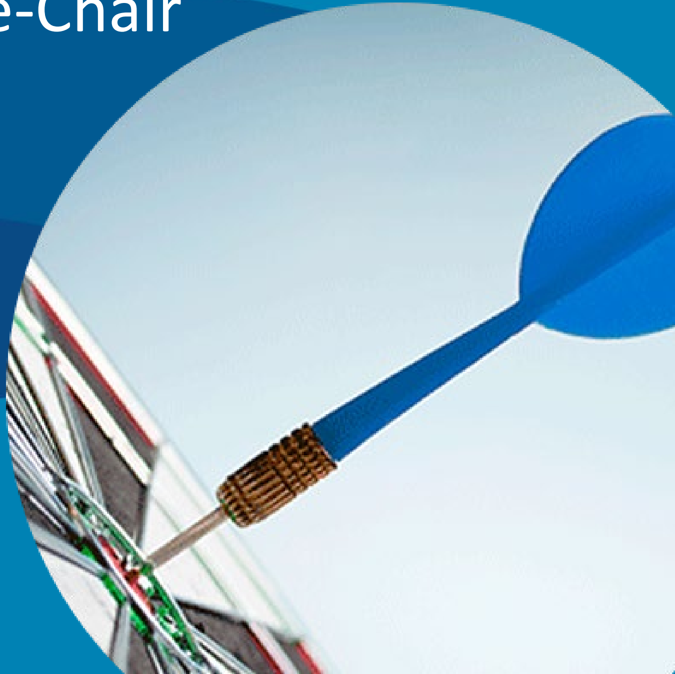
Investments and Pensions Oversight Committee (IPOC)

Representative Cynthia Borrego, Chair

Senator Roberto “Bobby” J. Gonzales, Vice-Chair

October 8, 2025



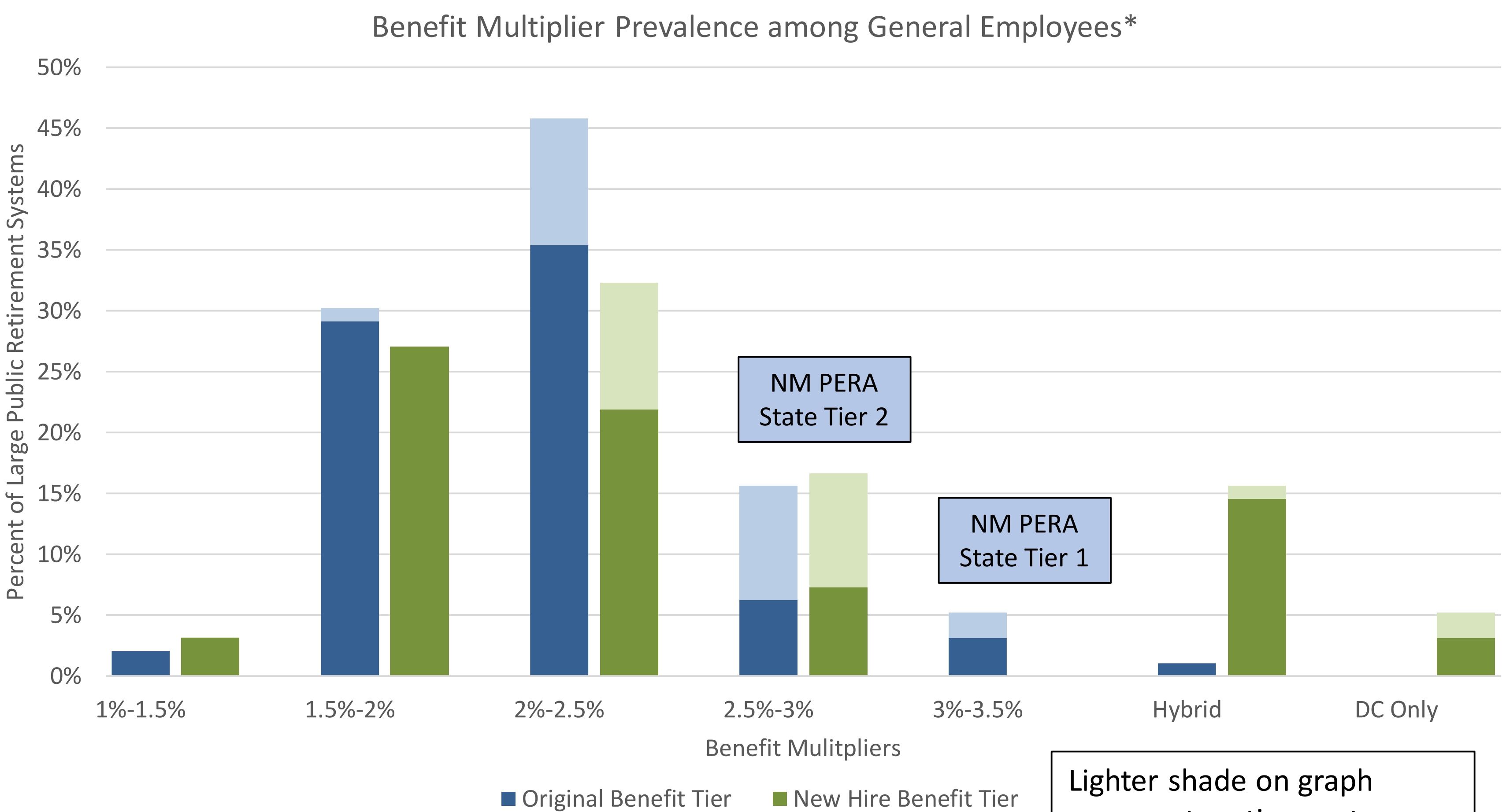
Review of Cost of Living Adjustments

Janie Shaw, ASA, EA, MAAA

Agenda

- Introduction to Cost of Living Adjustments
- Review of Current COLA provisions
- Alternate COLA Scenarios

