



PERA

Investments & Pensions Oversight Committee

Overview of Governor's Task Force Recommendations

Senator George K. Muñoz, Chair
Representative Patricia Roybal Caballero, Vice-Chair

November 6, 2019

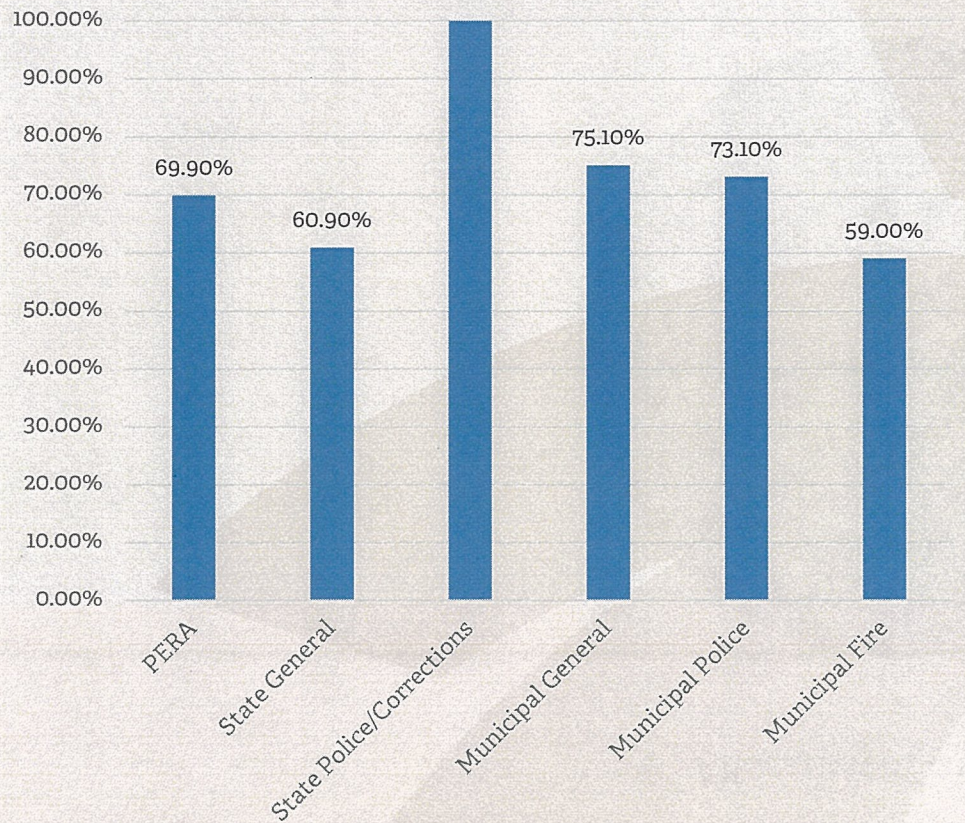
Dr. Jackie Kohlasch, Chair
John Melia, Vice Chair
Wayne Propst, Executive Director

PERA Funded Ratio and Unfunded Liability by Division

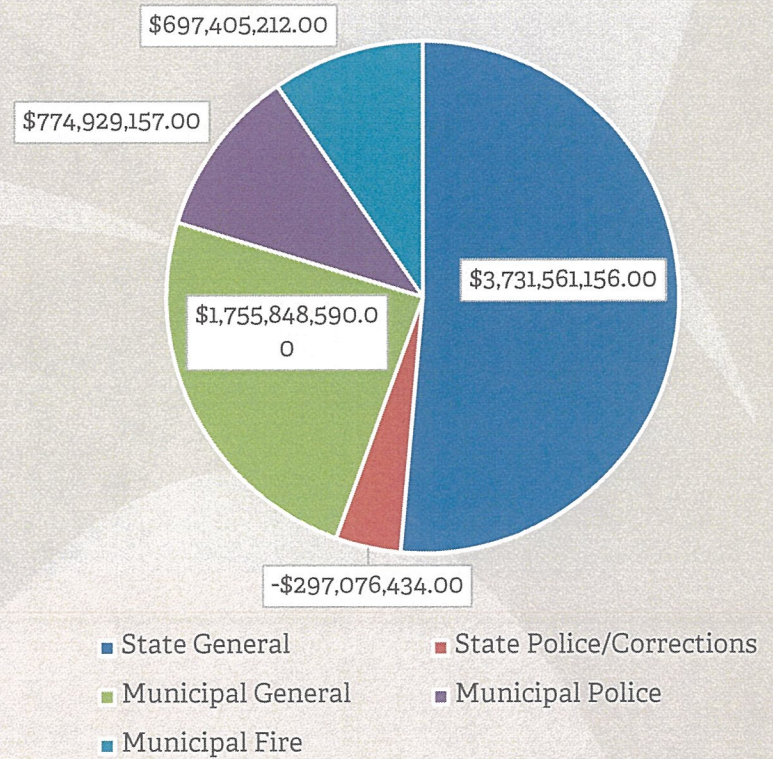
	6/30/2019			6/30/2018		
	Funded Ratio	Amortization Period	UAAL	Funded Ratio	Amortization Period	UAAL
PERA	69.9%	Infinite	\$ 6,662,667,681	71.60%	Infinite	\$ 6,060,590,511
State General	60.9%	Infinite	\$ 3,731,561,156	63.1	Infinite	\$ 3,395,590,697
State Police/Corrections	130.2%	0	\$ (297,076,434)	130.20%	0	\$ (286,008,756)
Municipal General	75.1%	45 Years	\$ 1,755,848,590	76.30%	43 Years	\$ 1,613,346,077
Municipal Police	73.1%	Infinite	\$ 774,929,157	74.80%	Infinite	\$ 691,974,186
Municipal Fire	59.0%	Infinite	\$ 697,405,212	60.20%	Infinite	\$ 645,688,307

