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November 13, 2012

MEMORANDUM

TO: Legislative Education Study Committee

FR: Ian M. Kleats

RE: **STAFF REPORT: RETIREMENT PLAN PROPOSED ADJUSTMENTS: EDUCATIONAL RETIREMENT BOARD (ERB) AND PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)**

INTRODUCTION

Over recent years, the funding status of both the Educational Retirement Board (ERB) and the Public Employees Retirement Association (PERA) has declined due to several factors including:

- a decrease in asset values from the financial crisis;
- maturing of plan demographics; and
- the State's fiscal outlook, which has led to decreases in hiring and wage growth.

For ERB, the unfunded actuarial accrued liability[1] (UAAL) increased from $4.9 billion at the start of FY 11 to $5.7 billion at the start of FY 12, decreasing the plan's funded ratio from 63 to 59.8 percent. For PERA, the UAAL has increased significantly since FY 09, from $2.3 billion to $6.2 billion in the most recent valuation resulting in a funded ratio of 65 percent.

[1] Attachment 1 contains a glossary of terms commonly used in the financial discussion of pensions. To indicate their inclusion within the glossary, terms have been underlined throughout this report.

To improve the net position of these funds, ERB and PERA have proposed statutory changes to contributions and benefits for the consideration of the 2013 Legislature.

This staff report provides a discussion of:

- ERB and PERA Proposed Plan Adjustments;
- Alternative Policy Evaluation Metrics: Internal Rate of Return;
- Implicit Policy Objectives; and
- Policy Options.

ERB AND PERA PROPOSED PLAN ADJUSTMENTS

The ERB and PERA proposed plan adjustments would enact balanced approaches to reduce their funds' UAAL by modifying both contributions and benefits.

The features of each proposal and impacts to their respective funding statuses are highlighted in Table 1, below:

Table 1: Overall Comparison of Plan Proposals

<table>
<tr><th></th><th>Date</th><th>UAAL
($ millions)</th><th>Funded Ratio (%)</th><th>Funding Period (years)</th><th>Employee/ Employer Contribution Increases</th><th>Benefit Spending Changes</th></tr>
<tr><td rowspan="4">ERB</td><td>2011</td><td>5,651</td><td>63</td><td>infinite</td><td rowspan="4">2.8% total

(2.8% employee, 0% employer)</td><td rowspan="4"><u>New Members</u>
Min. Ret. Age of 55
COLA @ 67 (from 65)</td></tr>
<tr><td>2021</td><td>7,504</td><td>66</td><td>29.3</td></tr>
<tr><td>2031</td><td>7,574</td><td>75</td><td>15.4</td></tr>
<tr><td>2041</td><td>(115)</td><td>100</td><td>-0.1</td></tr>
<tr><td rowspan="4">PERA</td><td>2011</td><td>4,971</td><td>71</td><td>infinite</td><td rowspan="4">3% total

(1.5% employee, 1.5% employer)</td><td rowspan="4"><u>All Members</u>
COLA 2% (from 3%)
<u>Members after 2010</u>
Additional benefit changes</td></tr>
<tr><td>2021</td><td>3,323</td><td>86</td><td>17.6</td></tr>
<tr><td>2031</td><td>57</td><td>100</td><td>0.1</td></tr>
<tr><td>2041</td><td>(11,071)</td><td>127</td><td>-13</td></tr>
</table>

Source: LFC Compilation of PERA, ERB Data (8/22/2012)

The ERB proposal is structured so that:

- the plan could become fully funded within 30 years;
- employee contributions increase by 2.8 percent; and
- benefits are reduced for new plan members through:
    - a minimum retirement age of 55; and
    - eligibility for the cost-of-living adjustment (COLA) starting at 67, up from 65.

The contribution increase translates to about $1,260 less in annual take home pay for the average New Mexico teacher based on a 2011 average salary of $44,984.

The PERA proposal addresses the plan's UAAL through:

- a reduction of its COLA for all members to 2.0 percent from 3.0 percent;
- increasing total contributions by 3.0 percent; and
- additional changes to benefits for members hired on or after July 1, 2010.

This allows the PERA plan to become fully funded in fewer than 20 years. It should be noted that the increase to employer contribution rates could require increases to future appropriations.

ALTERNATIVE EVALUATION METRICS: INTERNAL RATE OF RETURN

Internal rates of return (IRR) are commonly used to evaluate the desirability of investments[2]. An individual could be expected to participate in a program with an IRR that exceeds the expected returns from market investments. As such, IRR can aid in understanding pension participation rates as well as plan satisfaction.

The real IRR, that is the IRR when adjusted for inflation, is sensitive to changes in economic assumptions, such as the wage growth profile and rate of inflation, as well as demographic assumptions, such as starting age, retirement age, and age at death. This implies that almost every active member or retiree will have a unique IRR; however, an advantage of IRR is that it retains its comparability when those assumptions do change, which makes the statistic useful in evaluating proposed plan changes relative to current law.

ERB staff has stated that the board does not consider IRR as a metric in its evaluation of plan changes and chooses instead to focus on plan solvency metrics such as the funded ratio and funding period.

Consider an IRR simulation of the ERB plan for a newly entering worker with the following assumptions:

- starting age of 25 and begins work on July 1, 2015;
- retirement age of 65 after 40 full years of service (July 1, 2055);
- age at death of 85, having been retired for 20 full years (July 1, 2075); and
- salary growth and inflation are consistent with ERB's *Actuarial Valuation Report 2011*[3].

[2] The higher a project's IRR, the more desirable it is to engage in that project.

[3] Current statutory provisions require that an actuarial report be conducted at least every three years. In practice, ERB has conducted and published these reports annually. The reports detail the actuarial status of the fund including an assessment of the actuarial value of its assets and liabilities. Assumptions used in those assessments are defined within the body of the report.

Table 2: IRR Between Current and Proposed Law, ERB

Assumptions		Results	
Inflation Rate	3.00%	Real IRR (Current Law)	3.19%
Starting Salary	$45,000	Real IRR (Proposed)	2.70%
Starting Age	25	Difference	-0.49%
Retirement Age	65		
Age at Death	85	Real Investment Returns*	4.75%

*ERB long-term investment earnings assumption less inflation

Source: LESC Simulation

The reduction in IRR due to proposed changes could present a significant obstacle to the recruitment and retention of employees. Moreover, the IRR under current provisions, 3.19 percent, is anemic in comparison to the ERB's real, long-term investment earnings assumption of 4.75 percent, which calls into question whether this benefit currently provides sufficient incentive for recruitment and retention. Even though the simulation is unique to the imagined worker, the level decrease in IRR remains fairly consistent when assumptions change.

Without more comprehensive analysis, it is unclear whether some members will realize gains to IRR from the changes proposed by ERB, but limited sensitivity analysis suggests that such a possibility is unlikely. Similar methods could be used to evaluate the effect of PERA's proposal on its current and future members.

IMPLICIT POLICY OBJECTIVES

The proposal endorsed by ERB is based on several board-endorsed objectives. Without legislative approval, these decisions could carry implications for the structure of any proposed pension reform. PERA's proposal depends on similar assumptions. As a result, some legislative options relating to contribution rates, which would otherwise be viable and in compliance with the Governmental Accounting Standards Board (GASB) requirements, could remain unconsidered because of the predetermined funding policy objectives.

Provisions in current law allow PERA and ERB certain autonomy for the administration of their respective funds; however, contribution rates are solely the purview of the Legislature. The funding period and funding target remain policy considerations for the Legislature. Consequently, the committee may wish to consider whether the underlying policy goals that shape the PERA and ERB proposals accurately reflect the intent of the Legislature.

At their July 19, 2012 meeting, ERB considered and approved certain amendments to their Pension Plan Funding Policy; the results were summarized by ERB and have been included as Attachment 2. At least two funding policy statements impose limitations on the statutory changes proposed by the ERB:

1) a closed amortization period of 30 years; and
2) a funding target of 95% +/- 5% by 2040.

Principles of intergenerational equity are given as a justification for both the 100 percent funded ratio after 30 years and, implicitly, the closed amortization period. The ERB's proposed legislation may compromise these principles rather than preserve them, however, in that it would require current generations to pay off the unfunded liabilities of prior active members in order to hold future generations harmless. The same could be said of the PERA proposal.

Certain analysis advocating for a 100 percent funded ratio, such as the 2009 Government Finance Officers Association (GFOA) report, *Sustainable Funding Practices of Defined Benefit Pension Plans*, does so on the basis of minimizing intergenerational transfers. This analysis does not consider the transition of plans that start above or below the suggested 100 percent threshold. To move to the suggested level from a point away from it, intergenerational transfers are unavoidable barring significant shifts in plan demographics. In such cases, an open basis, rather than closed, amortization period could minimize the impact of these intergenerational transfers, allowing both present and future generations to share the costs, or inherited assets, of previous generations in an equitable manner.

Beyond addressing intergenerational equity, using open basis amortization of the UAAL would require less-severe contribution increases. Conceptually, the plans' required contributions can be lower, relative to closed basis, because a portion of the cost is shared. LESC staff's interpretation of GASB Statement 68 suggests that an open basis for the amortization of UAAL could be employed by the PERA or ERB while remaining in compliance, and in fact, both PERA and ERB have used this basis in the past.

POLICY OPTIONS

For committee consideration, the following policy considerations are provided:

(1) Endorse proposed legislation

The next meeting of the legislative interim Investments and Pension Oversight Committee (IPOC) is scheduled for November 28, at which the proposed pension reform legislation will be considered for endorsement.

The committee may wish to consider, pending a decision from the IPOC, endorsing the proposed legislation from the ERB or the PERA.

(2) Legislative representation on the pension boards

The ERB, as defined by statute, consists of seven members: the secretary of public education, the state treasurer, two members appointed by the governor, and one member each from three separate organizations representing teachers, university professors, and educational retirees. The current proposal endorsed by ERB is based on several already-chosen policy objectives. Objectives chosen at the discretion of the board, without legislative approval, could carry implications for the structure of any proposed pension reform.

The committee may wish to consider amending sections of the Educational Retirement Act *to include one or more additional members on the ERB representing the Legislature.*

BACKGROUND

For background, a comparison of the ERB and PERA plans for FY 13 has been provided in Attachment 3.

ATTACHMENT 1

GLOSSARY

Actuarial Accrued Liability
The present value of pension plan benefits and expenses not provided for by future contributions.

Actuarial Value of Assets
The value of cash, investments, and other property belonging to a pension plan.

Amortization Payment
The portion of a pension plan contribution that is designed to pay interest on and to amortize (pay off) the Unfunded Actuarial Accrued Liability.

Amortization Period
The number of years it will take to fully amortize (pay off) an outstanding liability.

Closed amortization period (closed basis)
A specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the amortization period is initially 30 years on a closed basis, 29 years remain after the first year, 28 years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by policy (for example, 30 years), the period may increase, decrease, or remain stable.

Defined benefit pension plan
A pension plan that specifies the amount of pension benefits to be provided at a future date or after a certain period of time; the amount specified usually depends on one or more factors such as age, years of service, and compensation.

Defined contribution plan
A pension plan that specifies how contributions to a plan member's account are to be determined, rather than the amount of retirement income the member is to receive. The amounts received by a member will depend *only* on the amount contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account.

