

# ENSURING A FISCALLY RESPONSIBLE & SUSTAINABLE PENSION PLAN

NEW MEXICO EDUCATIONAL RETIREMENT BOARD

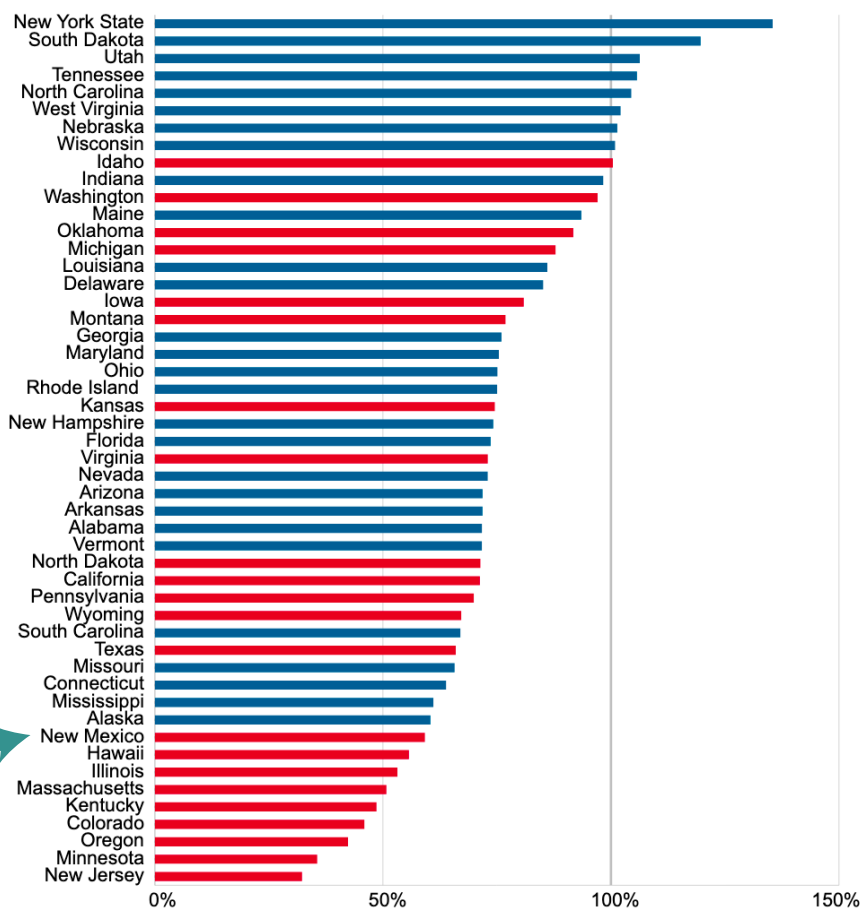


## STEP IN THE RIGHT DIRECTION

Pension legislation enacted in 2019 was important progress. However, more work remains to create a fiscally responsible and sustainable retirement plan.

## NEW MEXICO RANKS LOW IN PENSION FUNDING PROGRESS

State Plan Minimum Funding Progress



## STANDARD & POOR'S GLOBAL RATINGS:

"In our view, states that consistently fund full required contributions on an actuarial basis and use conservative assumptions and methods are more likely to effectively manage their pension liabilities and the associated long-term budgetary costs than states that do not."

**BLUE:** Pension contributions are actuarially based and usually meet or exceed required levels.

**RED:** Pension contributions do not have an actuarial basis and are not usually fully funded.

**Note:** New Mexico ranking includes ERB and PERA.

**Source:** S&P Global Ratings, U.S. State Pensions Struggle for Gains Amid Market Shifts and Demographic Headwinds, October 30, 2018.

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# RATINGS AGENCIES ON NEW MEXICO'S PENSION LIABILITIES

## Moody's April 19, 2019, Periodic Review:

"The state is challenged by its extremely large pension liabilities."

"That pressure is compounded by spending challenges associated with a large Medicaid caseload, a revenue structure more concentrated and volatile than most similarly-situated states, an economy that has lagged the nation's, below-average wealth levels, and financial reporting practices, which while improving, are weaker than typical for a U.S. state."

## Moody's June 18, 2018, Rating Action, Downgrade General Obligation Bonds From Aa1 to Aa2:

"The downgrade of the state's general obligation bonds to Aa2 is primarily attributable to the state's extremely large pension liabilities..."

## Moody's October 25, 2016, Rating Action, Downgrade General Obligation Bonds From Aaa to Aa1:

"The downgrade of the state's general obligation rating is driven by the depletion of general fund reserves following a very large and unanticipated shortfall in tax revenues for fiscal 2016 and 2017."

## S&P September 12, 2018, Outlook Revised:

"To stable from negative and affirmed its 'AA' rating on the general obligation bonds."

"Annual pension contributions have typically been below plan service, interest, & amortization costs."