PERA Funded Ratio and Unfunded Liability by Division

Funded Ratio by Division - PE



UAAL by Division - PE

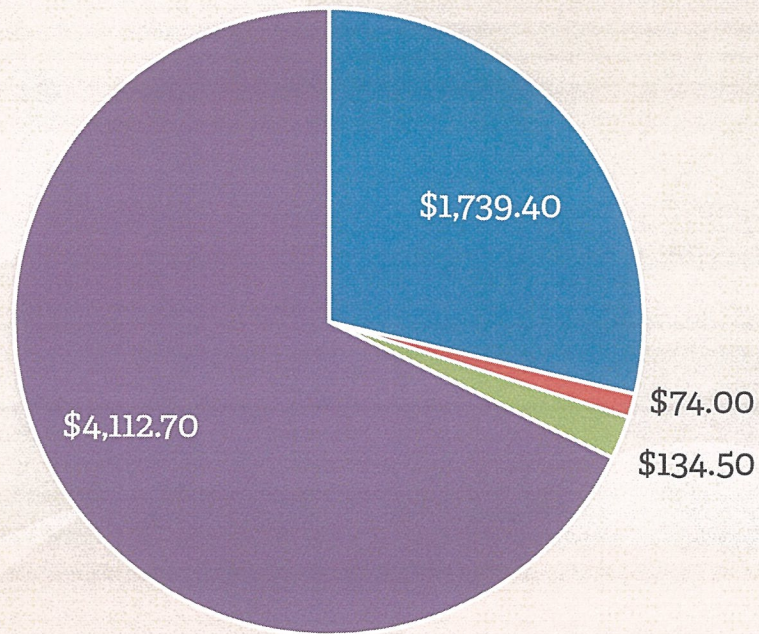


All divisions infinitely funded with exception of Municipal General (45 years) & State Police/Corrections (0 years)

State Divisions account for 51.55% of the UAAL, Municipal Divisions account for 48.45% of the UAAL