Funded ratio
The Actuarial Value of Assets expressed as a percentage of the Actuarial Accrued Liability.

Funding period
The number of years it will take to reach a funded ratio of 100 percent.

Funding target
The preferred or targeted funded ratio as determined by the pension administrator.

Intergenerational equity

The concept of fairness in policies that affect multiple generations (senior citizens, working age adults, and youths). Preserving intergenerational equity implies the sustainable use of resources.

Intergenerational transfer
The transfer (passing on) of assets or debts from one generation to another (future) generation.

Internal Rate of Return
The discount rate that makes the net present value of contributions (payments in) equal to the net present value of benefits (payments out).

Open amortization period (open basis)
An open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by policy (for example, 30 years), the period may increase, decrease, or remain stable. In contrast, a closed amortization period is a specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the amortization period is initially 30 years on a closed basis, 29 years remain after the first year, 28 years after the second year, and so forth.

Real
Denotes an economic variable that has been adjusted for inflation. For example, the real interest rate is equal to the nominal interest rate minus the inflation rate.

Unfunded Actuarial Accrued Liability
The difference between the Actuarial Accrued Liability and the Actuarial Value of Assets.

ATTACHMENT 2

Pension Plan Funding Policy
Decisions for Board Consideration

Issue	Current Practice	Implication	Change adopted 7/19/12
Actuarial cost method to determine normal cost	Traditional (individual) entry age normal funding Calculates an individual normal cost for each member and the plan's normal cost is the sum of each member's normal cost. Allocates the actuarial present value of future benefits between the portion due for the current year (normal cost), prior years (the actuarial accrued liability) and future years.	The current and future normal costs are determined as a level percentage of payroll. This method produces a relatively level pattern of funding over time, providing equity between various generations of taxpayers.	
Asset smoothing method	Based on the market value of assets with a five-year phase-in of actual investment returns in excess of (less than) expected investment income.	Dampens some of the year-to-year fluctuations that would occur if the fair market value were used. Reduces year-to-year volatility of calculated results, such as the funded ratio and the Annual Required Contribution.	
Corridor	No corridor used – In general, it is not considered necessary for plans with shorter smoothing periods (E.G. 5 years) to have a corridor as all gains and losses will be recognized within a sufficiently short period.	Absence of corridor can have significant disparities between actuarial value of assets and fair market value.	

Issue	Current Practice	Implication	Change adopted 7/19/12
Amortization method: Open versus Closed	Open 30 year amortization period is used in determining the Annual Required Contribution (ARC)	Each year the unfunded liability is amortized over 30 years (as opposed to a declining period). However, with the solvency studies requiring 100% funding in 30 years, the effect is to have a 30 year closed amortization.	Change to a closed 30-year amortization period
Amortization period	ERB's amortization rate is set and the effective period is infinite.	If the amortization period is longer than the average career length, not all of the costs of a member's benefit is recognized during that member's working career. Use of a period less than career length is recommended so that intergenerational equity can be preserved.	Board goal – 30 years
Amortization progression	Level % of pay	This keeps pension costs in alignment with the payroll budget process.	
Funding target	80% +/- 2% by 2030; 95% +/- 5% by 2040	Short-term funding goal requires that current members and/or retirees are subject to plan design changes.	Remove intermediate target of 80%+-2% by 2030
Discount rate/earnings assumption	7.75%	If investment performance is below this target, for a sustained period of time, changes in contributions and/or benefits may be required	Review after receipt of experience study in the spring of 2013.
Benefit changes	No benefit increases until plan is fully funded	Plan would need to be 100% funded ***after*** any benefit changes.	

Issue	Current Practice	Implication	Change adopted 7/19/12
Cost of Living Adjustment - COLA	Formula is in statute	Protects retirees from some inflation.	
Overfunding situations	No policy. This has not been an issue.	At time of overfunding the board will review de-risking the portfolio while maintaining a stable funded ratio.	
Responding to favorable/unfavorable investment experience	Long-term investment performance that deviates from the discount rate/earnings assumption can result in under or overfunded plans	Unfavorable investment performance. Board has recommended reductions in benefits/increases in employee contributions	
Risk management:			
Frequency of actuarial valuations	Annual	Allows Board to be informed about actuarial status of fund on a frequent basis	
Process for reviewing and updating actuarial assumptions	ERB has actuaries prepare an experience study every two years	It is crucial to review all underlying assumptions in the valuation report on a regular basis to ensure their accuracy, otherwise the Board will not have the necessary information to fulfill their fiduciary duty	
Additional process for review of actuarial assumptions – conduct actuarial audit	None in place – last audit of ERB was done two years ago at the request of the Retirement System Solvency Taskforce	It is important to verify the accuracy and soundness of the actuarial work and assumptions that the Board is relying on	Conduct every 5 years, using 2010 as starting period. Can be done more frequently if the Board directs.

Issue	Current Practice	Implication	Change adopted 7/19/12
Governance	Board reviews actuarial information and monitors plan administration and contributions	Clear communication to the Legislature and Executive on the status of the fund and any changes or necessary actions for success	
Frequency of 30 year projections	Board uses 30-year projections in all benefit and contribution rate studies	This allows the board to see the long term impacts on contribution rates and funded ratios	Prepare as part of the annual valuation report to measure the plan's progress toward its funding goals.
Frequency of actuarial impact analysis	Board recommends any change in benefits be accompanied by an impact analysis	All changes should be reviewed within the actuarial context for impact on funded ratio and the actuarial condition of the plan.	
Asset /Liability Studies	Every three years	Must have good understanding of timing and amount of benefits to be paid.	
Asset Allocation Studies	At least every two years	Must have asset allocation that will support payment of benefits that will be paid	

COMPARISON OF ERA AND PERA BENEFITS

Category	ERA	PERA – State General Member Plan 3
Membership Eligibility	• **Regular/Defined Benefit Plan** – All public school and university employees working more than 0.25 of Full Time Equivalent (FTE) are eligible for membership in ERB; • Alternative Retirement Plan (ARP) – Certain two- and four-year community college, university faculty, professional employees, persons who perform research, and other services pursuant to a contract between a local administrative unit (LAU) and the federal government may choose within the first 90 days of employment to join the ARP, a **defined contribution plan**; after seven years (84 months) of contributing to the ARP, participants may elect to switch to the defined benefit plan as new members; service credit may be purchased for ARP service; and educationally certified employees in certain state agencies with an educational component may choose either ERB or PERA plan, unless they possess a current teaching certificate.	All employees of PERA affiliates must be members of PERA excluding the following: • seasonal and temporary employees; • part-time employees working less than 20 hours in a 40-hour pay period or less than 40 hours in an 80-hour pay period; • student employees; • elected officials; • retired legislative workers; and • retired members from ERB.
Retirement Eligibility	Initial membership prior to July 1, 2010: • 25 years of service, regardless of age; • Rule of 75: age + service = 75; or • age 65 with 5 years of service. Initial membership after July 1, 2010: • 30 years of service, regardless of age; • Rule of 80: age + service= 80; or • age 67 with 5 years of service.	Peace Officers or Initial membership prior to July 1, 2010: • 25 years of service, regardless of age; • age 65, with 5 years of service; • age 64 with 8 years of service; • age 63 with 11 years of service; • age 62 with 14 years of service; • age 61 with 17 years of service; or • age 60 with 14 years of service. Initial membership after July 1, 2010: • 30 years of service, regardless of age; • Rule of 80: age + service= 80; or • age 67 with 5 years of service.
Contributions *Contribution percentages from July 1, 2012 through June 30, 2013.*	Over \$20k • Member: 9.4% of salary • Employer: 10.9% of salary • Total: 20.3% Under \$20k • Member: 7.9% of salary • Employer: 12.4% of salary • Total: 20.3%	Over \$20k • Member: 8.92% of salary • Employer: 15.09% of salary • Total: 24.01% Under \$20k • Member: 7.42% of salary • Employer: 16.59% of salary • Total: 24.01%

SOURCE: Educational Retirement Board and Public Education Retirement Association

Category	ERA	PERA – State General Member Plan 3
Cost-of-Living Adjustment (COLA)	• ½ the Consumer Price Index (CPI) beginning at age 65 capped @ 4%; • if CPI is less than 2%, then equals CPI; and • minimum @ 0%.	• 3%; implementation depends on retirement date with a minimum of approximately 2.5 calendar years after retirement.
Withdrawn Service Credit and Forfeited Service Credit	Withdrawn Service Credit • Upon terminating employment, a member may withdraw his or her contribution plus interest (the interest rate is determined annually by the Board). • The cost to purchase withdrawn service is 8% from the date of withdrawal to the date of purchase.	Forfeited Service Credit • Service credit for which a member withdrew – or forfeited – employee contributions and interest in the past can be purchased by paying the total of the amount withdrawn plus interest from the date the contributions were withdrawn to the date of purchase. 5.25% - Interest prior to 12/31/83 10.0% - Interest: 1/1/84 - 12/31/01 8.0% - Interest: 1/1/02 to present
Allowed Time and Air Time	Allowed Time *(no provision for air time)* • Members can purchase up to five years of service from private educational service or public educational service in another state. • Cost is actuarial. For example, a 50-year old with 20 years of earned service making $40,000 would pay $26,459 for one year of allowed service.	**Air Time**[1] • Members must be vested with five years of earned service credit to be eligible to purchase up to 12 months of "air time" permissive service credit. • Cost is full actuarial value. A 50-year old with 20 years of earned service making $40,000 would pay an estimated $18,222 for one year of air time.
Military Service Credit	• Members vested with five years of earned service credit can purchase up to five years of non-intervening military service credit at any time. • Cost is a total of the employee and employer contribution rate (20.3% in FY 10), multiplied by the average of the highest 60 consecutive months of salary for each month of military service credit purchased.	• Members vested with five years of earned service credit can purchase up to five years of non-intervening military service credit at any time. • Cost is a total of the employee and employer contribution rate (24.01% for State General Member Plan 3), multiplied by the average of the highest 36 consecutive months of salary for each month of military service credit purchased.
Miscellaneous Service Credit	• ERB does not allow the purchase of any service credit other than the allowed time, military service, and withdrawn service discussed above.	PERA provides for purchasing the following additional service credit: • service prior to affiliating with PERA; • civilian prisoner of war; • cooperative work study programs; and • employment with a utility company, library, museum, transit company, or by a nonprofit organization taken over by a PERA-affiliated public employer.

[1] Air time is service credit that is not tied to employment with a PERA affiliate.