Pension Benefit Adequacy: Benefit at Retirement

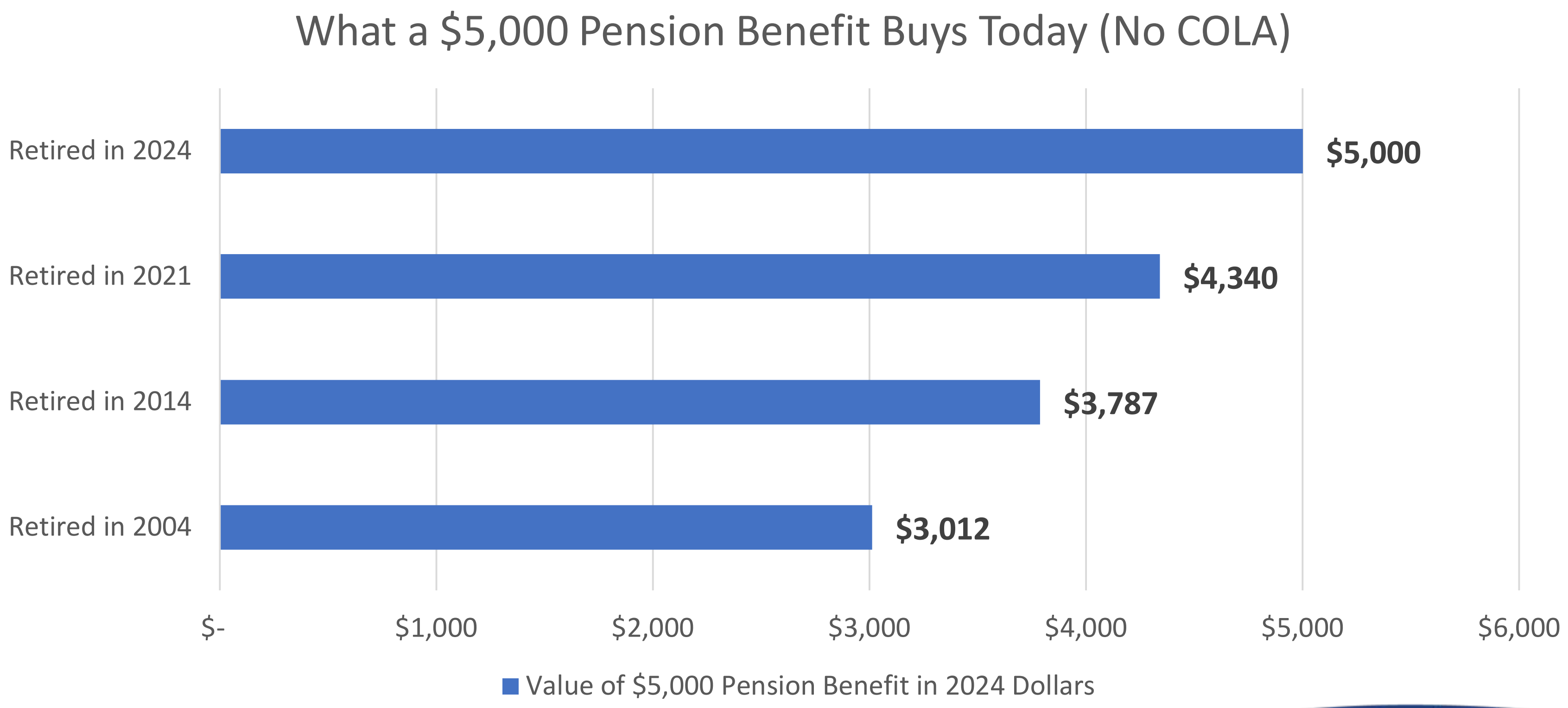


Lighter shade on graph represents retirement systems whose members do no pay into Social Security

* Excludes public safety retirement systems

Pension Benefit Adequacy: Benefit Post-Retirement

- Cost of Living Adjustments (COLAs) offset or reduce the effects of inflation on benefits after retirement



Types of Defined Benefit Plan COLAs

- Automatic COLA
  - Generally provides better inflation protection than Ad hoc
- Ad hoc COLAs
  - Payments are not automatic
  - Offers flexibility for plan sponsor
- Other Common Features
  - Simple or Compound
  - Immediate or deferred commencement
  - Caps or floors
  - Temporary or for life
  - Fixed or variable
- Most plans have provisions that limit the cost of COLAs

46% of Public Plans Surveyed offer Automatic Post Retirement COLA

21% of Public Plans Surveyed offer Ad hoc Post Retirement COLA

Source: 2024 NCPERS Public Retirement Systems Study

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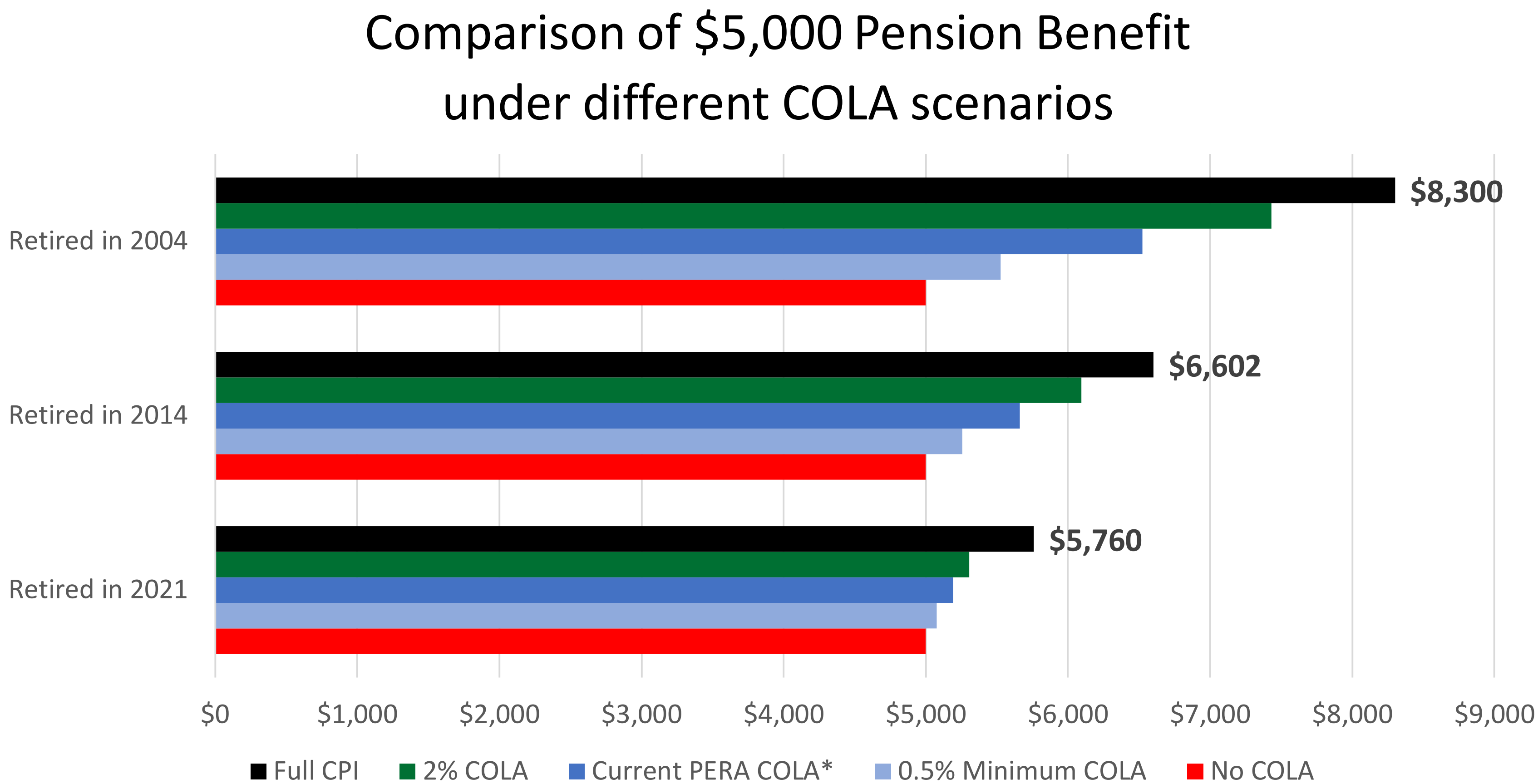
Restoration of Purchasing Power