Breakdown of \$6.1 Billion Unfunded Liability

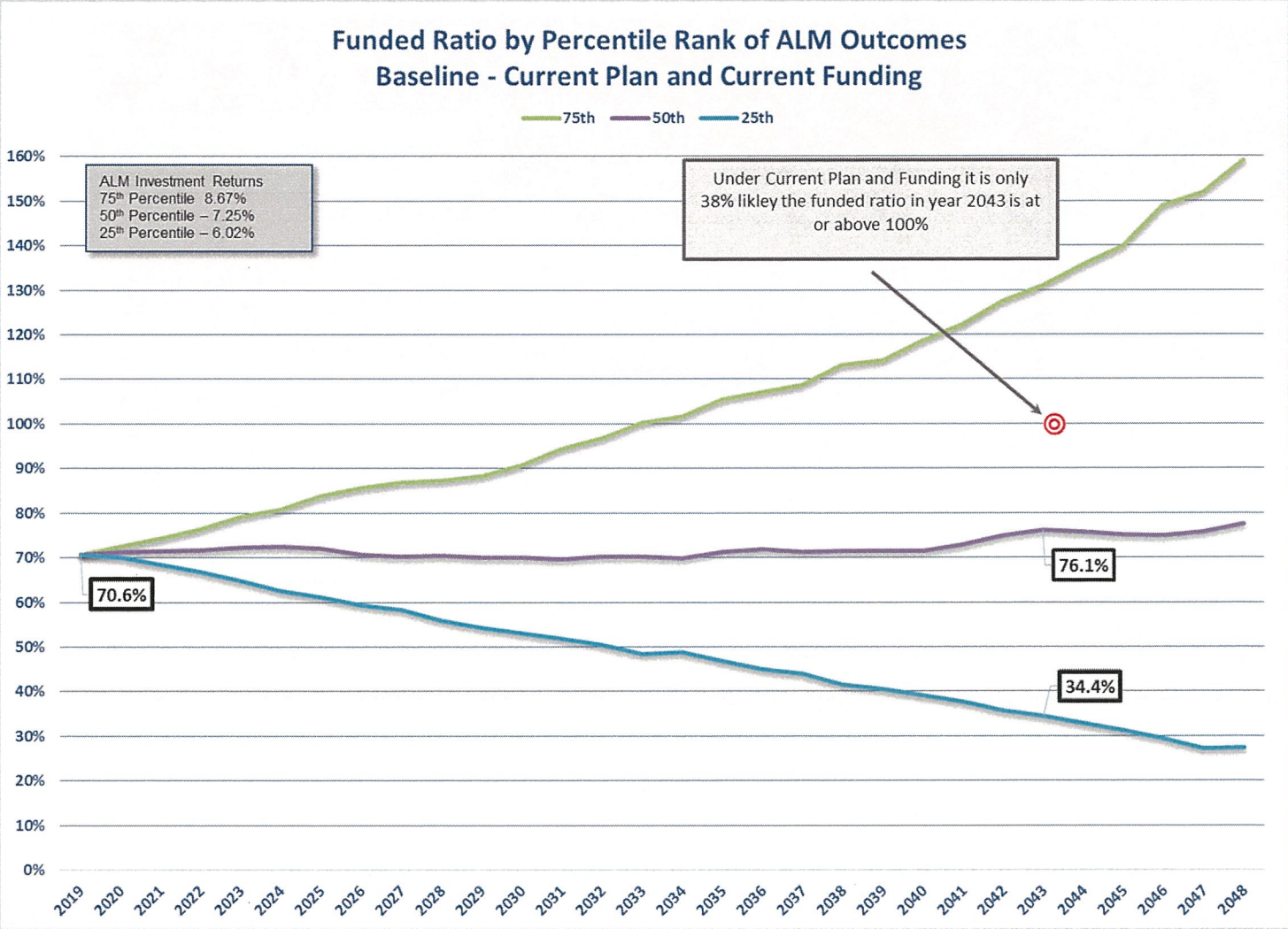
Allocation of 2018 UAAL



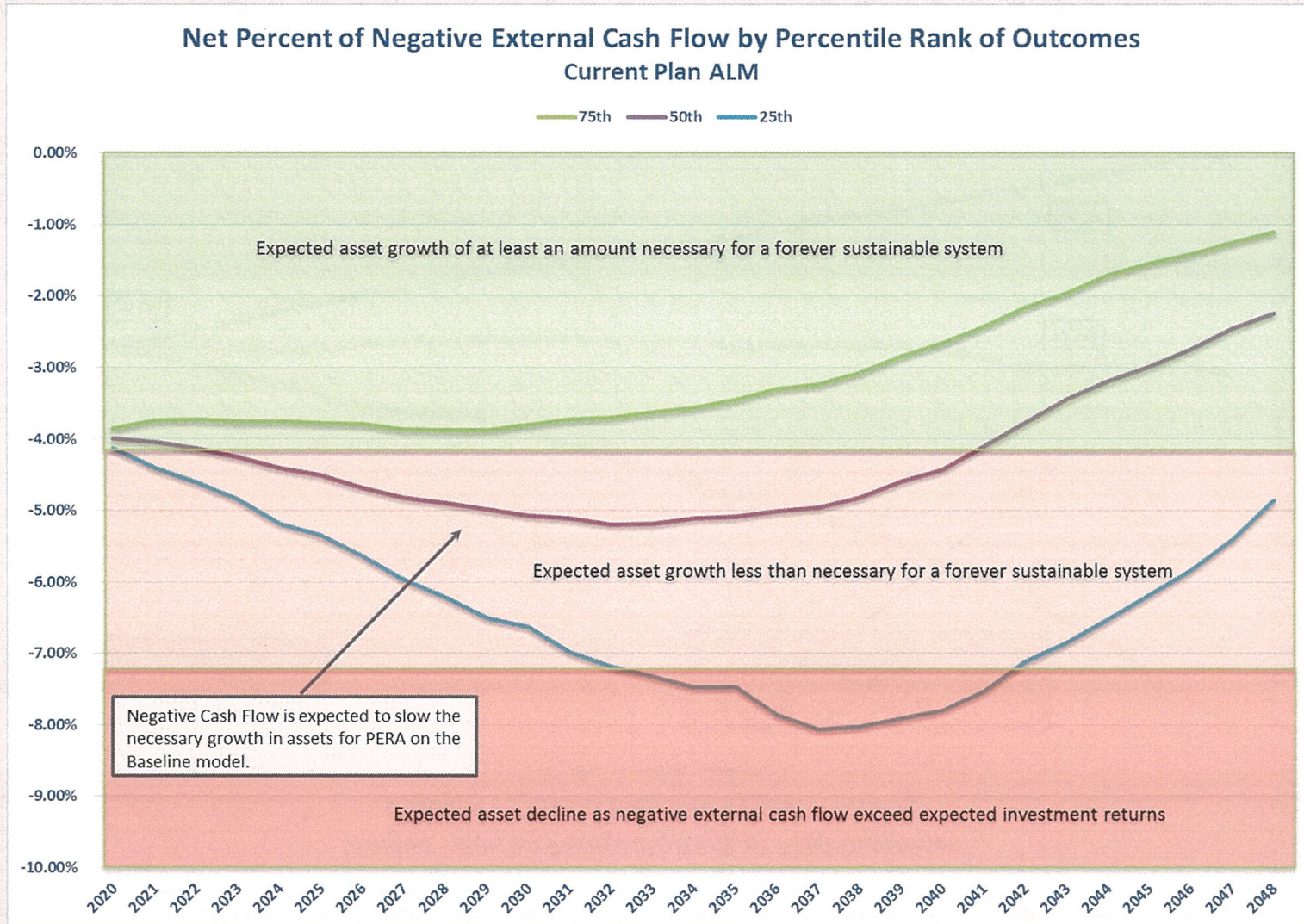
■ Tier 1 Actives ■ Tier 2 Actives ■ Inactives ■ Retirees and Beneficiaries