"Another potential pressure could occur if the state's statutory pension funding formula proves insufficient to keep GASB pension-funded ratios from declining significantly and New Mexico takes no action to short [sic] up funding levels, either through changes in the statutory pension funding formula or benefit levels."

"... we consider the state's unfunded pension liabilities high."

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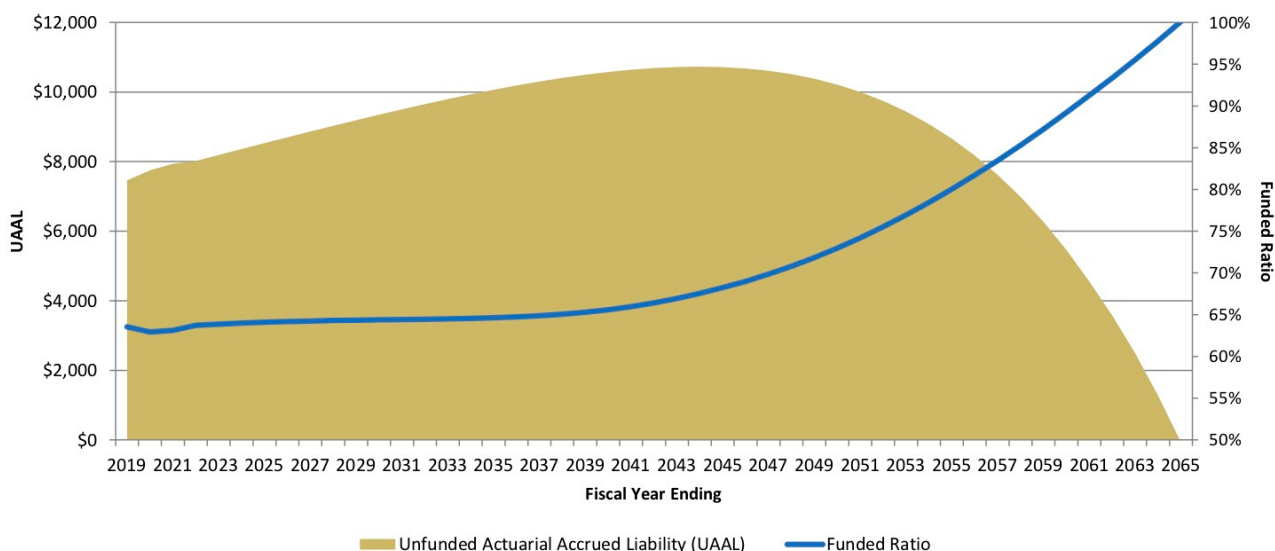
## STEP IN THE RIGHT DIRECTION

Pension legislation enacted in 2019 was important progress. However, more work remains to ensure a fiscally responsible and sustainable retirement plan.

**EVEN WITH 2019 CHANGES UNDER HB 360, ESTIMATES INDICATE IT WILL TAKE UNTIL 2065 FOR ERB TO REACH 100% FUNDING**

## ERB Funded Status – HB360

Projected UAAL and funded ratio for ERB reflecting the provisions of HB360 enacted in 2019.









# OVERVIEW OF H.B. 360

House Bill 360, sponsored by Representative Tomás E. Salazar, was signed into law on April 4, 2019.

The law makes improvements to ERB's sustainability and ensures that New Mexico's educational employees will have their earned retirement benefits.

## Key provisions of H.B. 360 as enacted include:

-  Providing a tiered retirement multiplier for new hires to encourage longer careers.
-  Implementing anti-spiking measures to prevent artificially increasing benefits.
-  Requiring contributions to the retirement fund from all working retirees and their employers.
-  Increasing the employer contribution to the retirement fund by 0.25%.

Under House Bill 360 as passed, ERB is expected to achieve full funding within 47 years.

Additional steps can be taken to accelerate full funding of the retirement plan.

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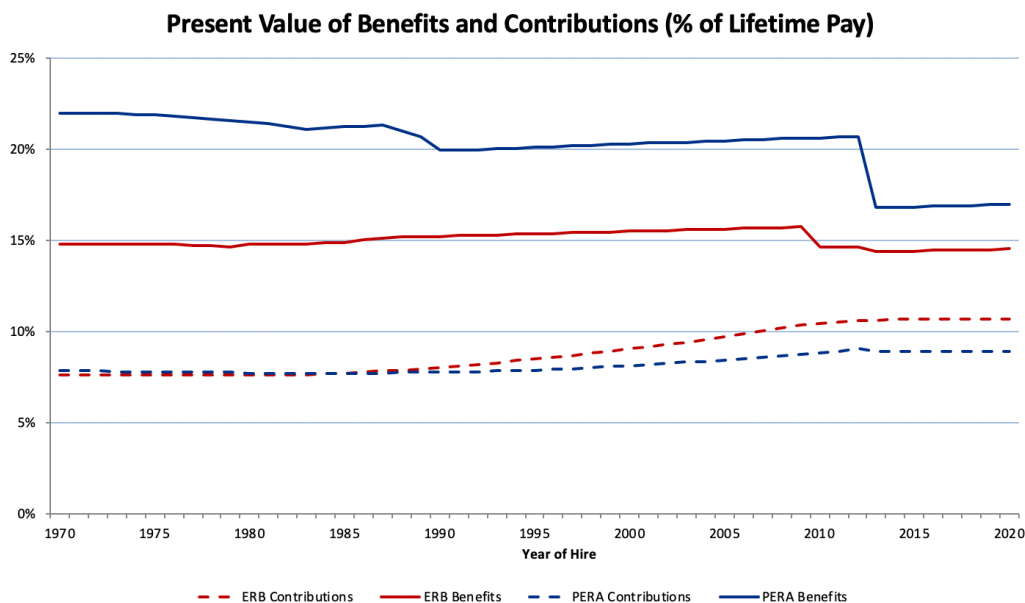
## STEP IN THE RIGHT DIRECTION

