

A JOINT MEMORIAL

REQUESTING A MORATORIUM ON BENEFIT ENHANCEMENT LEGISLATION
AFFECTING THE PUBLIC EMPLOYEES AND EDUCATORS RETIREMENT
SYSTEMS AND REQUESTING THAT ALL LEGISLATIVE PROPOSALS
PERTAINING TO BENEFIT ENHANCEMENTS OF THESE RETIREMENT SYSTEMS
BE TABLED.

WHEREAS, Article 20, Section 22 of the constitution of New Mexico states that the legislature shall not enact any law that increases the benefits paid by a public employees retirement system or an educational retirement system in any manner or changes the funding formula for a retirement plan unless adequate funding is provided to cover the cost of the new benefits; and

WHEREAS, the actuarial soundness of these retirement systems is absolutely necessary in order to maintain retirement benefits for public employees and educators; and

WHEREAS, Article 20, Section 22 of the constitution of New Mexico vests the retirement board of the public employees retirement system and the board of the educational retirement system, as trustees, with a fiduciary duty and responsibility for the administration of their respective retirement system trust funds; and

WHEREAS, Article 20, Section 22 of the constitution of New Mexico requires that these retirement systems hold all

assets in trust for the sole and exclusive benefit of the retirement systems' members, beneficiaries and retirees; and

WHEREAS, there has been a proliferation of legislative proposals introduced in recent years pertaining to benefit enhancements for different groups covered by the public employees retirement system; and

WHEREAS, these benefit enhancements are too recent to have their costs accurately measured and therefore create uncertainty in the true level of the funded status of the public employees retirement system trust funds; and

WHEREAS, many of these proposals conflict and may adversely affect other groups covered by the public employees retirement system, and passage of multiple benefit enhancement proposals in any legislative session may cumulatively have a negative actuarial impact on and cost to this retirement system; and

WHEREAS, beginning in fiscal year 2004, when the earnings limitation was eliminated for public employees retirement system retirees who return to work with affiliated public employers while continuing to receive pensions, retirements have increased by nineteen percent; and

WHEREAS, over six percent of all public employees retirement system retirees currently are working for affiliated public employers; and

WHEREAS, a two-year moratorium on retirement system

benefit enhancements will coincide with the December 31, 2006 sunset of the Public Employees Retirement Act's provision requiring contributions by retired members working for affiliated public employers, thus allowing for two full years of experience to determine the full actuarial cost of the act's return-to-work provisions; and

WHEREAS, actuaries state that if the return-to-work provisions trigger earlier retirements, there will be a cost to the public employees retirement system trust fund since, under current actuarial assumptions, actual contributions made on behalf of members during their careers will not cover the normal cost of their retirement due to shorter contribution funding periods and longer retirement payout periods; and

WHEREAS, current investment market conditions continue to challenge the public employees retirement system's actuarially assumed investment return of eight percent used for purposes of its actuarial valuations; and

WHEREAS, using a four-year asset-smoothing methodology for its actuarial valuations, the public employees retirement system's actuarial valuations for fiscal years 2004, 2005 and 2006 still need to recognize investment losses totaling eight hundred ninety-one million nine hundred fifty-eight thousand three hundred eighty-six dollars (\$891,958,386); and

WHEREAS, if the public employees retirement system meets its assumed eight percent rate of return on its investments

during fiscal year 2005 and incurs no other liability gains or losses, the system's funding ratio will drop to approximately ninety percent and its overall amortization period will increase to just under thirty years; and

WHEREAS, the public employees retirement system actuaries have stated a temporary increase in contribution rates may be necessary to prevent the system's overall amortization period from exceeding the thirty-year target established by the public employees retirement board to maintain a strong funding status; and

WHEREAS, the public employees retirement system's basic funding objective is to meet long-term benefit promises to retirees and their beneficiaries through contributions, which, when combined with present assets and future investments, are sufficient to meet the present and future financial obligations of the act; and

WHEREAS, the retirement board of the public employees retirement system and its independent actuary must establish funding periods for benefit enhancements that reflect sound actuarial principles consistent with the requirements of Article 20, Section 22 of the constitution of New Mexico; and

WHEREAS, the public employees retirement system is a strong and reliable defined benefit plan that represents a significant employment benefit for public employees of the state and needs to be protected from further erosion by

special interests and employer groups seeking to address retention and recruitment issues through benefit enhancements in lieu of salary increases; and

WHEREAS, the current level of pension benefits provided to retirees under the public employees retirement system is already among the most generous in the nation; and

WHEREAS, any new benefit enhancement legislation that may be enacted will carry with it a multi-million dollar unfunded actuarially accrued liability that will negatively impact the overall funded status of the public employees retirement system; and

WHEREAS, the educational retirement system's funding ratio of seventy-six percent, expressed as a ratio of actuarial value of assets to actuarial accrued liabilities, is less than the generally accepted satisfactory funding ratio of eighty percent; and

WHEREAS, the educational retirement system's unfunded actuarial liability, measured as the dollar difference between the system's actuarial liability and the actuarial value of its assets, is two billion three hundred million dollars (\$2,300,000,000); and

WHEREAS, the amortization period for the educational retirement system's unfunded actuarial liability is a period of infinity, but, as established by the governmental accounting standards board, should be less than thirty years;

and

WHEREAS, the educational retirement system's solvency problems are due in part to poor investment return during the period of calendar years 2000 through 2002 and insufficient contributions to the system;

NOW, THEREFORE, BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO that a two-year moratorium on benefit enhancement proposals to the public employees retirement system and the educational retirement system be imposed through December 31, 2006; and

BE IT FURTHER RESOLVED that all proposed legislation pertaining to benefit enhancements to the public employees retirement system and the educational retirement system be tabled so that the true funded status of those systems can be better ascertained; and

BE IT FURTHER RESOLVED that copies of this memorial be transmitted to the legislative council service, the legislative education study committee, the legislative finance committee, the house appropriations and finance committee, the house education committee, the senate education committee, the senate finance committee, the office of the governor, the educational retirement board and the retirement board of the public employees retirement system.