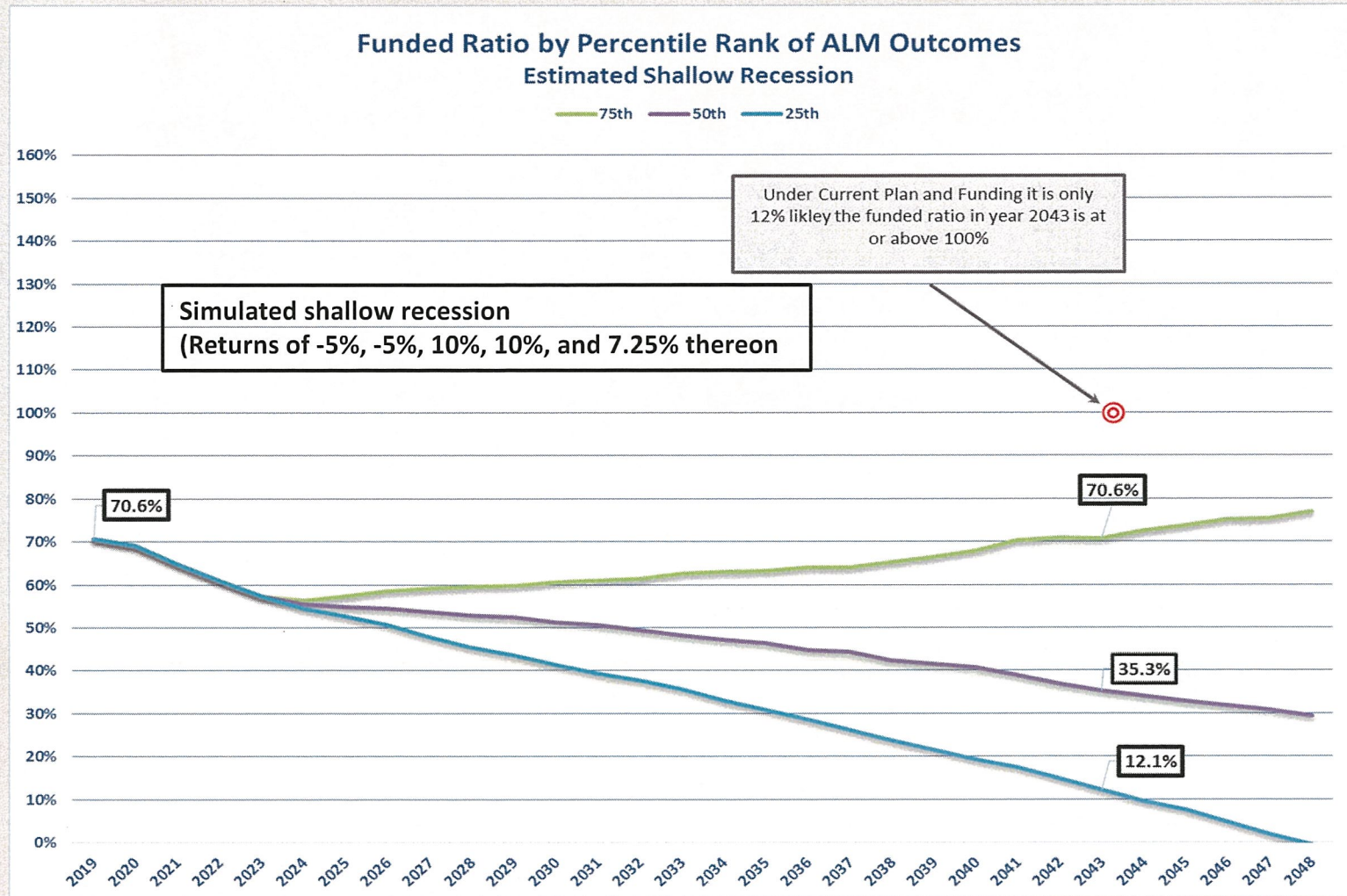
Current Funded Ratio Projections



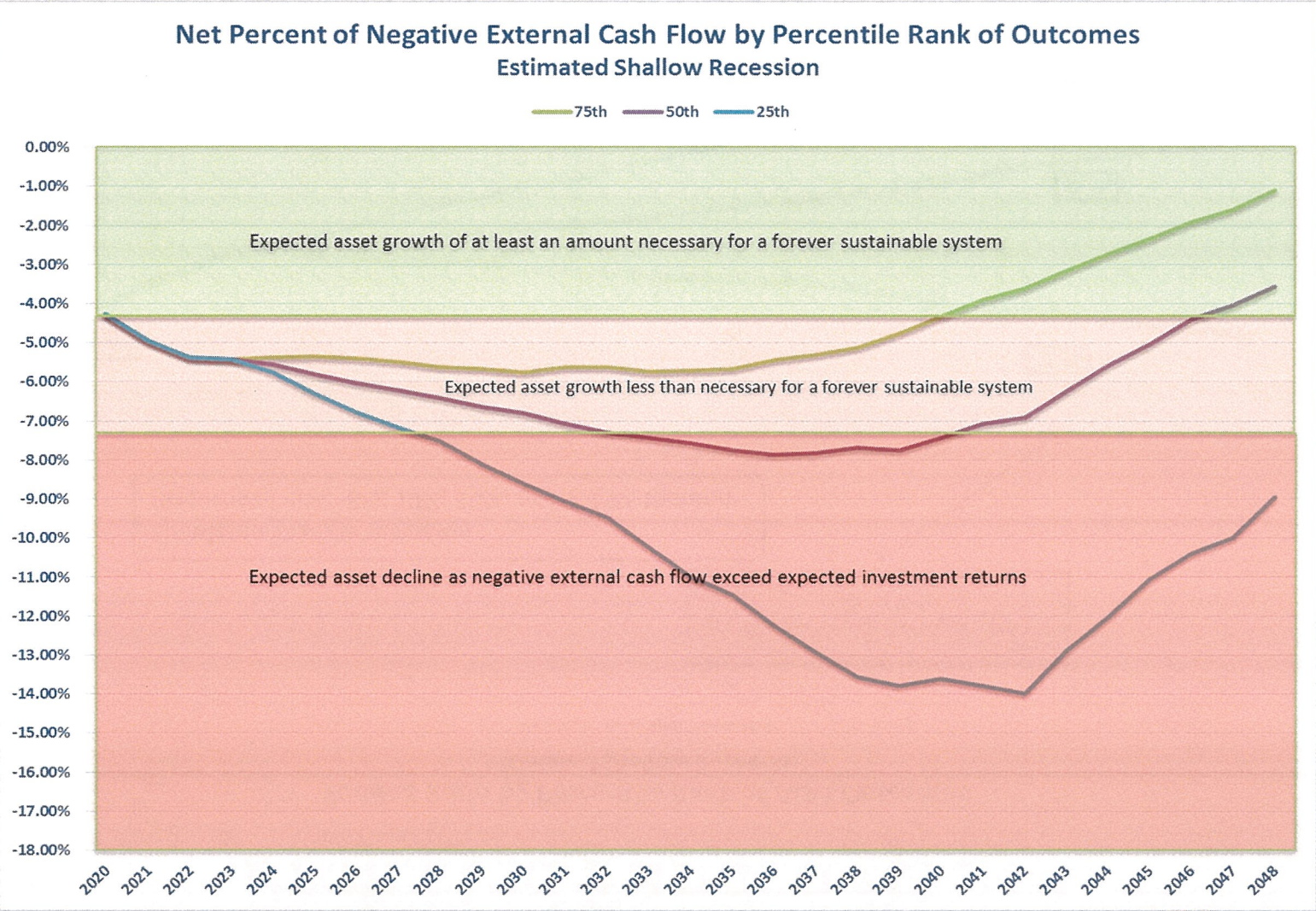
Current Cash Flow Projections



Impact of a Shallow Recession on Projected Funded Ratios



Impact of a Shallow Recession on Cash Flow



Summary of Governor's PERA Solvency Task Force Recommendations

- Recommendations projected to eliminate PERA's \$6.1 billion unfunded liability within 25 years
- Recommendations projected to result in an immediate \$700 million reduction to PERA's unfunded liability
- Recommendations replace previous proposals to freeze COLAs for three years with a 2% "13th Check" payment that pauses the compounding factor for the next 3 years
- Recommendations preserve a COLA for current and future retirees with a minimum COLA of .5% and a maximum of 3% based on a profit share model tied to investment performance. Once PERA achieves 100% funded level, maximum COLA increased to 5%
- Recommendations begin to address disparity in funding levels among PERA Divisions by exempting State Police and Adult Correctional Officers from proposed contribution increases
- Recommendations protect lowest income retirees by guaranteeing a COLA of 2.5% for retirees with pensions below \$25,000 who have worked 25 years or receiving disability retirement
- Recommendations protect lowest income active members by exempting those with incomes of \$25,000 or less from proposed contribution increases
- Recommendations eliminate the current 7 year wait to receive a COLA and reinstates the 2 calendar year wait
- Recommendations eliminate current earnings cap of 90% to encourage employees to work longer

Governor's PERA Solvency Task Force Recommendations

- **Contributions**

- Increase employee and employer contributions by 4% (2% employee, 2% employer)
 - 1% increase (0.5% from both) per year for 4 years
 - Would not apply to State Police/Adult Correctional Officers Division
- Eliminate current earnings cap of 90% to encourage employees to work longer