<table>
<tr><th>Category</th><th>ERA</th><th>PERA –
State General Member Plan 3</th></tr>
<tr><td>Retirees Returning to Work</td><td>12-month layout period prior to applying for the return-to-work program. Retirees may <u>not</u> work for, contract with, or volunteer in a typically paid position for an ERB employer during the 12 month layout period;
members who retired before 1/1/2001 may return to work without a layout;
members who retired before 1/1/2001 but suspend their pensions must layout for 90 days;
a retiree may earn the greater of $15,000 or 0.25 FTE with an ERB employer and maintain his or her pension; and
retirees may work as independent contractors but must follow IRS code.</td><td>Effective July 1, 2010, a retiree is eligible to return to work for a PERA affiliate as long as the following conditions have been met:
the retiree must complete a 12-month break in service from the date of retirement;
the retiree cannot be retained as an independent contractor with the employer from which he or she retired during the 12-month break in service; and
no contributions are made by the employee or employer when a retiree suspends his or her pension and returns to work.
<u>Retirees re-employed before July 1, 2010</u>
retirees who were re-employed by a PERA affiliate before July 1, 2010 were grandfathered in under the laws in place when they were re-employed;
re-employed retirees who were grandfathered in must begin paying the employee contribution portion on their salary;
the employer will continue to pay the employer contribution amount on behalf of the employee; and
employee contributions made during reemployment are nonrefundable and stay in the PERA fund.</td></tr>
<tr><td>Benefit Calculation</td><td>Final average salary of highest five consecutive years of service
X
Years of service
X
.0235

No maximum benefit. 80% benefit is reached after 34 years of service.</td><td>Final average salary of highest three consecutive years of service
X
Years of service
X
.03

Benefit maximizes at 80% with 26 years and eight months of service.</td></tr>
</table>

Background for New Mexico Public Pension Discussion

Presented to:

Legislative Education Study Committee

November 14, 2012

Tom K. Pollard, Ph.D.
Legislative Council Service

Why the Focus on Public Pensions Nationwide

- The U.S. government's financial difficulties have brought more scrutiny of state and local government finances by investors and rating agencies, which expect cuts in state and local aid to be part of the solution.

- Employee pensions are the largest long-term obligation of general fund dollars for most states and, like state general obligation debt, are provided for most state constitutions and, therefore, have payment priority over operating budgets.

- Unfunded pension liabilities grew very rapidly during first decade of the 21st century. The stock market boom during the 1990s allowed future retirement benefit increases to be "paid for" from current and projected investment income rather than increased contributions from employers and employees. Stock market crashes in 2001 and 2007 reduced current and projected investment income and left the benefit increases unfunded.

- Unfunded liabilities negatively affect not only bond ratings and borrowing costs, but also investment by businesses that are looking across states at relatively high unfunded pension liabilities as a predictor of a state's need to cut services and/or raise taxes.

- The following presentation is not meant to imply that public employee pension benefits must be cut or employee rather than employer contributions increased to restore long-term solvency. However, state budget cuts and a scarcity of comparable defined benefit pension plans in the private sector have contributed to a move by many states in this direction.

Constitution of New Mexico Mandates Balanced Operating Budget But Authorizes Debt for Limited Purposes

- Article IX, Section 7. Prohibits Borrowing More Than $200K to Balance Budget
  - Authorizes the state to borrow money not exceeding the sum of $200,000 in the aggregate to meet casual deficits or failure in revenue, or for necessary expenses.

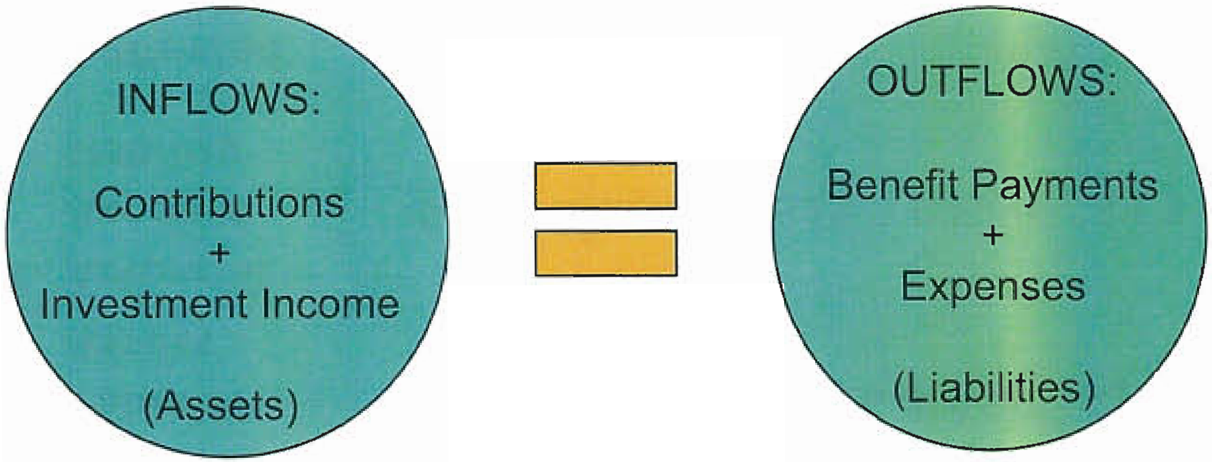
- Article IX, Section 8. Authorizes General Obligation Bonds
  - Subsection A: No such law [Authorizing General Obligation Bonds] shall take effect until it shall have been approved by a majority of qualified electors of the state. No debt shall be so created if the total indebtedness of the state would thereby be made to exceed one percent of the assessed valuation of all the property subject to taxation in the state.

- Article VIII, Section 10. Subsection A. Authorizes Severance Tax Bonds
  - There shall be deposited in a permanent trust fund known as the "severance tax permanent fund" that part of state revenue derived from excise taxes that have been or shall be designated severance taxes imposed upon the severance of natural resources within this state, <u>in excess of that amount that has been or shall be reserved by statute for the payment of principal and interest on outstanding bonds to which severance tax revenue has been or shall be pledged</u>.

Constitution of New Mexico Authorizes a Long-Term Pension Obligation to Public Employees

- Article XX, Section 22 (In Part)
  - Authorizes a trust fund to be set aside for the "sole and exclusive benefit" of public or educational plan member retirees.
  - Confers on members of retirement plans meeting minimum service requirements a vested property right in the retirement plan with due process protections under the applicable provisions of the New Mexico and United States constitutions.
  - States that: "Nothing in this section shall be construed to prohibit modifications to retirement plans that enhance or preserve the actuarial soundness of an affected trust fund or individual retirement plan.".

Pension Plan Funding Equation



- ❖Actuarial Funding Accomplishes this equation over the life of the plan
  - ❖Under actuarial funding, excess contributions in early years are invested and the investment income is used to pay benefits in later years.
  - ❖An Unfunded Actuarial Liability occurs when Actuarial Accrued Liabilities exceed the Actuarial Value of Assets.
  - ❖Funded Ratio is the ratio of Actuarial Value of Assets to Actuarial Accrued Liability.
  - ❖Funding Period is the number of years required to amortize the Unfunded Actuarial Accrued Liability.

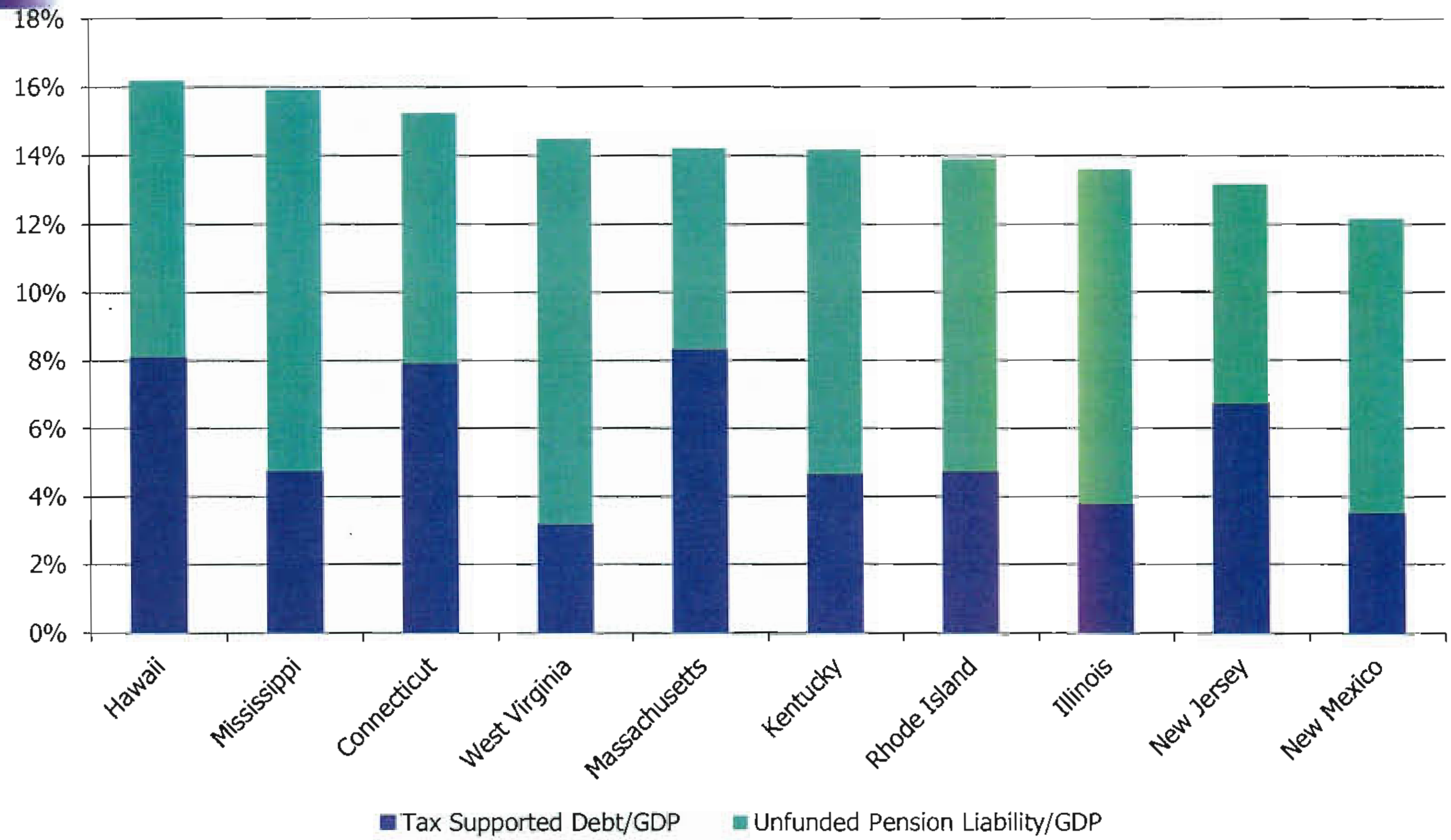
PERA,ERB and NMRHCA: Funded Status 6/30/2011

	PERA	ERB	NMRHCA
A. **Actuarial Value of Assets**	$11.9 Billion	$9.6 Billion	$177 Million
B. **Actuarial Accrued Liability**	$16.8 Billion	$15.3 Billion	$3.3 Billion
C. **Unfunded Actuarial Accrued Liability**	$4.9 Billion	$5.7 Billion	$3.1 Billion
D. **Funded Ratio**	71%	63%	6%
E. **Funding Period**	Infinite	Infinite	Infinite

Rating Agencies Combine Bonds and Unfunded Pension Liabilities into New Enhanced Debt Measure

- Moody's, Standard & Poor's and Fitch have all produced recent analyses and state comparisons on debt measures that combine bonded indebtedness and unfunded pension liabilities into a more meaningful measure.
- Pensions are not quite as airtight as bonds, but have state constitutional protection in most states.
- Like most states, New Mexico's unfunded pension liability is huge compared to bond debt outstanding:
  - New Mexico GO Bonds Outstanding: $356 million
  - New Mexico Severance Tax Bonds: $741 million
  - State Highway and Transportation Bonds: $1.7 billion
  - Unfunded liabilities of ERB and PERA: $10.6 billion.