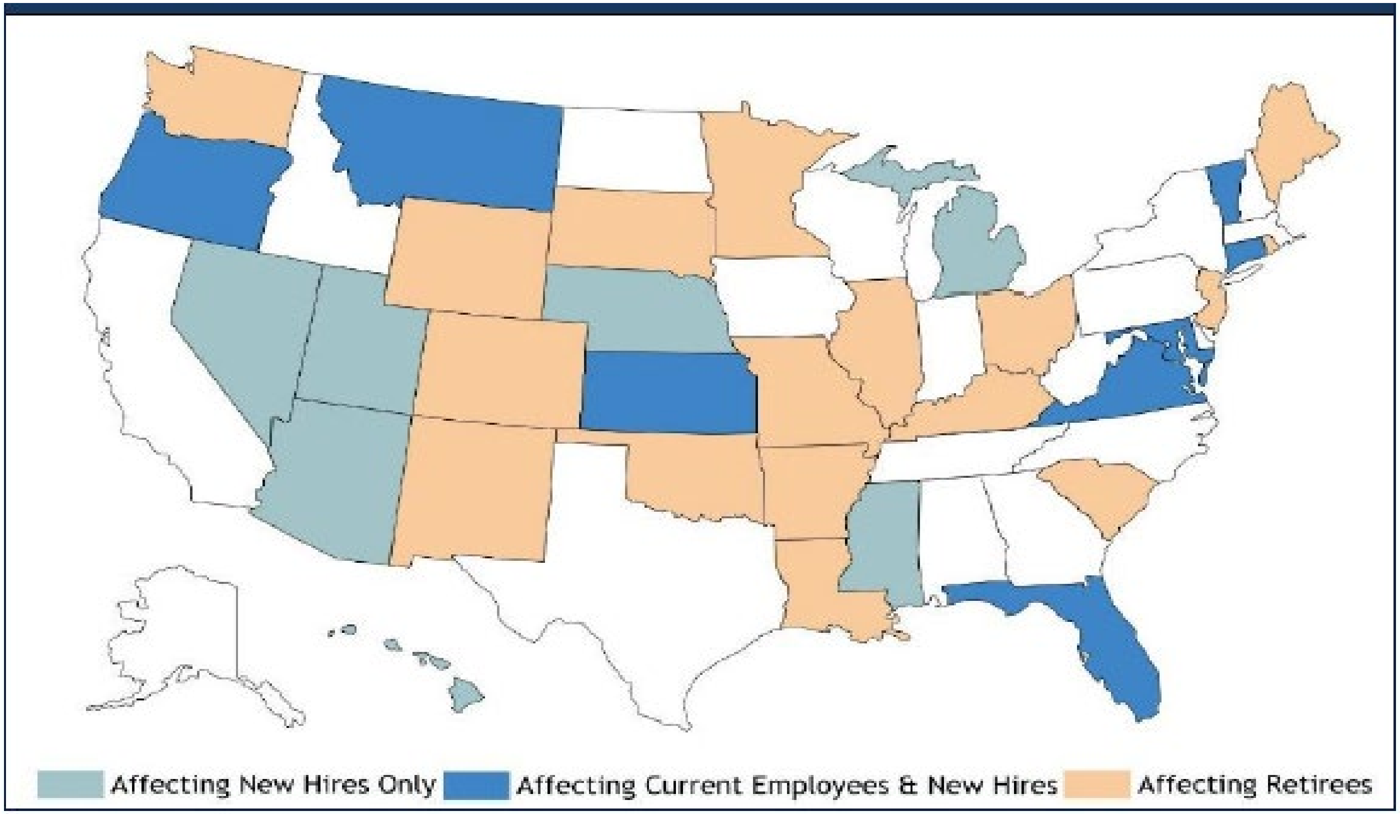
* Current PERA COLA assumes 1.25% annual increases for 15 years and 1.60% annual increases thereafter, based on the current actuarial valuation assumptions

Cost of Living Adjustments

- Inflationary pressures are real and are being felt by retirees
- Recent changes in COLAs across the country
  - Part of efforts to contain costs and to ensure the sustainability of public pension plans
  - There is no free lunch with COLAs
- Balance three key variables: benefit adequacy, plan sustainability, and affordability
  - NMPERA has a COLA in place that helps to address some of these issues

Cost of Living Adjustments

- Recent Changes in COLA Across the Country
  - From the most recent NASRA issue brief



NM PERA COLA Provisions

$$\left\{ \text{Return on AVA} - \text{COLA Hurdle Rate} \right\} \times \text{Funded Ratio} = \text{Initial COLA}$$

$$\left\{ 8.13\% - 7.19\% \right\} \times 67.2\% = 0.63\%$$

July 1, 2025 COLA

- COLA is calculated after each valuation
  - June 30, 2024 actuarial valuation calculated the July 1, 2025 COLA
- COLA Hurdle Rate: What is the minimum investment return needed in order to pay for a 0.50% annual COLA?

