- Adopt pension risk reporting practices to assess the impact of investment risk on plan balance sheets and government budgets.

- Special reserve funds for pensions

- Layered amortization funding policy shift

- Pension policies through the lens of investment volatility

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For more information:
https://www.pew.org/en/projects/state-fiscal-policy/state-pensions

Corryn Hall
Chall@pewtrusts.org
(815) 871-3889

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