Moody's Investors Service: Combined Liabilities as Share of State GDP, Top 10 States



Moody's Investors Service: States' Combined Pension and Long-Term Liabilities, as a Percentage of GDP, Top 20 States

Rank	State	Tax -Backed Bond Debt/GDP	State	Unfunded Pension Liability/GDP	State	Bond Debt Plus Pension Liability/GDP
1	Massachusetts	8.32%	West Virginia	11.31%	Hawaii	16.20%
2	Hawaii	8.11%	Mississippi	11.18%	Mississippi	15.94%
3	Connecticut	7.91%	Illinois	9.85%	Connecticut	15.24%
4	New Jersey	6.73%	Kentucky	9.54%	West Virginia	14.49%
5	New York	5.35%	Rhode Island	9.19%	Massachusetts	14.22%
6	Mississippi	4.75%	Oklahoma	8.99%	Kentucky	14.18%
7	Rhode Island	4.73%	**New Mexico**	**8.66%**	Rhode Island	13.92%
8	California	4.73%	Hawaii	8.09%	Illinois	13.63%
9	Kentucky	4.65%	Maine	8.03%	New Jersey	13.20%
10	Washington	4.60%	South Carolina	7.71%	**New Mexico**	**12.18%**
11	Oregon	4.40%	Alaska	7.38%	Oregon	11.05%
12	Wisconsin	4.05%	Montana	7.37%	Oklahoma	10.43%
13	Illinois	3.78%	Connecticut	7.34%	South Carolina	10.38%
14	Delaware	3.56%	Colorado	7.21%	Maine	10.05%
15	**New Mexico**	**3.52%**	Louisiana	7.13%	Maryland	9.75%
16	Maryland	3.35%	Oregon	6.65%	Louisiana	9.70%
17	West Virginia	3.18%	New Jersey	6.47%	Alaska	9.34%
18	Florida	2.80%	Maryland	6.40%	Montana	8.34%
19	Georgia	2.77%	Idaho	6.09%	Colorado	8.02%
20	South Carolina	2.68%	Massachusetts	5.90%	Idaho	7.67%

Moody's Investors Service: States' Combined Pension and Long-Term Debt Liabilities Compared to Various Measures, Top 20 States

	As a % of Total Personal Income		As a % of GDP		As a % of Operating Revenue	
1	Hawaii	27.7%	Hawaii	16.20%	Oregon	316.8%
2	Mississippi	22.8%	Mississippi	15.94%	Colorado	298.5%
3	Connecticut	22.3%	Connecticut	15.24%	Illinois	296.8%
4	**New Mexico**	**21.9%**	West Virginia	14.49%	Massachusetts	271.9%
5	Alaska	21.6%	Massachusetts	14.22%	South Carolina	264.0%
6	Kentucky	21.2%	Kentucky	14.18%	Connecticut	262.7%
7	West Virginia	20.9%	Rhode Island	13.92%	Kentucky	223.0%
8	Massachusetts	20.6%	Illinois	13.63%	New Jersey	222.6%
9	Illinois	20.5%	New Jersey	13.20%	Rhode Island	217.3%
10	Rhode Island	19.7%	**New Mexico**	**12.18%**	Hawaii	210.3%
11	Louisiana	18.9%	Oregon	11.05%	Mississippi	202.0%
12	New Jersey	18.5%	Oklahoma	10.43%	Alabama	195.0%
13	Oregon	17.6%	South Carolina	10.38%	Montana	173.3%
14	Oklahoma	17.1%	Maine	10.05%	Maryland	172.7%
15	South Carolina	15.6%	Maryland	9.75%	Louisiana	167.0%
16	Maine	13.9%	Louisiana	9.70%	Maine	167.0%
17	Maryland	13.5%	Alaska	9.34%	New Hampshire	164.5%
18	Colorado	13.3%	Montana	8.34%	Arizona	164.2%
19	Montana	13.2%	Colorado	8.02%	California	162.6%
20	Idaho	12.0%	Idaho	7.67%	**New Mexico**	**162.6%**

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The Governmental Accounting Standards Board (GASB) has proposed changes in pension accounting and financial reporting, to be implemented beginning with fiscal years starting after June 15, 2013:

- Unfunded pension liabilities will now appear on the employer's balance sheet, rather than in the notes, and be reported like long-term debt.

- Lower actuarial discount rates will apply for most plans, which will increase actuarial liabilities and pension expenses. Currently, the assumed investment earnings rate (e.g., 7.75%) is used as a discount rate. Under new rules, if an unfunded liability exists, the AA- bond index rate (around 4% today) will have to be used to discount benefits during that period.

- Shorter amortization periods will be allowed for unfunded liabilities, which will also increase pension expenses. Currently, a 30-year amortization is used. Under new rules, the average remaining service lives of incumbent employees, which is usually 12-15 years, will be used.

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Moody's proposed on July 2, 2012, their own new public pension reporting standards:

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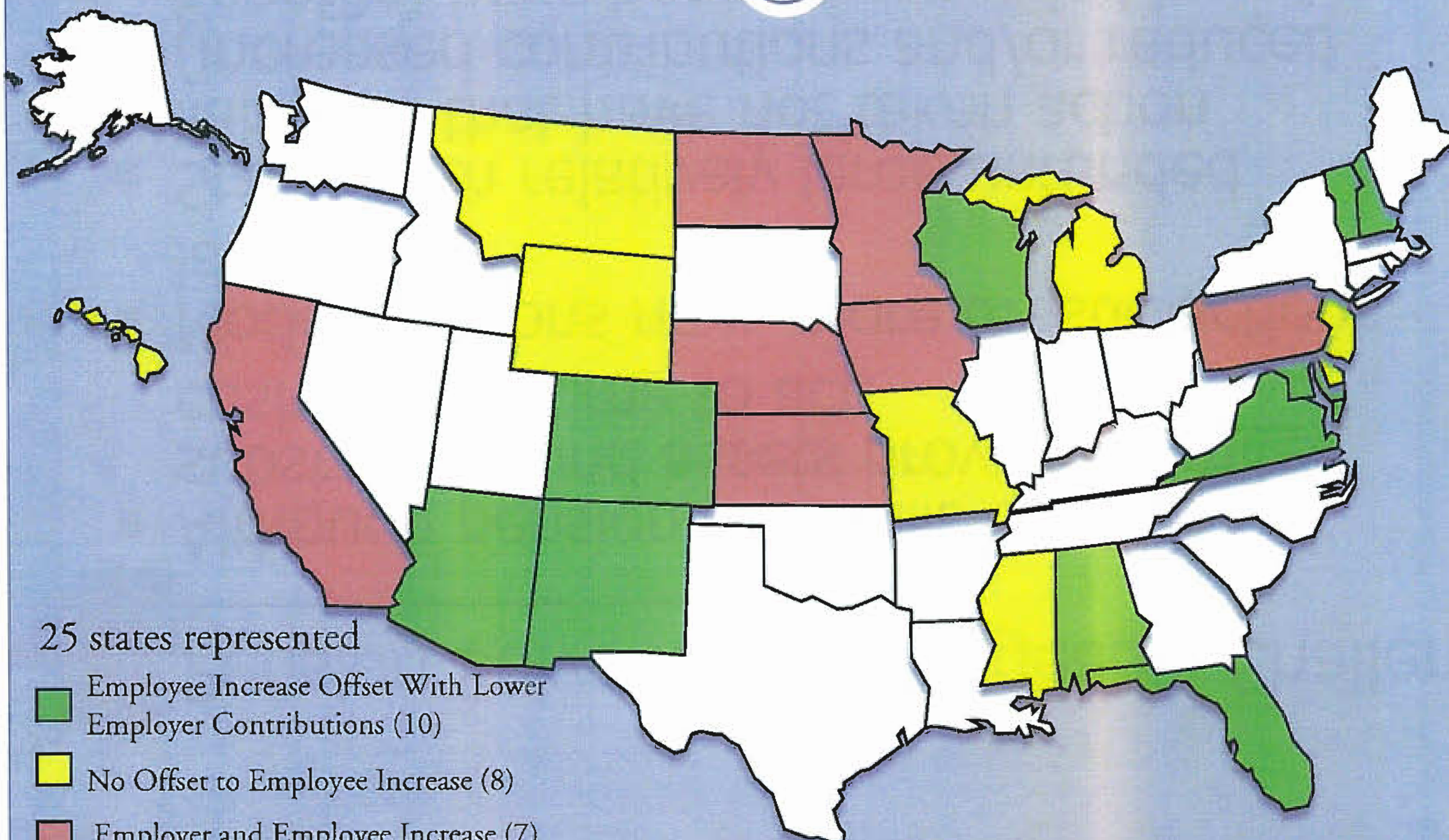
- Annual actuarially required pension contributions will be adjusted to reflect the foregoing changes as well as a common amortization period.
- Multiple-employer cost-sharing plan liabilities will be allocated to specific government employers based on proportionate shares of total plan contributions.

Moody's states the following: "While we [Moody's] do not expect any state ratings to change based on these adjustments alone, we will take rating actions for those local governments whose adjusted liability is outsized relative to their rating category."

Pension Solvency a Manageable Challenge

- Although pension shortfalls are large, substantial fund assets provide a <u>limited</u> cushion and time to act.
- Modest actions now, more drastic actions later.
- States with relatively large unfunded liabilities that have not taken action (increased contributions and/or reduced benefits) have been downgraded by rating agencies.