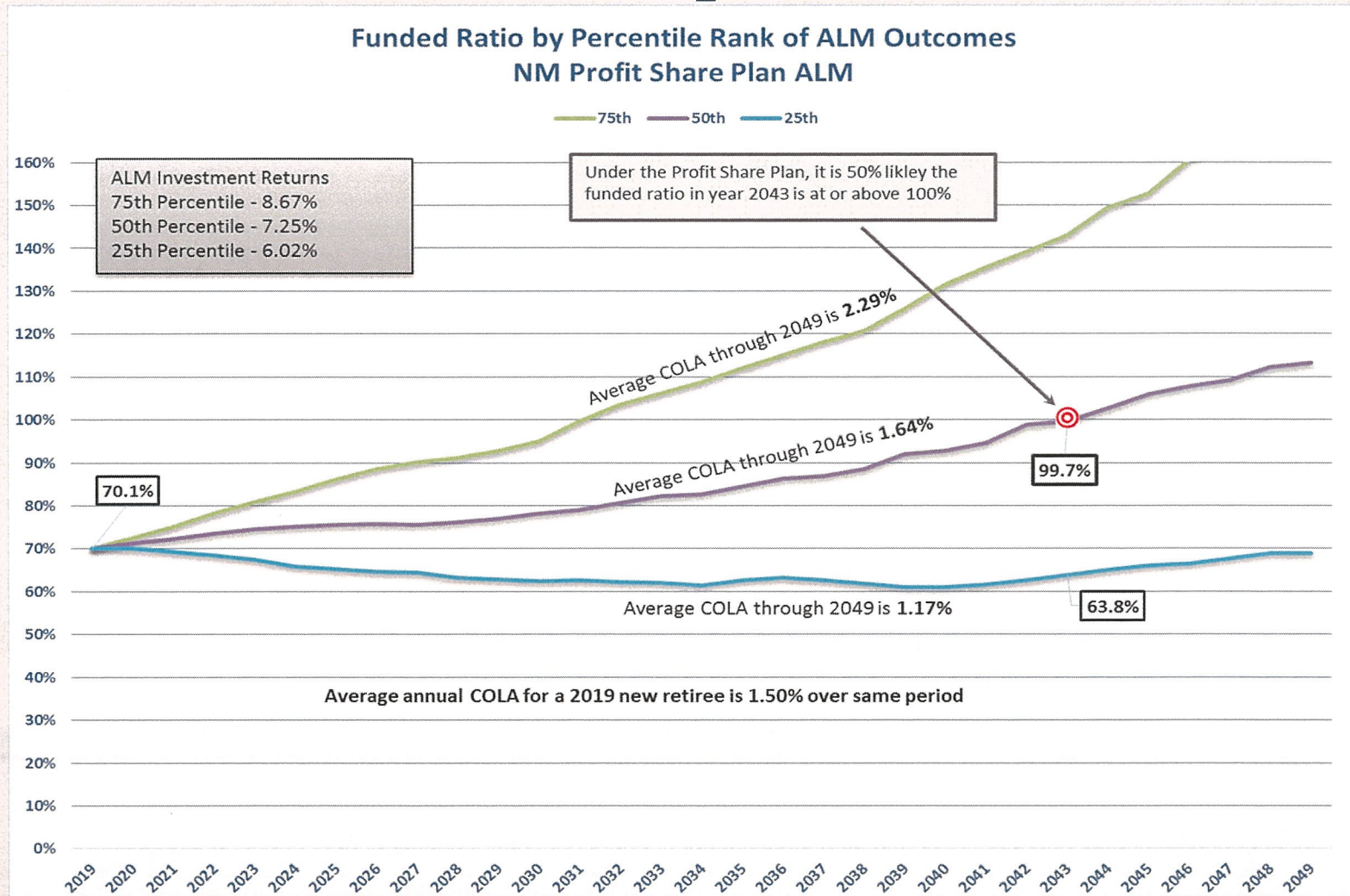
- **COLA Structure for FYs 2021, 2022, 2023**

- Retirees with 25 years of service and annual pension less than \$25,000 receive 2.5% compounded COLA
- Disabled retirees with annual pension less than \$25,000 receive 2.5% compounded COLA
- All others retired at least 24 months receive 2% "13th Check" Payment

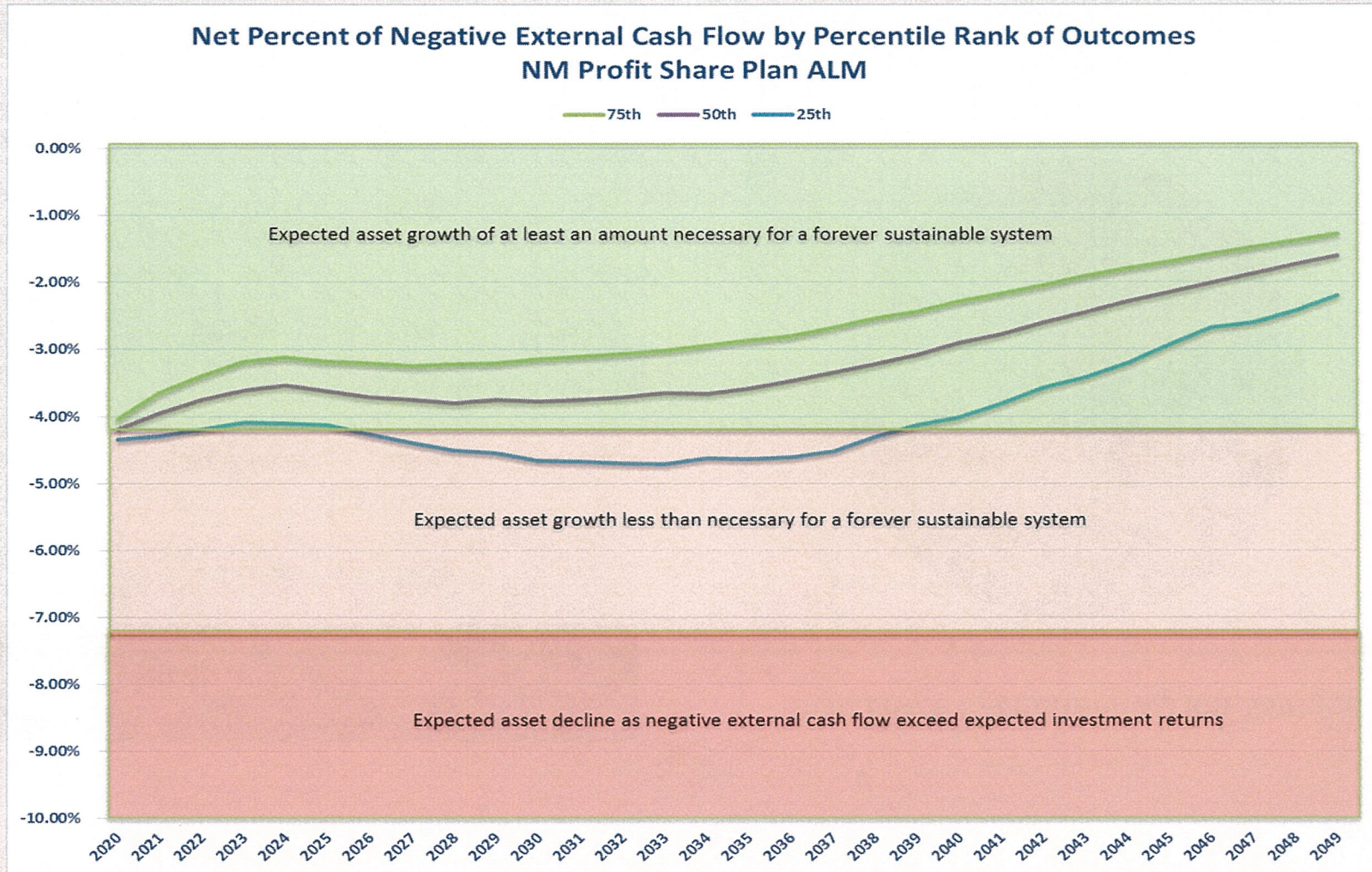
Governor's PERA Task Force Profit Share COLA Recommendation

