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## FISCAL IMPACT REPORT

**BILL NUMBER:** Senate Memorial 31

**SHORT TITLE:** PERA Work Group

**SPONSOR:** Stefanics/Trujillo/Figueroa/Padilla/Wirth

**LAST ORIGINAL**  
**UPDATE:** \_\_\_\_\_ **DATE:** 2/14/2025 **ANALYST:** Simon

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT\*

(dollars in thousands)

Agency/Program	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
LFC		\$0.0 to \$500.0			Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.

\*Amounts reflect most recent analysis of this legislation.

### Sources of Information

LFC Files

Agency or Agencies Providing Analysis  
Public Employees Retirement Association

## SUMMARY

### Synopsis of Senate Memorial 31

Senate Memorial 31 (SM31) requests the Legislative Finance Committee (LFC) create a staff work group to study the Public Employee Retirement Association (PERA) fund and to examine annual cost-of-living adjustments (COLA) paid to retirees of PERA and factors related to fund solvency and contributions to the fund. The memorial requests a nine member work group made up of three retirees appointed by the speaker of the House of Representatives, the president pro tempore of the Senate, and the governor; the chair and vice chair of the interim Investments and Pension Oversight Committee, the chair and executive director of PERA and analysts from the Department of Finance and Administration and LFC. The memorial requests the work group make recommendations no later than December 31, 2026.

## FISCAL IMPLICATIONS

Memorials do not contain appropriations and are not enforceable as state law. Portions of the study requested by this memorial are within the normal operations of the agencies involved. However, the memorial requests LFC seek the assistance of an outside entity to independently evaluate issues impacting the fund, which could come with additional costs. Costs of this assistance are likely variable based on the amount of work required and, in some cases could be sought at little or no cost. Several nonprofit organizations, such as the Pew Charitable Trusts or the National Association of State Retirement Systems, have developed expertise in public pension and have in the past testified before interim committees on pension issues.

However, it is highly likely any work group would need to rely heavily on PERA and its independent actuary for information on the fiscal impacts of proposed policy changes on the fund. Article XX, Section 22, of the New Mexico Constitution provides:

The retirement board of the public employees retirement system and the board of the educational retirement system shall be the trustees for their respective systems and have the sole and exclusive fiduciary duty and responsibility for administration and investment of the trust fund held by their respective systems.

A retirement board shall have the sole and exclusive power and authority to adopt actuarial assumptions for its system based upon the recommendations made by an independent actuary with whom it contracts. The legislature shall not enact any law that increases the benefits paid by the system in any manner or changes the funding formula for a retirement plan unless adequate funding is provided.

While nothing in the section precludes legislative oversight of the pension systems, such as that offered by the interim Investment and Pensions Oversight Committee or LFC, the scoring of the fiscal impact of policy proposal would at some point need to be completed by PERA's actuaries. While it may be possible to hire outside experts to estimate the costs of the proposals, it would not negate the responsibility of the board and actuary to do this work, leading to possible duplication of effort if the work group did not rely on PERA and its actuaries for this work. PERA's actuaries regularly score legislative proposals as part of the agency's normal operations. PERA reports no impact to its operating budget.

Analysis from PERA notes the following:

SM31 request exploring the possibility of COLA tied to inflation. However, a COLA tied to inflation does have a significant impact on the PERA fund and would need to be properly funded based on Article XX, Section 22, of the New Mexico Constitution. Based on actuarial analysis, the PERA fund unfunded liability would go from \$9.7 billion to approximately \$12.5 billion based on an analysis done excluding the legislative retirement division. Also, PERA's funded ratio excluding the legislative retirement division would decrease from 65.2 percent to 59.2 percent and the amortization period would go from 50 years to infinite years based on last year's analysis. For the legislative division, the unfunded liability would also increase, and funded ratio would decrease from 87.7 percent to 80.4 percent.

The interim Investment and Pensions Oversight Committee heard testimony from PERA and its actuary regarding cost-of-living adjustments during the 2025 interim. The actuary reported the cost of adopting a 2 percent compounding cost-of-living adjustment for all current and future retirees at \$1.4 billion, which could be funded by increasing contributions to the PERA fund by 3.39 percentage points, from 30.71 payroll percent to 34.1 percent of payroll. PERA's total covered payroll, as of June 30, 2025, was \$3.417 billion. At the 3.39 percent rate, that would amount to an increase of \$115.8 million. The presentation includes several other scenarios, including 2 percent COLAs for retirees over 65, for a cost of \$759 million or a 1.53 percent increase in contributions, or a 2 percent COLA for retirees over 75, for a cost of \$357 million or a 0.72 percent increase in contributions. The presentation also covered possible cost-savings options, including limiting COLAs for those under age 65 or requiring a seven-year delay before a retiree is eligible for a COLA.