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NM PERA COLA Provisions

- Limits on COLA
  - Initial COLA cannot be less than 0.50%
  - Maximum COLA depends on funded ratio
    - If funded ratio < 100%, maximum COLA is 3.00%
    - If funded ratio > 100%, maximum COLA is 5.00%
- Certain grandfathered retirees receive an increase of 2.50%

What impacts the current COLA for retirees?

$$\left\{ \text{Return on AVA} - \text{COLA Hurdle Rate} \right\} \times \text{Funded Ratio} = \text{Initial COLA}$$

$$\left\{ 8.13\% - 7.19\% \right\} \times 67.2\% = 0.63\%$$

July 1, 2025 COLA

$$\left\{ 5.95\% - 7.13\% \right\} \times 67.7\% = 0.50\%$$

July 1, 2024 COLA

Actuarial Value of Asset Return Calculation

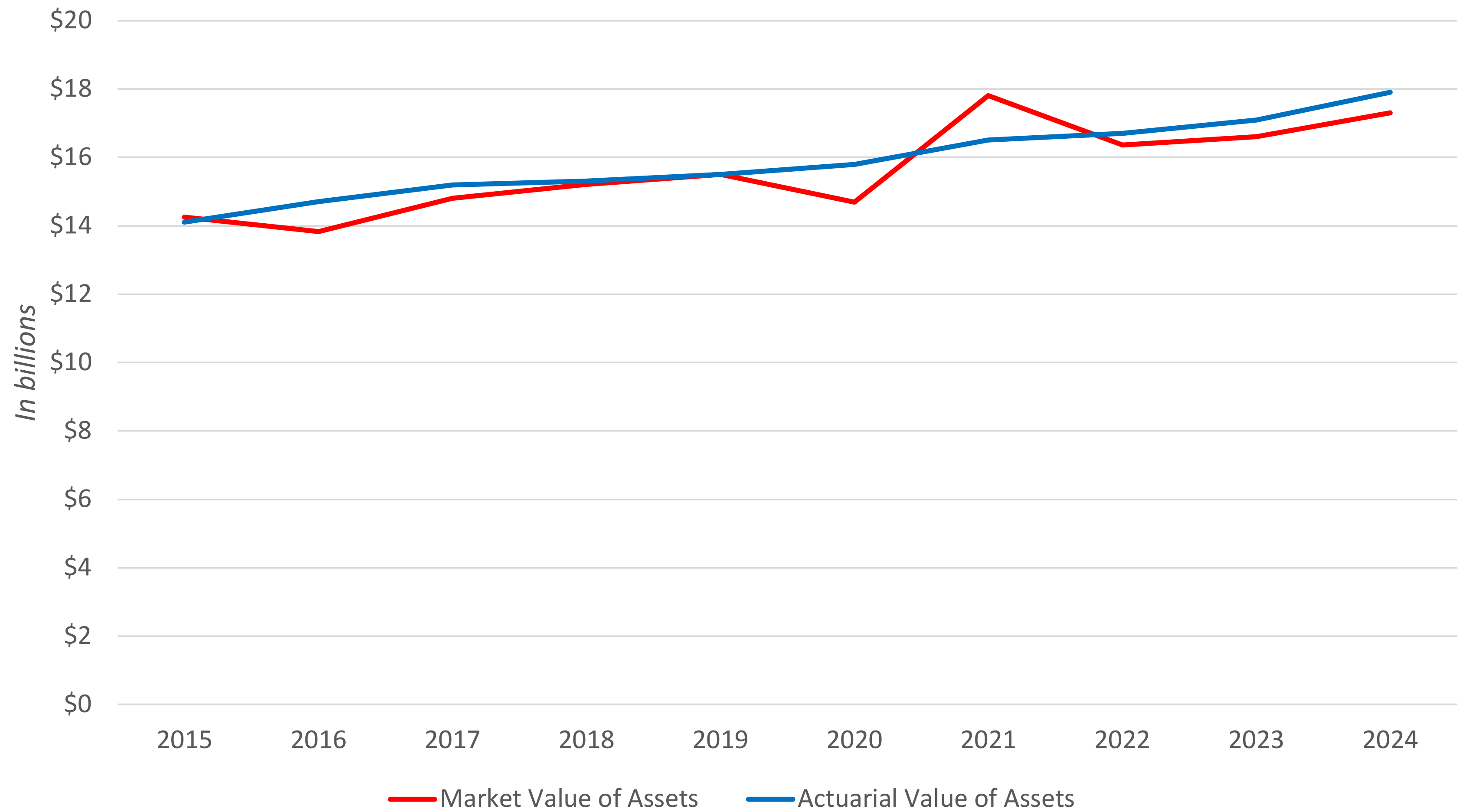
- Actuarial (Smoothed) Value of Assets recognizes investment gains/losses over a 4 year period
  - 25% of the prior 4 years' gains/losses are recognized each year
  - Reduces volatility in actuarial calculations

Fiscal Year Ending	Recognized (Gain)/Loss*	Investment Return
2020	$332	-1.5%
2021	$(670)	26.5%
2022	$478	-4.3%
2023	$73	5.6%
Actuarial Value of Asset Return for July 1, 2024 COLA		**5.95%**

Fiscal Year Ending	Recognized (Gain)/Loss*	Investment Return
2021	$(670)	26.5%
2022	$478	-4.3%
2023	$73	5.6%
2024	$(29)	8.2%
Actuarial Value of Asset Return for July 1, 2025 COLA		**8.13%**

* $millions

Actuarial Value of Assets vs Market Value of Assets



What impacts the current COLA for retirees?

COLA Formula

{ Return on AVA -- Hurdle Rate } X Funded Ratio = COLA*

* COLA subject to a 0.50% minimum and 3.0% maximum

	Return on AVA		Hurdle Rate		Funded Ratio		COLA*	What if the AVA Return was 8.25%?	What if the AVA Return was 6.25%?
June 30, 2024 Funded Ratio	{ 7.25%	--	7.19% }	X	67.2%	=	**0.50%**	0.71%	0.50%
What if the fund were 80% funded?	{ 7.25%	--	6.50% }	X	80.0%	=	**0.60%**	1.40%	0.50%
What if the fund were 90% funded?	{ 7.25%	--	6.00% }	X	90.0%	=	**1.13%**	2.03%	0.50%
What if the fund were 100% funded?	{ 7.25%	--	5.50% }	X	100.0%	=	**1.75%**	2.75%	0.75%

Alternate COLA Scenarios

How different COLA formulas affect:

- financial stability of the retirement system
- benefit adequacy for retirees

Current Actuarial Position of PERA
All PERA Divisions (other than Legislative)

	June 30, 2024 Actuarial Valuation
Unfunded Liability ($millions)	$8,714
Funded Ratio	67.2%
25-Year ADC	36.08%
Statutory Contribution Rate*	30.71%
Contribution Deficiency	5.37%
Amortization Period	52 years

* Statutory contribution rate expected to increase to 31.25% by FYE 2026.