Increases in Employer and Employee Contributions, 2010 and 2011

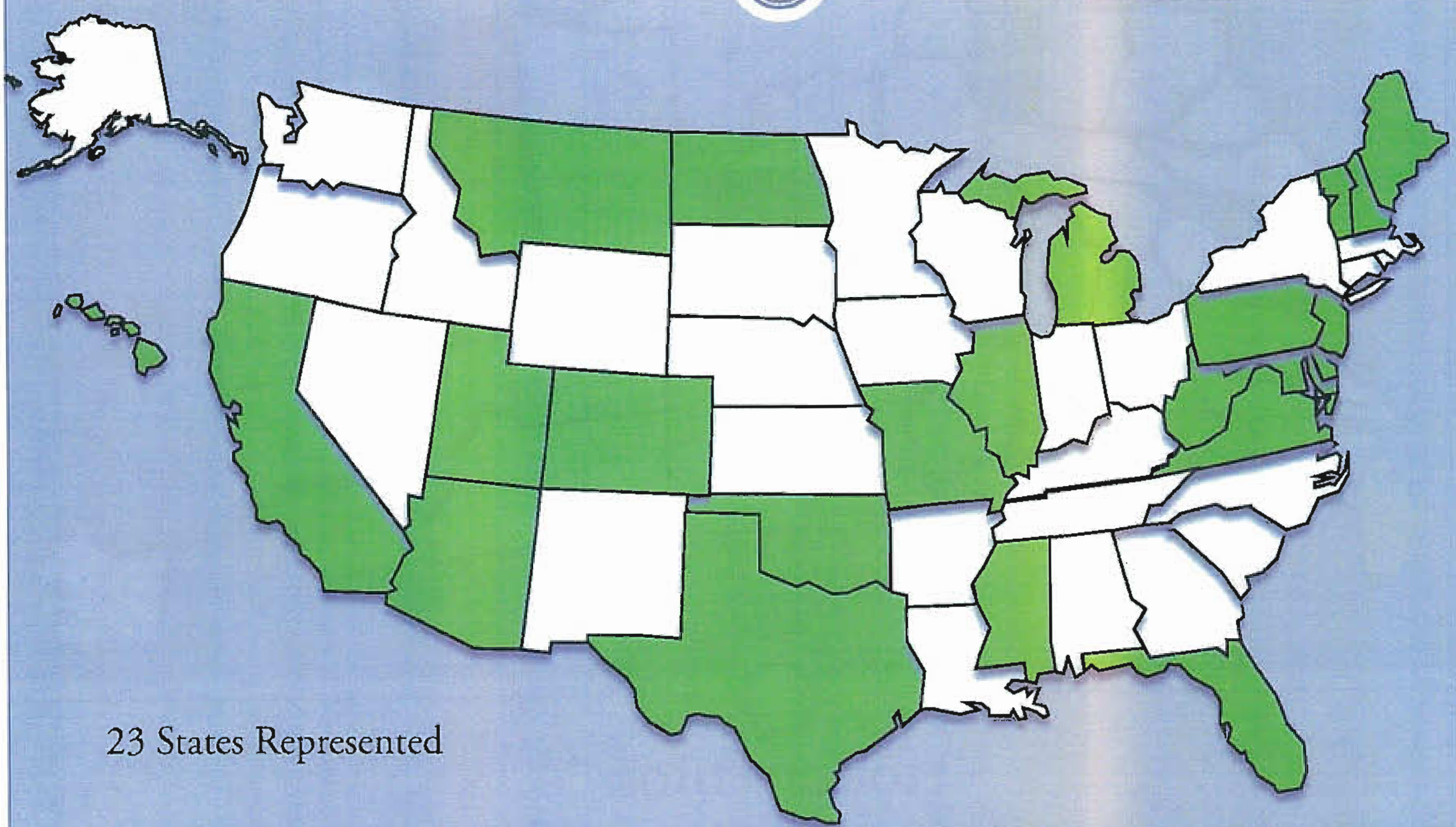


25 states represented

- Employee Increase Offset With Lower Employer Contributions (10)
- No Offset to Employee Increase (8)
- Employer and Employee Increase (7)

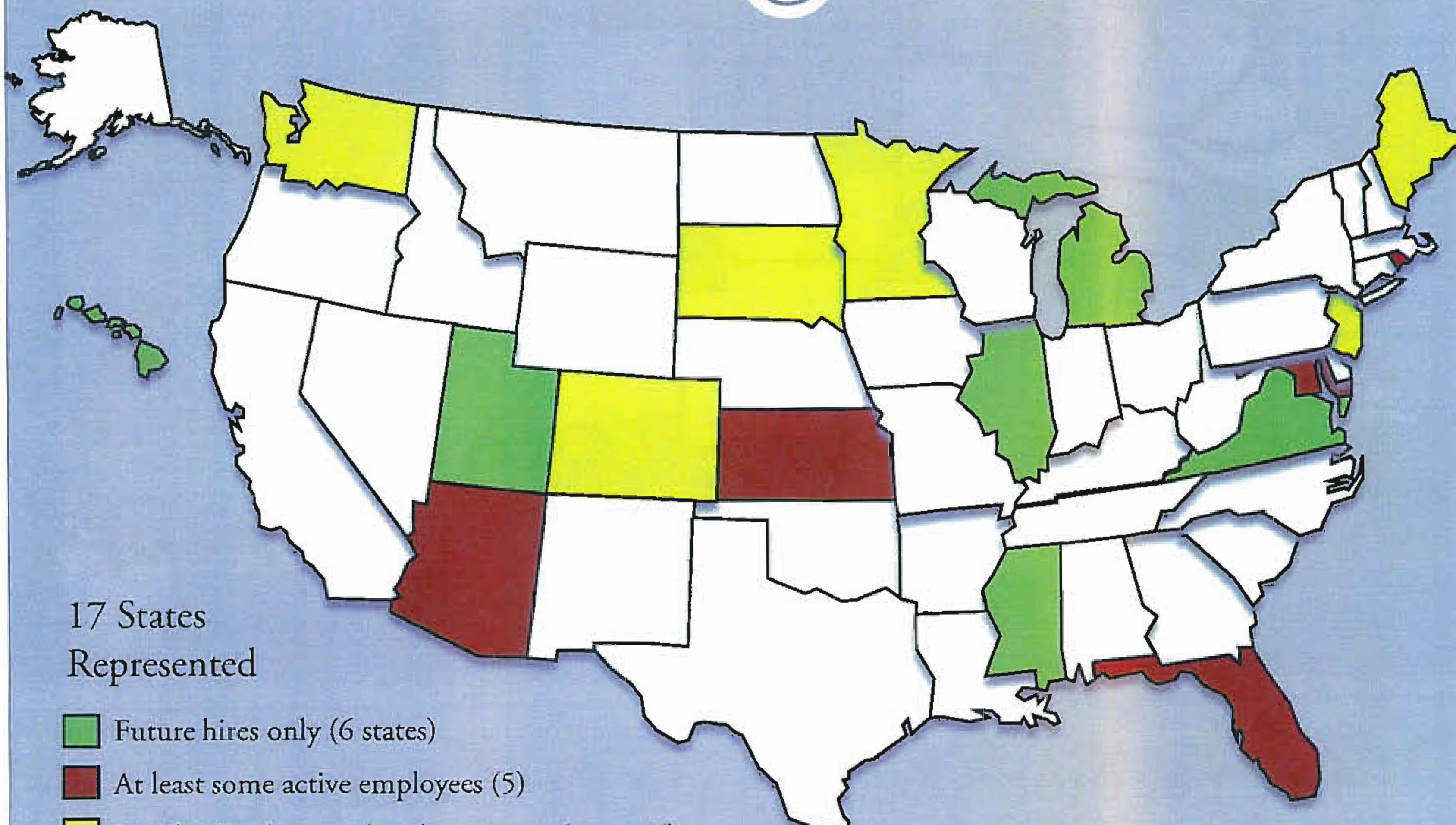
Source: National Conference of State Legislatures

Higher Age and Service Requirements for Normal Retirement, for New Members, 2010 and 2011



Source: National Conference of State Legislatures

Reduced Post-Retirement Benefit Increase
2010 and 2011



17 States Represented

- Future hires only (6 states)
- At least some active employees (5)
- People already retired and active employees (6)

Source: National Conference of State Legislatures

Background for New Mexico Public Pension Discussion

Presented to:

Legislative Education Study Committee

November 14, 2012

Tom K. Pollard, Ph.D.
Legislative Council Service

Why the Focus on Public Pensions Nationwide

- The U.S. government's financial difficulties have brought more scrutiny of state and local government finances by investors and rating agencies, which expect cuts in state and local aid to be part of the solution.

- Employee pensions are the largest long-term obligation of general fund dollars for most states and, like state general obligation debt, are provided for most state constitutions and, therefore, have payment priority over operating budgets.

- Unfunded pension liabilities grew very rapidly during first decade of the 21st century. The stock market boom during the 1990s allowed future retirement benefit increases to be "paid for" from current and projected investment income rather than increased contributions from employers and employees. Stock market crashes in 2001 and 2007 reduced current and projected investment income and left the benefit increases unfunded.

- Unfunded liabilities negatively affect not only bond ratings and borrowing costs, but also investment by businesses that are looking across states at relatively high unfunded pension liabilities as a predictor of a state's need to cut services and/or raise taxes.

- The following presentation is not meant to imply that public employee pension benefits must be cut or employee rather than employer contributions increased to restore long-term solvency. However, state budget cuts and a scarcity of comparable defined benefit pension plans in the private sector have contributed to a move by many states in this direction.

Constitution of New Mexico Mandates Balanced Operating Budget But Authorizes Debt for Limited Purposes

- Article IX, Section 7. Prohibits Borrowing More Than $200K to Balance Budget
  - Authorizes the state to borrow money not exceeding the sum of $200,000 in the aggregate to meet casual deficits or failure in revenue, or for necessary expenses.

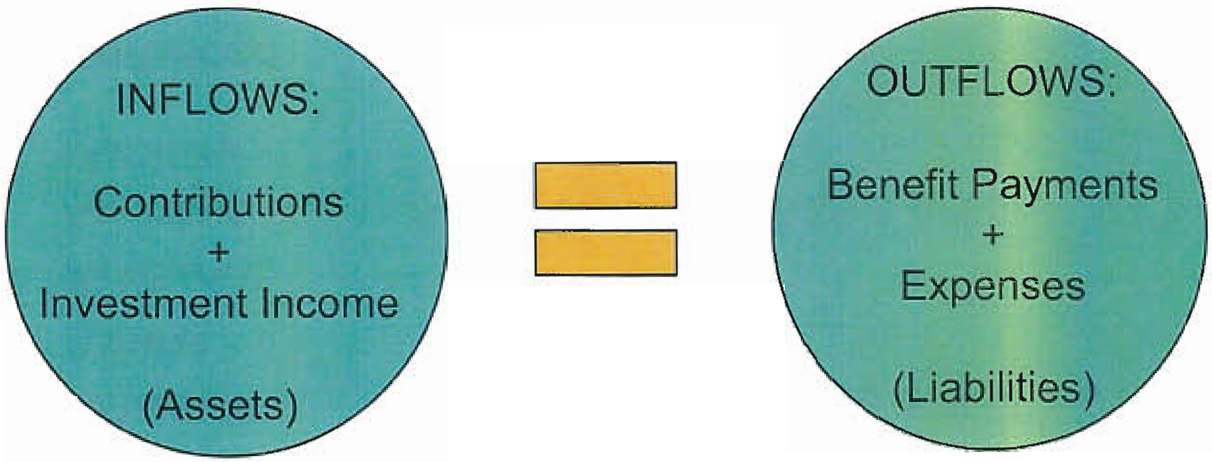
- Article IX, Section 8. Authorizes General Obligation Bonds
  - Subsection A: No such law [Authorizing General Obligation Bonds] shall take effect until it shall have been approved by a majority of qualified electors of the state. No debt shall be so created if the total indebtedness of the state would thereby be made to exceed one percent of the assessed valuation of all the property subject to taxation in the state.

- Article VIII, Section 10. Subsection A. Authorizes Severance Tax Bonds
  - There shall be deposited in a permanent trust fund known as the "severance tax permanent fund" that part of state revenue derived from excise taxes that have been or shall be designated severance taxes imposed upon the severance of natural resources within this state, <u>in excess of that amount that has been or shall be reserved by statute for the payment of principal and interest on outstanding bonds to which severance tax revenue has been or shall be pledged</u>.

Constitution of New Mexico Authorizes a Long-Term Pension Obligation to Public Employees

- Article XX, Section 22 (In Part)
  - Authorizes a trust fund to be set aside for the "sole and exclusive benefit" of public or educational plan member retirees.
  - Confers on members of retirement plans meeting minimum service requirements a vested property right in the retirement plan with due process protections under the applicable provisions of the New Mexico and United States constitutions.
  - States that: "Nothing in this section shall be construed to prohibit modifications to retirement plans that enhance or preserve the actuarial soundness of an affected trust fund or individual retirement plan.".