## SIGNIFICANT ISSUES

In 2020, the Legislature amended the Public Employees Retirement Act to replace an annual 2 percent COLA for most members with a new “risk-sharing” COLA, following a temporary suspension of the annual COLA in FY21 through FY23. In those years, the annual COLA was temporarily replaced by an additional payment of 2 percent of the member’s benefit. The payment was non-compounding, meaning it did not become part of the benefit payment base. Those additional payments, sometimes called the “13th check,” were made for three years and the Legislature appropriated \$55 million from the general fund to cover the costs. Following the three-year period, the new “risk-sharing” COLA was implemented. Unlike the 13th check, this payment would compound. The COLA would be based on the plan’s investment performance and the plan’s funded status—or the percentage of total liabilities for which the plan has invested assets. Under this COLA, rates would vary from 0.5 percent to 3 percent, until the plan is fully funded, at which point COLAs could go as high as 5 percent.

The 2020 amendment was intended to address chronic underfunding issues at PERA. At the time, PERA’s actuaries estimated the fund held about 70 percent of the assets needed to pay all accrued benefits, but over time that gap was expected to grow because contributions into the fund were not sufficient to pay all protected benefits, make additional annual cost-of-living adjustments, and pay off the plan’s unfunded liability. Actuaries were projecting an infinite funding period, meaning PERA was never expected to hold the assets needed to pay the liabilities. PERA’s most recent actuarial valuation report shows the fund holds about 65.2 percent of assets needed, but the funding period has improved to 50 years, although still above the board’s target of 25 years. The plans actuaries recommend increasing contributions to the fund, noting contributions needed to meet the funding target would need to rise by an additional 4.65 percent.

The 2020 amendment was adopted at a time when an annual 2 percent COLA was outpacing inflation. Annual COLAs for social security payments, which are tied to inflation, averaged 1.4 percent between 2010 and 2020. But more recent increases in the cost of living have led these amounts to spike. Social security COLAs in 2022 were nearly 9 percent and were almost 3.2 percent in 2023, before falling back to 2.5 percent in 2024 and 2.8 percent in 2025. COLAs for PERA retirees were 0.5 percent in FY25 and 0.63 percent in FY26. The gap in the two rates illustrates the challenges faced by retirees in meeting basic needs on fixed incomes.

**Exceptions.** While most PERA members are subject to the variable COLA, some members continue to receive a fixed 2.5 percent COLA: disability retirees with an annual benefit of less than \$25 thousand, normal retirees with 25 years of service credit and a benefit of less than \$25 thousand, and retirees who were 75 years old as of July 1, 2020.

## ADMINISTRATIVE IMPLICATIONS

Each year, members of LFC approve annual work plans for staff analysts and evaluators. Participation in this work group would need to be included on the approved staff work plan for LFC staff to participate. It is typical for staff work plans to include work related to the state’s retirement systems, including PERA, the Educational Retirement Board, and the Retiree Health Care Authority.

## OTHER SUBSTANTIVE ISSUES

SM31 would request a study only of retirement benefits paid to members of the Public Employees Retirement Association. Public employees of school districts and higher education institutions receive benefits from the Educational Retirement Board (ERB). Since 2013, annual cost-of-living adjustments paid by ERB have been limited to improve the fund's solvency. This reform has been partially responsible for improvements to the solvency of that fund. According to ERB's actuary, the plan's funding status is improving, from 60.4 percent in 2020 to 67.8 percent in 2025. The actuaries currently expect the plan to be fully funded in 19 years, significantly less than the amount of time expected for the PERA fund.

Historically, members of ERB have raised concerns of unequal treatment of educational retirees in policy discussions related to pension benefits. In 2020, ERB commissioned a study to examine the differences in benefits between members of ERB and PERA, finding PERA members receive more in pension benefits than ERB-covered employees, despite ERB members making higher contributions to the pension fund. This report has resulted in calls for the Legislature to consider "equalizing" pension benefits structures. Developing policy proposals to consider additional increased benefits for PERA members could lead to additional requests from ERB members for increased benefits, increasing the potential cost of any policy change.

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