- Profit Share COLA FY 2024 +
 - Eliminate 7 year COLA waiting period and replace with 2 year waiting period (same as before SB 27)
 - Minimum COLA is 0.5% per year
 - Maximum COLA is 3.0% per year if funded ratio < 100%
 - Maximum COLA is 5.0% per year if funded ratio \geq 100%
 - COLA greater than minimum based on smoothed asset returns exceeding 6.0%

Governor's PERA Task Force Recommendations Impact on Funded Ratio



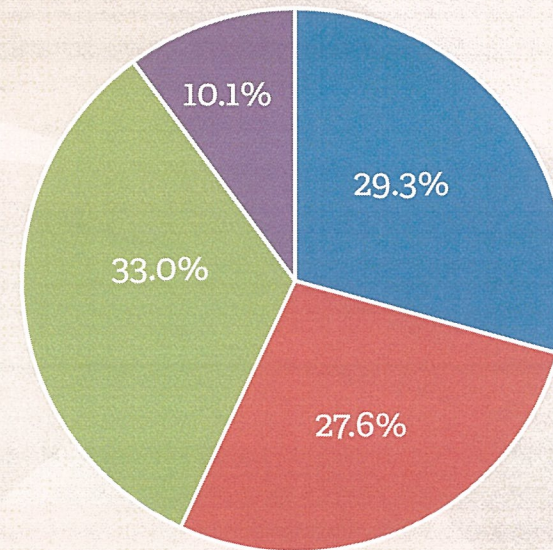
Governor's PERA Task Force Recommendations Impact on Cash Flow



Impact of Governor's PERA Task Force Recommendations on UAAL in 2043

	2043 UAAL (\$ Million)	2043 Funded Ratio	Portion of Savings
<i>Current Baseline Projection</i>	\$ 10,332.3	70.6%	
ER Contribution Increase (2% phased in)	\$ (3,004.8)	8.5%	29.3%
EE Contribution Increase (2% phased in)	\$ (2,824.1)	8.0%	27.6%
3 Year COLA Suspension	\$ (3,375.2)	9.6%	33.0%
Profit Sharing COLA	\$ (1,035.3)	3.0%	10.1%
Task Force Recommendation	\$ 92.9	99.7%	

Task Force Recommendation Savings



- Employer Contribution Increase
- Employee Contribution Increase
- 3 Year COLA Suspension
- Profit Sharing COLA

Estimated Savings of 2% “13th Check” COLA for FY 2021, 2022, and 2023

6/30/2020 UAAL Reduction for 3-Year Suspension of Current COLA	Cost of 3 Annual 2% “13th Check” Payments
\$693,000,000	\$76,000,000

Examples of NM Profit Share COLA

0.5% Minimum and 3.0% Maximum if Funded Ratio < 100%

		<i>Funded Ratio</i>				
		60%	70%	80%	90%	100%
<i>Smoothed Investment Return</i>	5.00	0.50%	0.50%	0.50%	0.50%	0.50%
	5.50	0.50%	0.50%	0.50%	0.50%	0.50%
	6.00	0.50%	0.50%	0.50%	0.50%	0.50%
	6.50	0.50%	0.50%	0.50%	0.50%	0.50%
	7.00	0.60%	0.70%	0.80%	0.90%	1.00%
	7.50	0.90%	1.05%	1.20%	1.35%	1.50%
	8.00	1.20%	1.40%	1.60%	1.80%	2.00%
	8.50	1.50%	1.75%	2.00%	2.25%	2.50%
	9.00	1.80%	2.10%	2.40%	2.70%	3.00%
	9.50	2.10%	2.45%	2.80%	3.00%	3.50%

Governor's PERA Task Force Recommendations for 3 Year 13th Check

COLA Difference based on \$50,000 Annual Benefit

COMPOUNDING COLA - CURRENT MODEL			
	6/30/2020 Benefit	+ Current 2% COLA	= Ending Benefit
Year 1	\$ 50,000.00	+ \$ 1,000.00	= \$ 51,000.00
Year 1 COLA (\$1,000) + Year 2 COLA (\$1,020) = \$2,020			
Year 2	\$ 50,000.00	+ \$ 2,020.00	= \$ 52,020.00
Year 1 COLA (\$1,000) + Year 2 COLA (\$1,020) + Year 3 COLA (\$1,040.40)			
Year 3	\$ 50,000.00	+ \$ 3,060.40	= \$ 53,060.40