Pension Plan Funding Equation



- Actuarial Funding Accomplishes this equation over the life of the plan
  - Under actuarial funding, excess contributions in early years are invested and the investment income is used to pay benefits in later years.
  - An Unfunded Actuarial Liability occurs when Actuarial Accrued Liabilities exceed the Actuarial Value of Assets.
  - Funded Ratio is the ratio of Actuarial Value of Assets to Actuarial Accrued Liability.
  - Funding Period is the number of years required to amortize the Unfunded Actuarial Accrued Liability.

PERA,ERB and NMRHCA: Funded Status 6/30/2011

	PERA	ERB	NMRHCA
A. **Actuarial Value of Assets**	$11.9 Billion	$9.6 Billion	$177 Million
B. **Actuarial Accrued Liability**	$16.8 Billion	$15.3 Billion	$3.3 Billion
C. **Unfunded Actuarial Accrued Liability**	$4.9 Billion	$5.7 Billion	$3.1 Billion
D. **Funded Ratio**	71%	63%	6%
E. **Funding Period**	Infinite	Infinite	Infinite

Rating Agencies Combine Bonds and Unfunded Pension Liabilities into New Enhanced Debt Measure

- Moody's, Standard & Poor's and Fitch have all produced recent analyses and state comparisons on debt measures that combine bonded indebtedness and unfunded pension liabilities into a more meaningful measure.
- Pensions are not quite as airtight as bonds, but have state constitutional protection in most states.
- Like most states, New Mexico's unfunded pension liability is huge compared to bond debt outstanding:
  - New Mexico GO Bonds Outstanding: $356 million
  - New Mexico Severance Tax Bonds: $741 million
  - State Highway and Transportation Bonds: $1.7 billion
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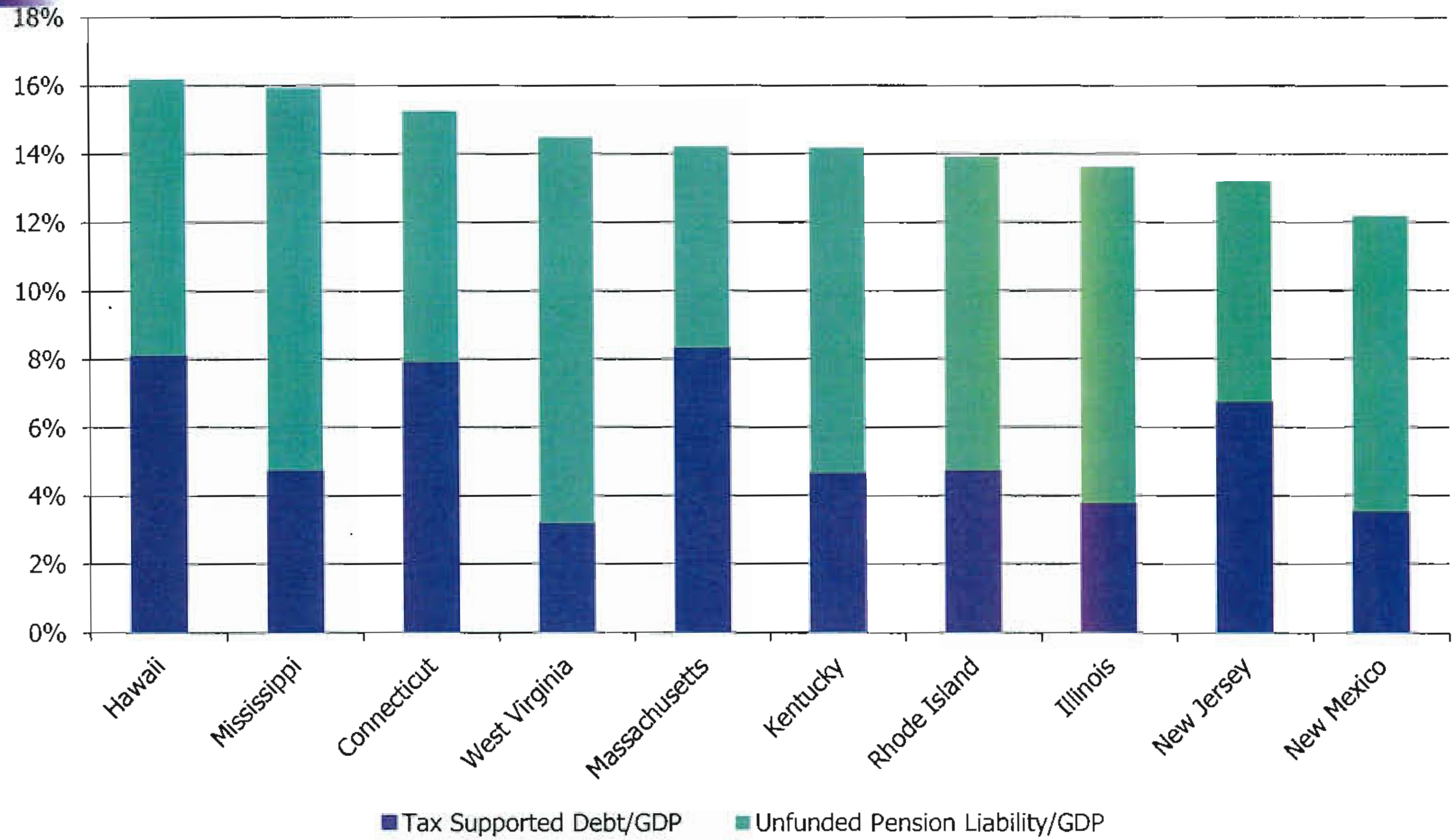
Moody's Investors Service: Combined Liabilities as Share of State GDP, Top 10 States



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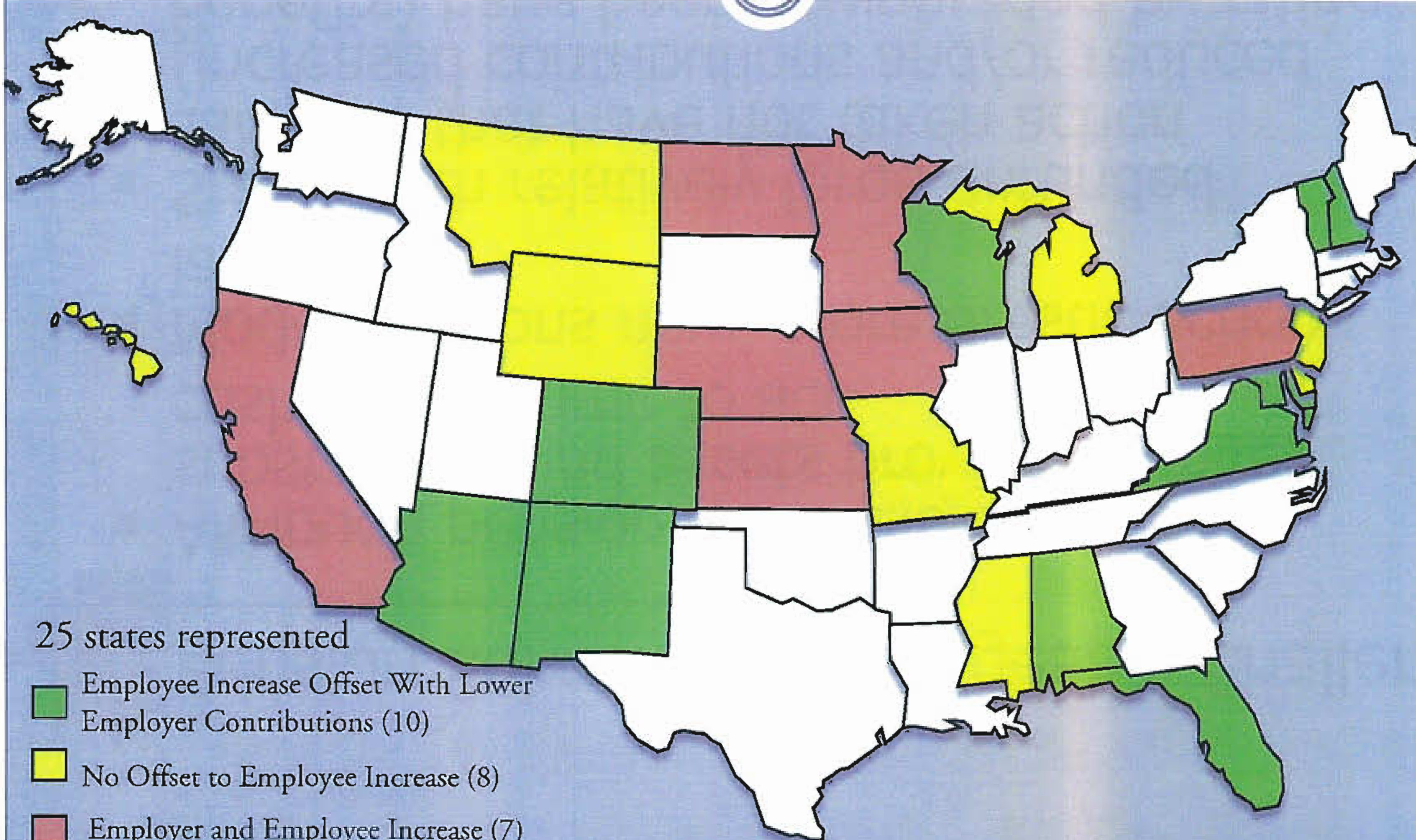
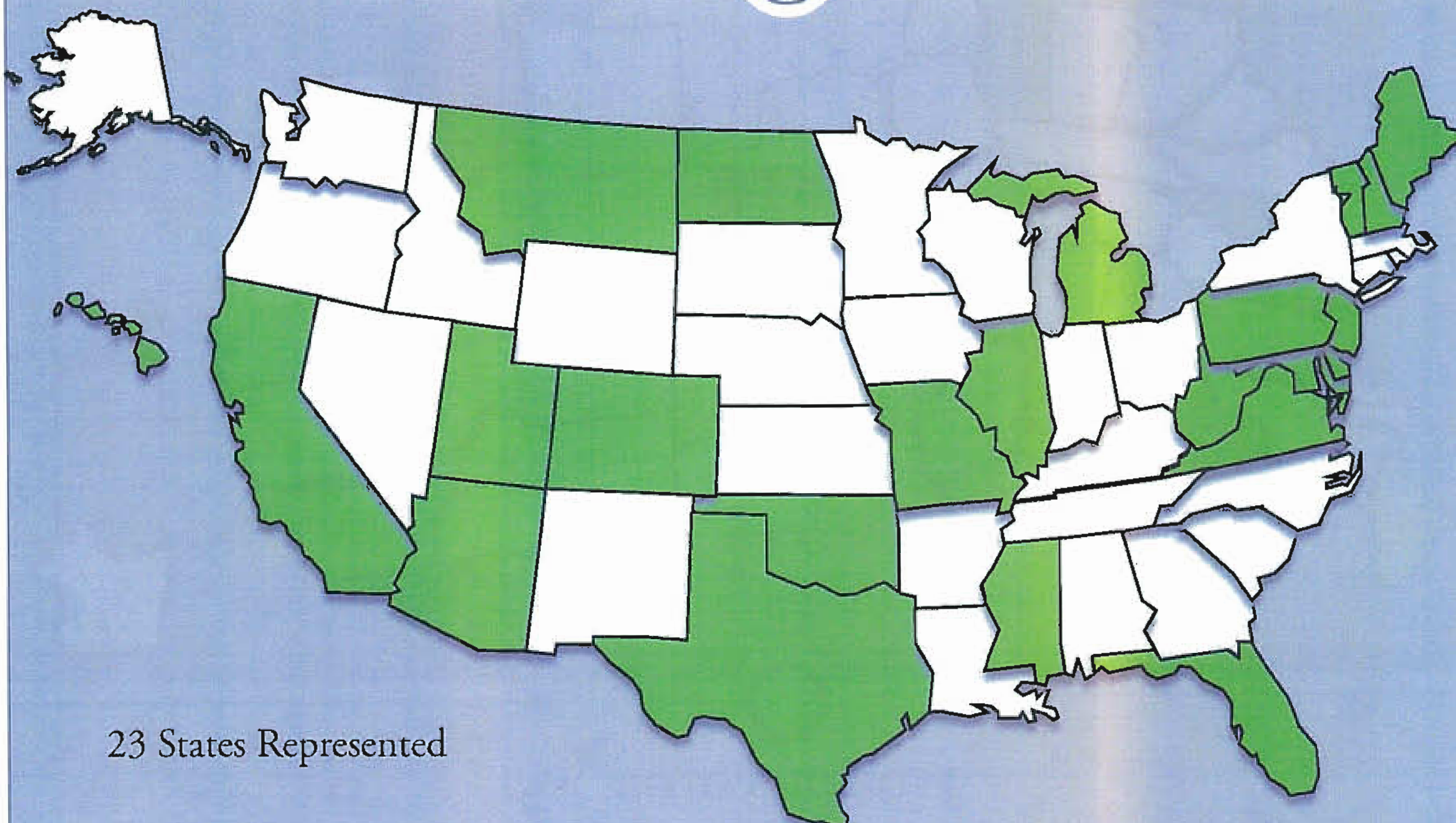