Liabilities – Assets
[$26,574 - $17,860 = $8,714 million]

Assets / Liabilities
[$17,860 / $26,574 = 67.2%]

Additional contributions needed in order to eliminate the unfunded liability in 25 years
[36.08% - 30.71% = 5.37%]

Number of years until the unfunded liability is expected to be eliminated under the current statutory contribution rates

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Current Actuarial Position of PERA
Cost of the Current PERA COLA

- 11.6%, or $3.1 billion, of PERA's liability is due to the COLA
- Without future COLAs, PERA would be expected to be 100% funded in 17 years

	June 30, 2024 Actuarial Valuation	June 30, 2024 Valuation, No Future COLAs
Unfunded Liability ($millions)	$8,714	$5,630
Impact		*($3,084)*
Funded Ratio	67.2%	76.0%
25-Year ADC	36.08%	27.74%
Impact		*-8.34%*
Statutory Contribution Rate*	30.71%	30.71%
Contribution Deficiency/(Excess)	5.37%	-2.97%
Amortization Period	52 years	17 years

* Statutory contribution rate expected to increase to 31.25% by FYE 2026.

13th Check: 2% of Current Pension Check

- Additional payment to all retirees equal to 2% of their current pension check
  - Would be paid in addition to current COLA
- Cost: $70 million for two years of payment (one payment each year)

2% Guaranteed COLA: What if the COLA was increased for certain retirees?

- Guarantee 2% COLA for
  - All current and future retirees
  - Current retirees over age 65
  - Current retirees over age 75
- Current profit sharing COLA would apply when member is not eligible for the 2% COLA
- No impact to members currently eligible for grandfathered 2.5% COLA

2% Guaranteed COLA: What if the COLA was increased for certain retirees?

	Current COLA (June 30, 2024 Valuation)	Guaranteed 2% COLA		
		Current and Future Retirees	Current Retirees Over Age 65	Current Retirees Over Age 75
Unfunded Liability ($millions)	$8,714	$10,143	$9,473	$9,071
Impact		*$1,429*	*$759*	*$357*
Funded Ratio	67.2%	63.8%	65.3%	66.3%
25-Year ADC	36.08%	39.47%	37.61%	36.80%
Impact		*3.39%*	*1.53%*	*0.72%*
Statutory Contribution Rate*	30.71%	30.71%	30.71%	30.71%
Contribution Deficiency	5.37%	8.76%	6.90%	6.09%
Amortization Period	52 years	N/A**	77 years	61 years

* Statutory contribution rate expected to increase to 31.25% by FYE 2026.
** Currently scheduled contributions are not expected to accumulate sufficient assets in order to pay all of the currently scheduled benefits.

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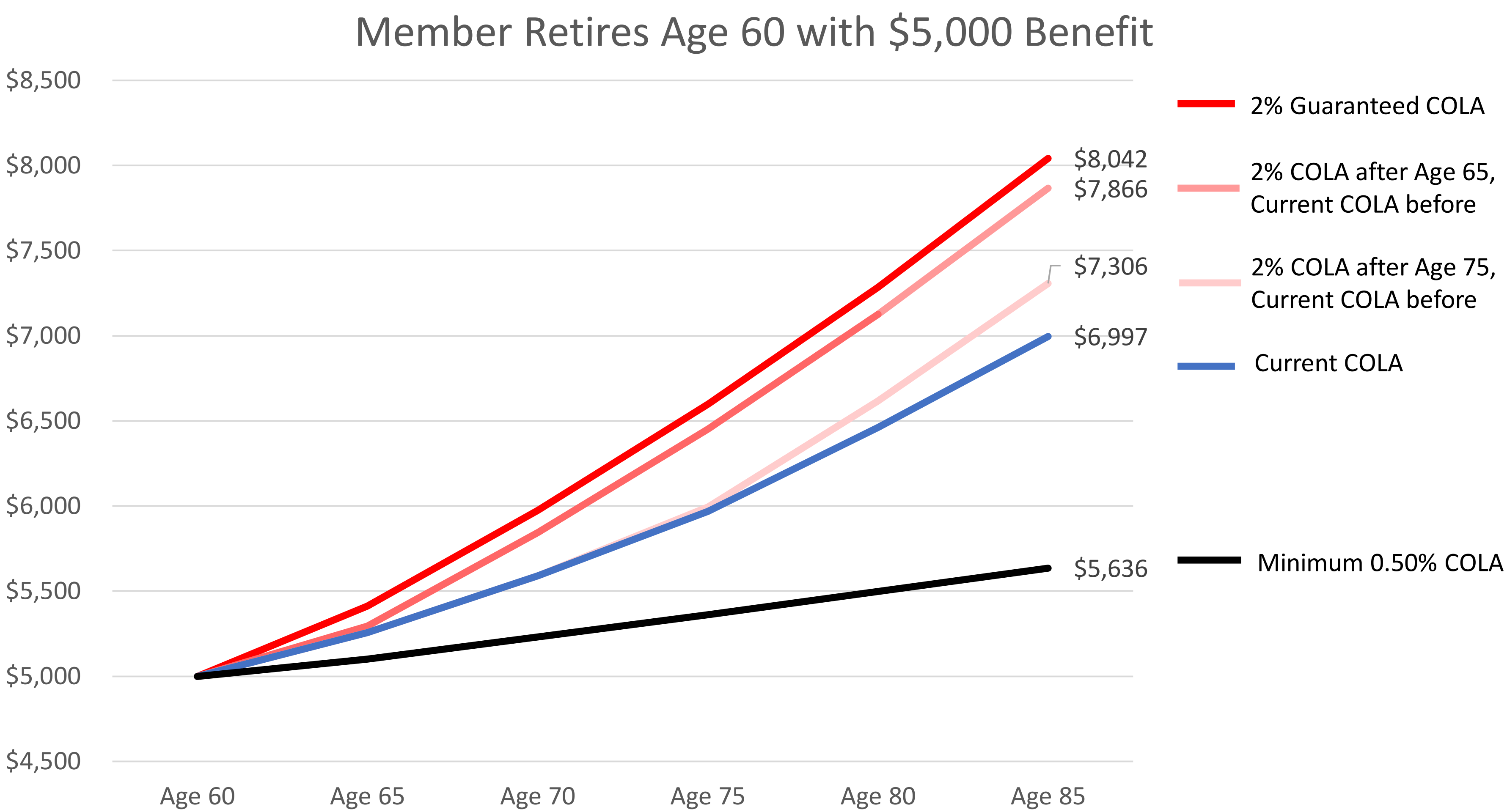
2% Guaranteed COLA: What if the COLA was increased for certain retirees?