2% 13 th Check - PROPOSED MODEL for 3 YEAR PERIOD			
	6/30/2020 Benefit	+ 2% 13 th Check	= Ending Benefit
Year 1	\$ 50,000.00	+ \$ 1,000.00	= \$ 51,000.00
Year 2	\$ 50,000.00	+ \$ 1,000.00	= \$ 51,000.00
Year 3	\$ 50,000.00	+ \$ 1,000.00	= \$ 51,000.00

Total COLA Over 3 Years = \$ 6,080.40

Total COLA Over 3 Years = \$ 3,000.00

Difference in COLA \$ 3,080.40

Governor's PERA Task Force Recommendations Contribution Increases Impact

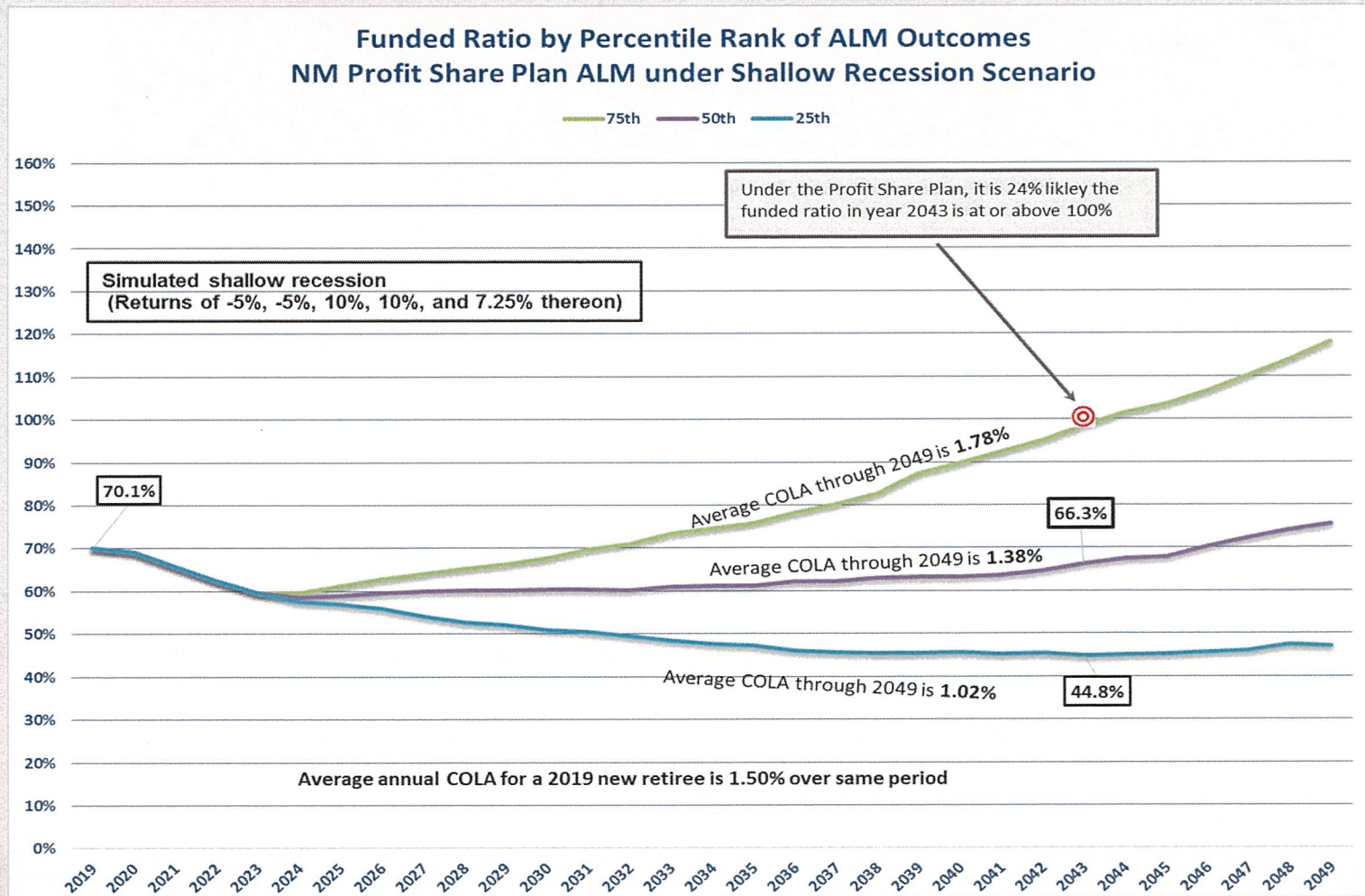
Contribution Increase Based on \$50,000 Annual Salary

Salary	Employee Contribution = 8.92%	Employer Contribution = 17.24%
\$ 50,000.00	\$ 4,460.00	\$ 8,620.00

PROPOSED CONTRIBUTION 2% INCREASE (STATE PLAN 3)		
Salary	Employee Contribution = 10.92%	Employer Contribution = 19.24%
\$ 50,000.00	\$ 5,460.00	\$ 9,620.00
Annual Increase	\$ 1,000.00	\$ 1,000.00
Increase x 3 Years	\$ 3,000.00	\$ 3,000.00
Total Increase Employee/Employer		\$ 6,000.00

Governor's PERA Task Force Recommendations

Stress Tested in a Shallow Recession Scenario



Governor's PERA Task Force Recommendations Stress Tested in a Shallow Recession Scenario