Source: National Conference of State Legislatures

Higher Age and Service Requirements for Normal Retirement, for New Members, 2010 and 2011



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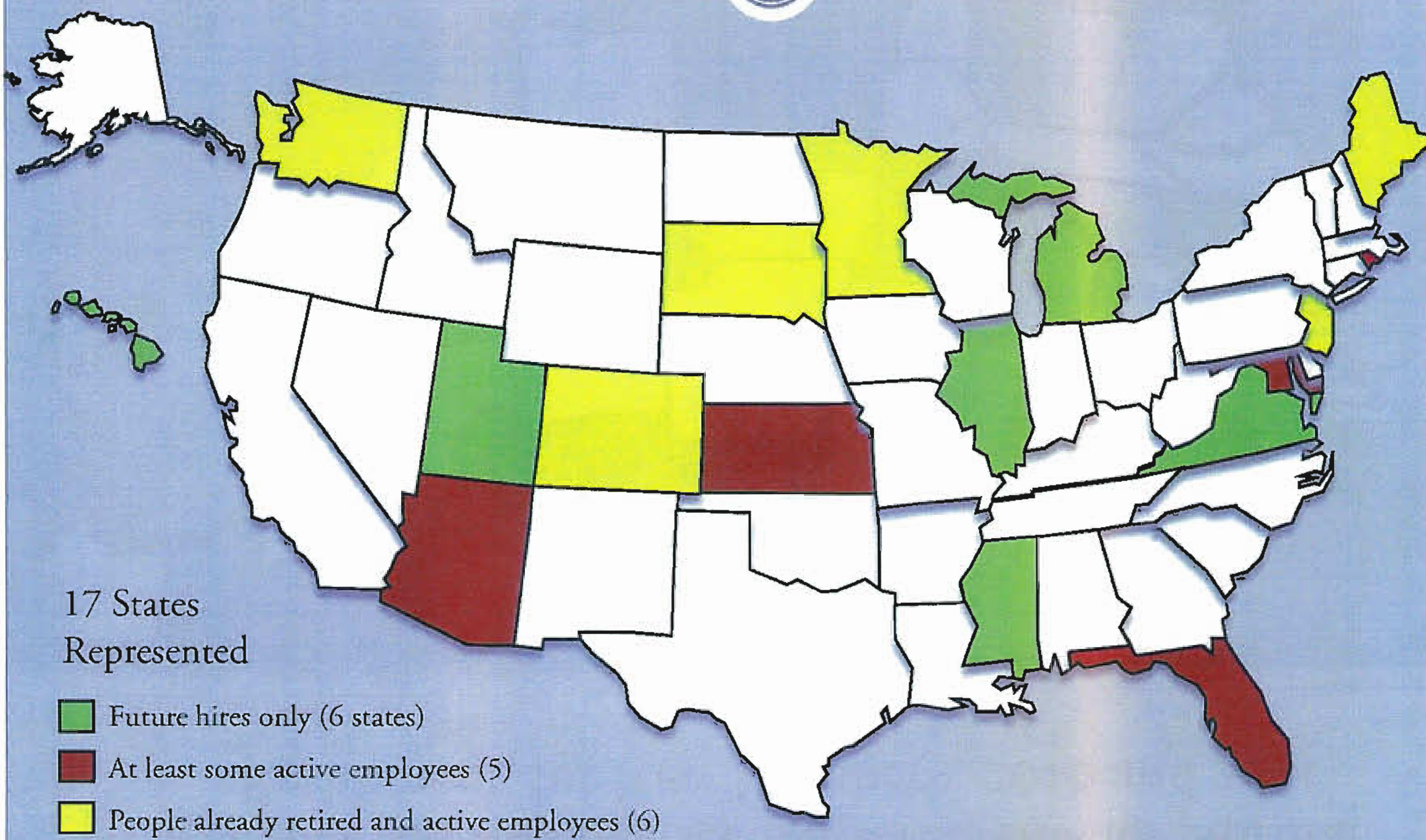


Source: National Conference of State Legislatures

Legislative Education Study Committee

Wednesday, November 14, 2012

ERB Legislative Recommendation

Jan Goodwin

NMERB Executive Director

Mary Lou Cameron- Chairman

H. Russell Goff- Vice Chairman

Securing financial futures NMERB since 1957

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Actuarial Status Actuarial Value of Assets (AVA) vs. Unfunded Actuarial Accrued Liability (UAAL)

	06/30/2011 Actuals	06/30/2012 Estimated
Number of Participants		
Active	*61,673*	*60,855*
Retirees and Beneficiaries	*35,457*	*37,337*
Inactive	*33,011*	*34,033*
Total	*130,141*	*132,225*
Total Payroll (in $ millions)	*$2,524*	*$2,618*
Actuarial Accrued Liability	*$15,293*	*$15,593*
Unfunded Actuarial Accrued Liability (in billions)	*$5.651*	*$6.049*
Actuarial Value of Assets (in millions)	*$9,642*	*$9,544*
Funded Ratio	*63.0%*	*59.8%*
Market Value/Fair Value of Assets (in millions)	*$9,589*	*$9,613*

Sources: 6/30/2011 values from 6/30/2011 Actuarial Report from GRS

6/30/2012 estimated funding results calculated by NEPC, ERB's Investment Consultant

Assumptions: 6/30/2012 assets and liabilities based on actual asset returns through 2/29/12 and NEPC 2012 Capital Market Assumptions, and an assumed discount rate of 7.75%

NMERB NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Projected Fund Status

Deterministic Projections – Funded Status

- **Funded status declines slowly over the next ten years under this Base Case scenario**
  - Discount rate remaining level at 7.75% and assets returning as assumed (approximately 6.6%)
  - Contributions are assumed to be made as projected on the following page
- **Actuarial Accrued Liability is forecast to increase at an average annual rate of 4.2%**
- **Actuarial Value of Assets is forecast to grow at an average annual rate of 3.0%, and therefore cannot keep pace with growing liabilities**
- **Funded status under various scenarios are reviewed in the next section**

Projection of Funded Status under Current Asset Allocation and Base Case Assumptions

Note: Liability and Asset values after 2011 were estimated by NEPC

NEPC

From NEPC, Asset - Liability Study May 2012

NMERB NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Current Initiatives

- Meetings of stakeholders have occurred since March 2012

AAUP	*NEA-NM*	*NMSBA*
AFSCME	*NMAER*	*NMSU*
AFT	*NMASBO*	*SFCC*
AFT Retirees	*NMCSA*	*UNM*
CWA-NM	*NMICC*	*UNM Retirees*

- Unanimous consent on proposal reached on July 17, 2012
- ERB endorsed proposal on September 19, 2012

ERB Recommendation

Proposal summary:

Increase contribution rate for all current and future employees to 10.7% in FY 15. FY 14 contribution rate will be 10.1%

Benefit changes for new members:

- Minimum retirement age 55
- COLA begins at age 67

NMERB
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

ERB Member Stakeholder Advisory Group Proposal

ERB Member Stakeholder Advisory Group Proposal

Study 104 - *Minimum Retirement Age (MRA) of 55 & 2% Cost of Living Adjustment (COLA) at age 67 for new hires only; Employee contribution rate of 10.7% effective FY2015*

Fiscal Year Ending June 30	UAAL (in millions)	Funded Ratio	Total ARC (Employer and Member)	Funding Period (Years)
2010	$ 5,432	63.5%	25.10%	infinite
2020	$ 7,864	63.6%	24.99%	31.9
2030	$ 8,397	71.2%	20.98%	17.1
2043	$ 2,113	95.2%	13.45%	1.8