2% Guaranteed COLA: What if the COLA was eliminated for some retirees?

- No COLA payable prior to age 65
  - Future retirees only
  - Current and future retirees
  - 2% Guaranteed COLA after age 65
- No impact to members currently eligible for grandfathered 2.5% COLA

2% Guaranteed COLA: What if the COLA was eliminated for some retirees?

	Current COLA (June 30, 2024 Valuation)	Current COLA + No COLA Paid Prior to Age 65 (Future Rets Only)	Current COLA + No COLA Paid Prior to Age 65	2% COLA + No COLA Paid Prior to Age 65
Unfunded Liability ($millions)	$8,714	$8,275	$7,809	$8,733
Impact		*($439)*	*($905)*	*$19*
Funded Ratio	67.2%	68.3%	69.6%	67.2%
25-Year ADC	36.08%	34.49%	33.55%	35.70%
Impact		*-1.59%*	*-2.53%*	*-0.38%*
Statutory Contribution Rate*	30.71%	30.71%	30.71%	30.71%
Contribution Deficiency	5.37%	3.78%	2.84%	4.99%
Amortization Period	52 years	39 years	34 years	48 years

* Statutory contribution rate expected to increase to 31.25% by FYE 2026.

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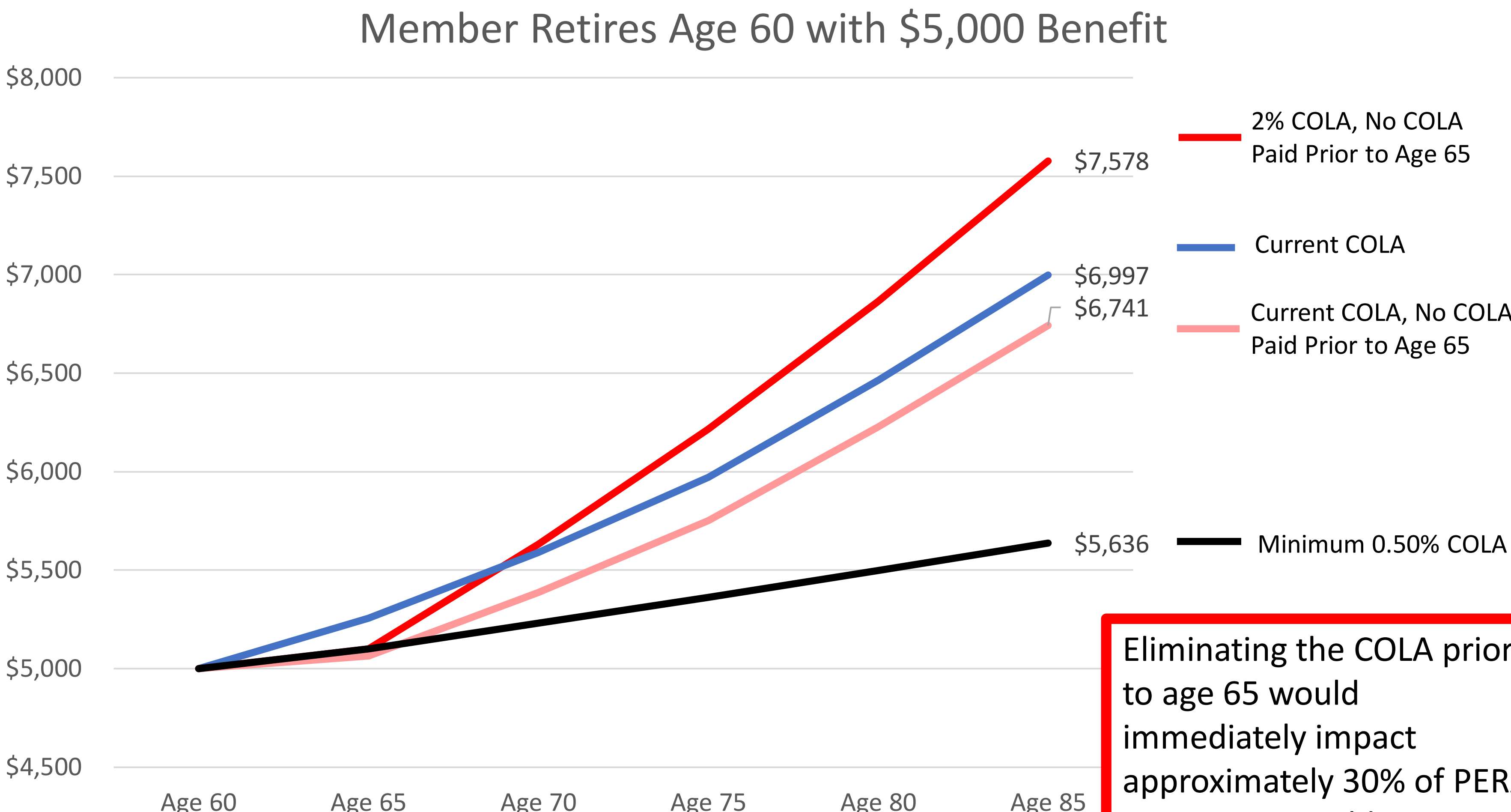
2% Guaranteed COLA: What if the COLA was eliminated for some retirees?



Eliminating the COLA prior to age 65 would immediately impact approximately 30% of PERA retirees. It would, on average, delay a retiree's COLA by 7 years.

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2% Guaranteed COLA: What if the COLA had the same restrictions as the Judicial Fund?

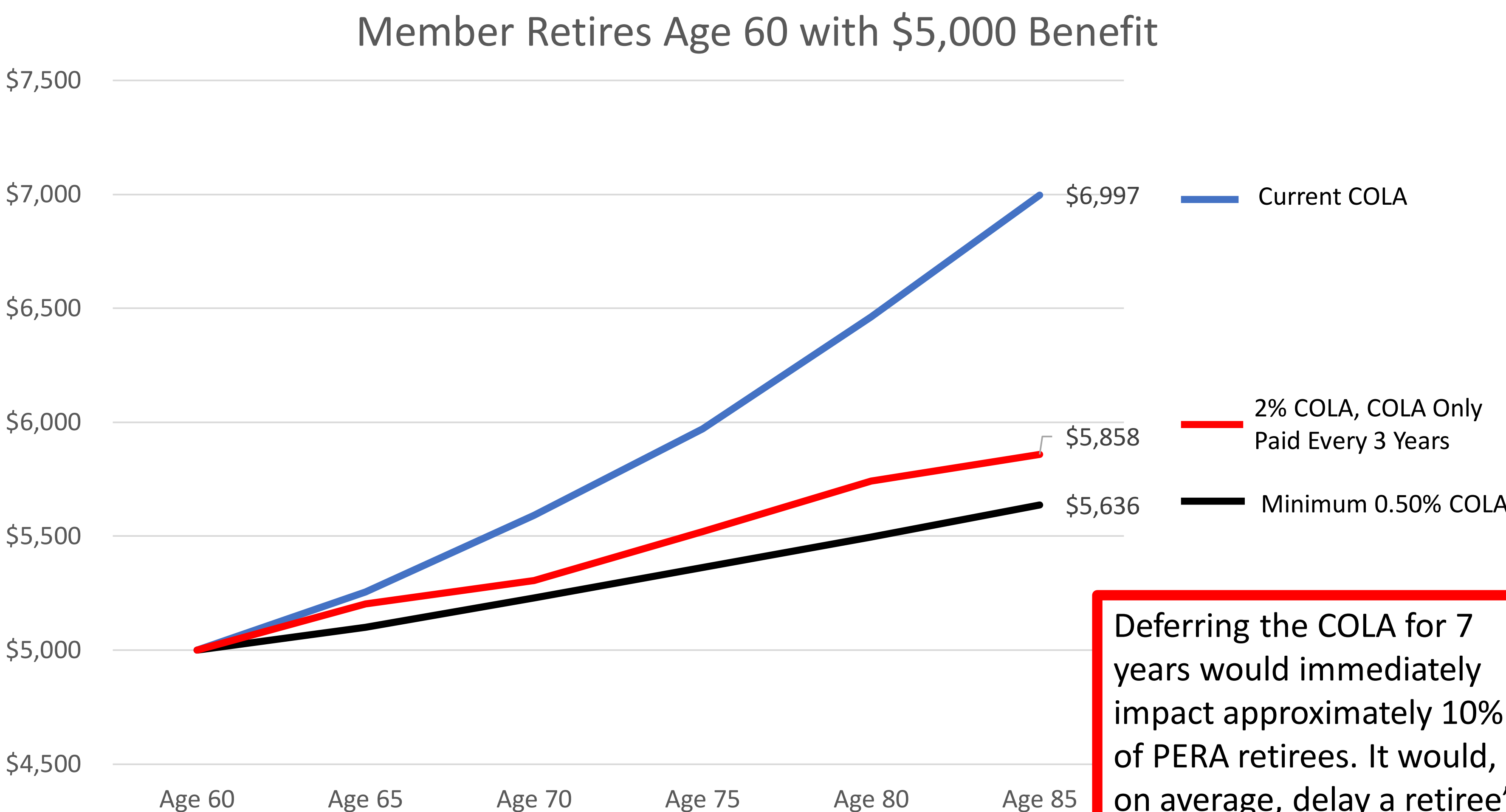
- COLA is payable after retirement has been in effect for at least 7 full calendar years (if under age 65)
  - Future Retirees Only
  - Current and Future Retirees
  - Guarantee 2% COLA but COLA would only be paid every three years
- No impact to members currently eligible for grandfathered 2.5% COLA

2% Guaranteed COLA: What if the COLA had the same restrictions as the Judicial Fund?

	Current COLA (June 30, 2024 Valuation)	Current COLA + 7-Year Deferral (Future Retirees Only)	Current COLA + 7-Year Deferral	2% COLA, Paid Every 3 Years, 7-Year Deferral
Unfunded Liability ($millions)	$8,714	$8,457	$8,336	$6,940
Impact		*($257)*	*($378)*	*($1,774)*
Funded Ratio	67.2%	67.9%	68.2%	72.0%
25-Year ADC	36.08%	35.18%	34.93%	31.09%
Impact		*-0.90%*	*-1.15%*	*-4.99%*
Statutory Contribution Rate*	30.71%	30.71%	30.71%	30.71%
Contribution Deficiency	5.37%	4.47%	4.22%	0.38%
Amortization Period	52 years	44 years	42 years	25 years

* Statutory contribution rate expected to increase to 31.25% by FYE 2026.

2% Guaranteed COLA: What if the COLA had the same restrictions as the Judicial Fund?



Deferring the COLA for 7 years would immediately impact approximately 10% of PERA retirees. It would, on average, delay a retiree's COLA by 3 years.

What other COLA modifications could be made? -Expand current 2.5% grandfathered COLA

- Current Grandfathered retirees receive a 2.5% COLA
  - Retirees who attained at least age 75 prior to July 1, 2020
  - Retirees who retired with at least 25 years of service (and all disabled retirees) whose annual pension is $25,000, or less
- Alternate Scenario 1: All members would be eligible for a permanent 2.5% COLA once they attained age 75
- Alternate Scenario 2: Retirees with at least 25 years of service (and all disabled retirees) would be eligible for a 2.5% COLA for as long as their benefit is less than $40,000

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What other COLA modifications could be made?
-Expand current 2.5% grandfathered COLA

	Current COLA (June 30, 2024 Valuation)	Expand 2.5% Grandfathered COLA	
		All Retirees Grow Into Age 75 Provision	Update $25,000 Threshold to $40,000
Unfunded Liability ($millions)	$8,714	$9,467	$8,951
Impact		*$753*	*$237*
Funded Ratio	67.2%	65.4%	66.6%
25-Year ADC	36.08%	37.69%	36.57%
Impact		*1.61%*	*0.49%*
Statutory Contribution Rate*	30.71%	30.71%	30.71%
Contribution Deficiency	5.37%	6.98%	5.86%
Amortization Period	52 years	80 years	58 years

* Statutory contribution rate expected to increase to 31.25% by FYE 2026.