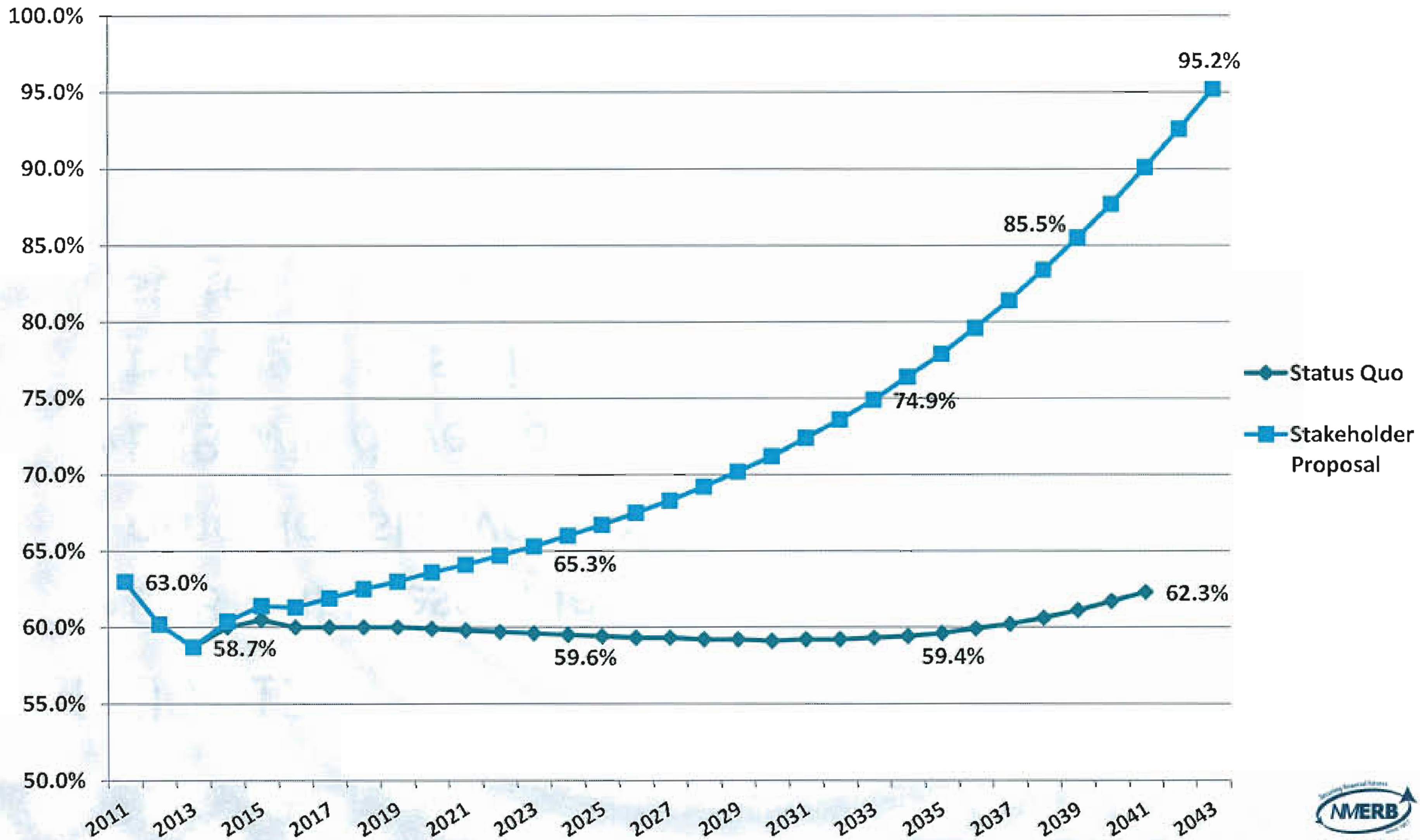
Projections Based on June 30, 2011 Actuarial Valuation

Projections based on 7.75% Discount Rate and New Actuarial Assumptions

The current plan provisions assume a member contribution rate of 7.9% in FY2012 and later. The employer contribution rate is equal to the statutory rate.

NMERB NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Funded Ratio – Status quo vs. Proposal



Next Steps…

Fall 2012:

- ERB will present legislative proposal to IPOC and other legislative committees, as requested
- ERB will develop additional stakeholder support through a series of presentations across the state

NMERB
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

History of ERB Retirement Benefits

History of ERB Retirement Benefits			
YEAR	RETIREMENT ELIGIBILITY	MULTIPLIER	COLA
1962	30 years of service with actuarial reduction if younger than age 60 Age 60 with 15 years of service	1.5% first $4,000 of Final Average Salary (FAS) and 1% thereafter	Ad Hoc COLA
1965	30 years of service with actuarial reduction if younger than age 60 Age 60 with 15 years' service Age 65 with 10 years of service	SAME	Ad Hoc COLA
1971	35 years of service 30 years of service with actuarial reduction if younger than age 60 Age 60 with 15 years of service Age 65 with 5 years of service	1.50%	Ad Hoc COLA
1974	35 years of service Rule of 75 with reduction if younger than age 60 Age 65 with 5 years of service	1.5% for years before July 1, 1957 2% for years after July 1, 1957	Ad Hoc COLA
1979	SAME	SAME	Based on change in CPI, capped at 2%. Can decrease - but not below original retirement benefit. Begins after 4 years of retirement.
1981	30 years of service Rule of 75 with reduction if younger than age 60 Age 65 with 5 years of service	SAME	SAME
1984	25 years of service Rule of 75 with reduction if younger than age 60 Age 65 with 5 years of service	SAME	Based on change in CPI, capped at 4%. On average, 2%. Begins the later of age 65 or one year following retirement.
1987	SAME	2.15%	SAME
1991	SAME	2.35%	SAME
1999	SAME	SAME	Ad Hoc COLA $2 for each year retired, $1 for each year of service
2010	SAME	SAME	Elimination of negative COLA
2010	Hired prior to 7/1/2010: SAME Hired after 7/1/2010: 30 years of service Rule of 80 with reduction if younger than 65 Age 67 with 5 years of service	SAME	SAME

NMERB
NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Schedule of Contributions Rates

Fiscal Year	Wage Category	Date Range	Member Rate	Employer Rate	Total	% Employee Pays
58-59		*7/1/1957 -6/30/1959*	*3.00%*	*4.00%*	*7.00%*	***42.86%***
60-74		*7/1/1959 -6/30/1974*	*4.00%*	*6.50%*	*10.50%*	***38.10%***
75-79		*7/1/1974 -6/30/1979*	*5.50%*	*6.50%*	*12.00%*	***45.83%***
80-81		*7/1/1979 -6/30/1981*	*6.50%*	*6.50%*	*13.00%*	***50.00%***
82-84		*7/1/1981 -6/30/1984*	*6.80%*	*6.80%*	*13.60%*	***50.00%***
85-93		*7/1/1984 -6/30/1993*	*7.60%*	*7.60%*	*15.20%*	***50.00%***
94-2005		*7/1/1993 -6/30/2005*	*7.60%*	*8.65%*	*16.25%*	***46.77%***
2006		*7/1/2005 -6/30/2006*	*7.675%*	*9.40%*	*17.075%*	***44.95%***
2007		*7/1/2006 -6/30/2007*	*7.75%*	*10.15%*	*17.90%*	***43.30%***
2008		*7/1/2007 -6/30/2008*	*7.825%*	*10.90%*	*18.725%*	***41.79%***
2009		*7/1/2008 -6/30/2009*	*7.90%*	*11.65%*	*19.55%*	***40.41%***
2010 & 2011	*$20k or less*	*7/1/2009 -6/30/2011*	*7.90%*	*12.40%*	*20.30%*	***38.92%***
2010 & 2011	*Over $20K*	*7/1/2009 -6/30/2011*	*9.40%*	*10.90%*	*20.30%*	***46.31%***
2012	*$20k or less*	*7/1/2011 - 6/30/2012*	*7.90%*	*12.40%*	*20.30%*	***38.92%***
2012	*Over $20K*	*7/1/2011 - 6/30/2012*	*11.15%*	*9.15%*	*20.30%*	***54.93%***
2013	*$20k or less*	*7/1/2012 - 6/30/2013*	*7.90%*	*12.40%*	*20.30%*	***38.92%***
2013	*Over $20K*	*7/1/2012 - 6/30/2013*	*9.40%*	*10.90%*	*20.30%*	***46.31%***
2014	*all*	*7/1/2013 - 6/30/2014*	*7.90%*	*13.15%*	*21.05%*	***37.53%***
PROPOSED	*ALL*	*PROPOSED*	*10.70%*	*13.90%*	*24.60%*	***43.5%***

NMERB NEW MEXICO EDUCATIONAL RETIREMENT BOARD

Legislative Education Study Committee

Representative Rick Miera, Chair

November 14, 2012

Wayne Propst, Executive Director, PERA

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Public Employees Retirement Association of New Mexico

Update on PERA Fund Status

- In October PERA reported an increase of $1.2 billion (from approximately $5 billion to $6.2 billion) in its unfunded liability as of June 30, 2012. While PERA had expected an increase in liabilities due to the final smoothing in of investment losses from 2009, the one-year increase since June 30, 2011 was greater than anticipated.

- The additional increase was driven primarily by investment performance in FY12.

- PERA's funded status has declined from 70.5% to 65.3%.

- PERA's investment returns for the past 12 months and the first quarter of FY13 have shown improvement over FY12.

- HJM 19, passed during the 2012 session required the PERA Board to develop a plan to pay off the unfunded liability by 2041 and make reforms to the benefit offered to retirees, current active members and future members. PERA adopted its plan in June.

Updated Funded Status by Plan
June 30, 2012

Plan	Funded Ratio
PERA Total	65.3%
State General	60.4%
State Police/Corrections	95.3%
Municipal General	69.5%
Municipal Police	65.8%
Municipal Fire	55.2%
Judicial	51.0%
Magistrate	53.2%
Legislative	91.8%
Volunteer Fire	167.9%

PERA Reform Proposal

- **Non-Public Safety Employees Hired After 6/30/10**
  - 0.5% Reduction in Annual Pension Factor
  - Retirement Eligibility: Age and Service Rule of 85 or Age 65 with 8 Years of Service
  - 5-year Final Average Salary
  - 8-year Vesting
  - 90% Pension Maximum
  - 2% Compounding COLA
  - Seven full-calendar -year eligibility period to receive COLA
- **Public Safety Employees Hired After 6/30/10**
  - 0.5% Reduction in Annual Pension Factor
  - Retirement Eligibility: Age and Service Rule of 75 or Age 60 with 6 Years of Service
  - 5-year Final Average Salary
  - 6-year Vesting
  - 90% Pension Maximum
  - 2% Compounding COLA
  - Seven full-calendar-year eligibility period to receive COLA

PERA Reform Proposal

- **Current Retirees**:
  - Reduce annual compounding COLA rate from 3% to 2%.
  - Suspend COLA for return-to-work retirees during period of reemployment.

- **Current Active Members Hired Prior to July 1, 2010:**
  - Reduce annual compounding COLA from 3% to 2%.
  - Graduated seven full-calendar-year eligibility to receive COLA. No change in COLA one-year eligibility for employees who retire age 65 or older or retire due to a disability.
  - 90% Pension Benefit Maximum.

PERA Reform Proposal

- **Employer/Employee Contributions Effective 7/1/2013:**
  - Increase employee contribution rate by 1.50%.
    - Accomplished for state employees by removing sunset of contribution shift.
  - Beginning 7/1/2014 and for the following two fiscal years, increase all statutory employer contribution rates by 0.50% each fiscal year (total of 1.50%).

A History of Reliable Pension Benefits

- PERA is celebrating its 65^{th} year of providing pension benefits to New Mexico's public employees.
- Since 1947, when Truman was President and Jackie Robinson was breaking the color barrier in baseball, PERA has been providing a secure retirement for our members.
- We've delivered a pension benefit through the economic downturn of the early 1980s, the technology boom and bust of the 1990s and every month during the past five years, the worst economic downturn since the Great Depression.
- The Board's reform proposal will pay off our unfunded liability and allow PERA to be a source of retirement security for another 65 years.

Conclusion

- While a snapshot of the Fund on a single day only, PERA's most recent actuarial valuation lends increased urgency to passing pension reform legislation in 2013.
- PERA cannot invest our way out of the financial challenges we face. Responsible pension reform with shared responsibility from all of our members is needed.
- Even with the most recent valuation results the Fund is expected to still reach 100% funded status on or before 2042 if the Board's reform proposal is adopted. The Fund will continue to improve significantly when the new tier members begin to retire.

Fund Trajectory Without Reform