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What other COLA modifications could be made? -Non-compounding COLA

- Compound COLA
  - Year 1 = $5,000 x 1.02 = $5,100
  - Year 2 = $5,100 x 1.02 = $5,202
  - Year 3 = $5,202 x 1.02 = $5,306
- Non-compound COLA (Simple COLA)
  - Year 1 = $5,000 + ($5,000 x 0.02) = $5,100
  - Year 2 = $5,100 + ($5,000 x 0.02) = $5,200
  - Year 3 = $5,200 + ($5,000 x 0.02) = $5,300

What other COLA modifications could be made?
-Non-compounding COLA

	Current COLA (June 30, 2024 Valuation)	Guaranteed 2% COLA - Current and Future Retirees	
		Compounding COLA	Non-Compounding COLA
Unfunded Liability ($millions)	$8,714	$10,143	$9,911
Impact		*$1,429*	*$1,197*
Funded Ratio	67.2%	63.8%	64.3%
25-Year ADC	36.08%	39.47%	38.63%
Impact		*3.39%*	*2.55%*
Statutory Contribution Rate*	30.71%	30.71%	30.71%
Contribution Deficiency	5.37%	8.76%	7.92%
Amortization Period	52 years	N/A**	N/A**

* Statutory contribution rate expected to increase to 31.25% by FYE 2026.
** Currently scheduled contributions are not expected to accumulate sufficient assets in order to pay all of the currently scheduled benefits.

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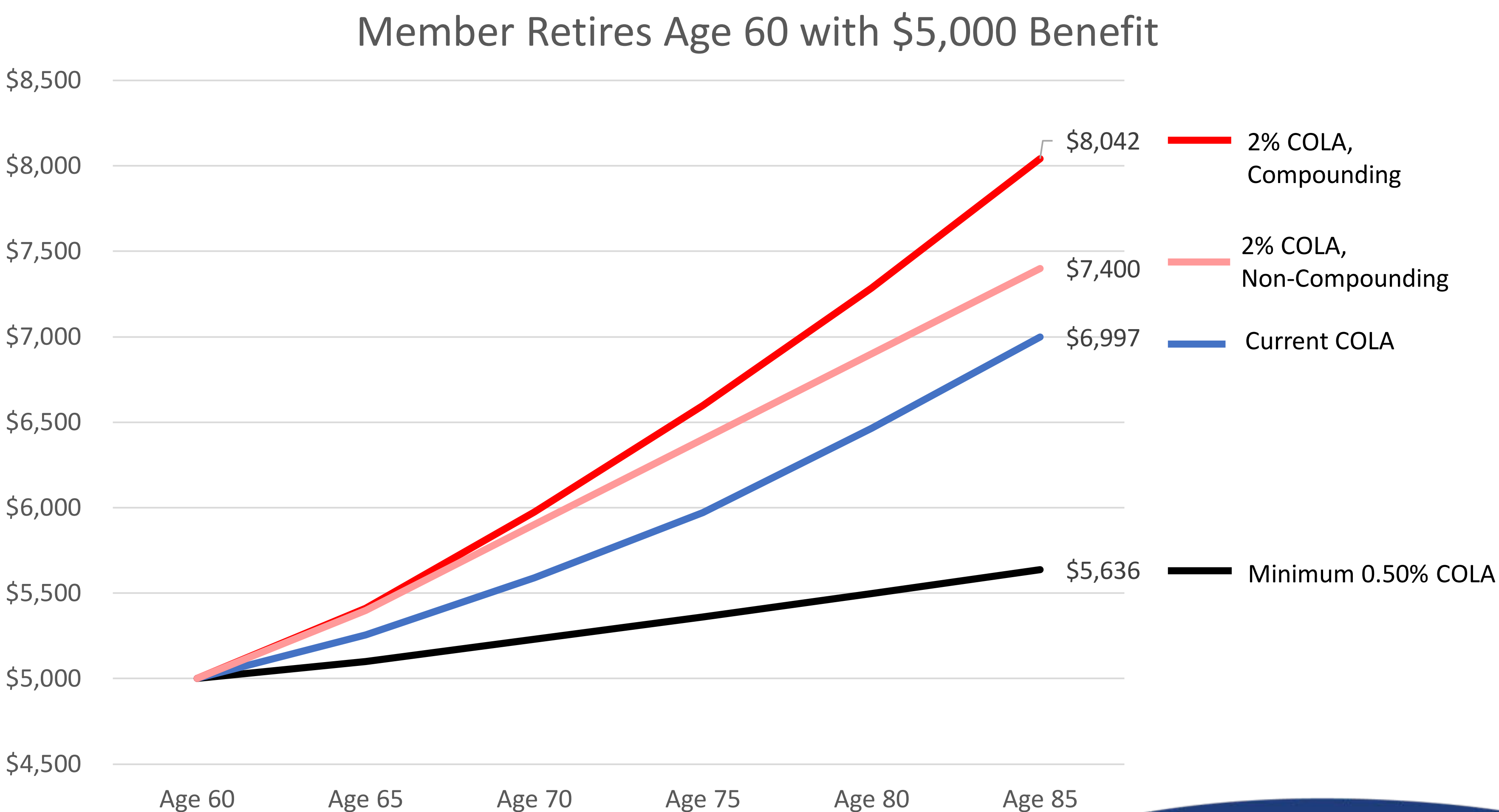
What other COLA modifications could be made?
-Non-compounding COLA



Summary

- Current PERA benefits are competitive against other similar retirement systems
- COLAs are an expensive benefit feature
  - But also important to retirees due to recent inflationary pressures
- SB 72 implemented the current PERA profit sharing COLA
  - Reduced future COLAs, increased future contributions, among other changes to the retirement system
  - Significantly improved the retirement system’s financial sustainability and outlook
  - Shared risk among employers, active members, and retirees
  - Additional changes will be necessary to improve the funding of PERA
- Any future improvements in the COLA need to include adequate funding for the System

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Actuarial Assumptions and Disclosures

- Unless noted otherwise, this analysis is based on the same benefit provisions and data as the June 30, 2024 actuarial valuation of PERA
- For illustrative purposes in this analysis, current COLA is assumed to be 1.25% per year for the next 15 years, 1.60% per year for the next 15 years, and 2.00% per year thereafter
- Unless explicitly stated, analysis assumes no impact to member receiving the grandfathered 2.5% COLA

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QUESTIONS