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However, more work remains to ensure a fiscally responsible and sustainable retirement plan.

## ERB MEMBERS PAY MORE BUT GET LESS THAN STATE EMPLOYEES

### Retirement Benefit Comparison: ERB and PERA



Source: Gabriel Roeder Smith

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# ERB MEMBERS HAVE SUBSTANTIALLY LOWER COMPENSATION

Total lifetime compensation for ERB members is **\$630,000 - \$930,000 lower** as compared to non-public safety state employees.

## Sample Employees Who Start at Age 25, Work 25 Years, and Have a 30 Year Retirement

Employee Started in:	Difference in Total Take-Home Pay	Difference in Total Pension Benefit	Total Difference After a Lifetime of Work
1980	\$6,469	\$924,022	\$930,491
1985	\$9,204	\$647,004	\$656,208
1990	\$7,531	\$623,109	\$630,640

## Sample Employees Who Start at Age 25, Work 25 Years, and Have a 30 Year Retirement

Employee Started in:	Difference in Total Take-Home Pay	Difference in Total Pension Benefit
1980	0.5%	70.7%
1985	0.7%	49.5%
1990	0.6%	42.8%

# ERB MEMBERS HAVE MODEST SALARIES AND MODEST RETIREMENT BENEFITS

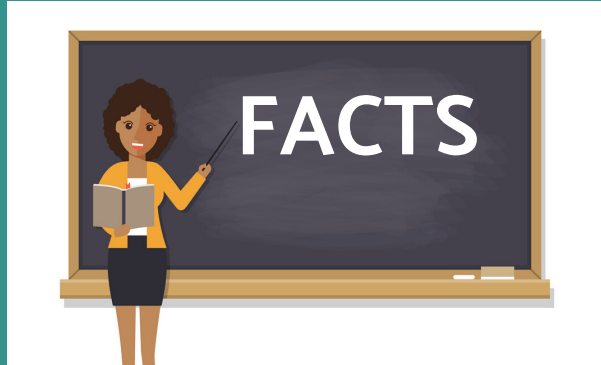
## Historical Retired Participants Data

## Historical Active Participants Data

<u>Year Ending June 30</u>	<u>Retirees</u>	<u>Average Annual Benefit</u>	<u>Employees</u>	<u>Average Annual Salary</u>
1984	8,462	\$5,160	40,385	\$16,600
1986	10,004	\$6,144	45,311	\$17,353
1988	11,375	\$7,956	45,492	\$18,968
1990	12,741	\$9,204	48,858	\$21,146
1992	14,107	\$10,152	51,161	\$22,486
1993	15,001	\$10,680	52,296	\$22,774
1994	15,814	\$11,592	53,744	\$23,420
1995	16,593	\$11,712	54,840	\$24,735
1996	17,381	\$12,132	55,782	\$25,341
1997	18,317	\$12,660	56,685	\$25,556
1998	19,244	\$13,248	58,097	\$26,555
1999	20,109	\$13,668	58,615	\$27,936
2000	21,186	\$14,736	60,090	\$29,884
2001	22,191	\$15,288	60,155	\$30,248
2002	23,052	\$15,780	61,091	\$32,387
2003	24,085	\$16,512	62,614	\$32,460
2004	24,947	\$17,040	62,901	\$34,061
2005	26,100	\$17,592	63,362	\$34,865
2006	28,539	\$17,664	61,829	\$35,896
2007	29,969	\$18,276	62,687	\$37,347
2008	31,192	\$18,792	63,698	\$39,118
2009	32,496	\$19,284	63,819	\$40,517
2010	33,747	\$19,536	63,295	\$40,695
2011	35,457	\$20,028	61,673	\$40,923
2012	37,336	\$20,568	60,855	\$41,004
2013	40,310	\$21,204	61,177	\$41,141
2014	42,246	\$21,480	61,173	\$41,503
2015	44,043	\$21,828	60,998	\$42,793
2016	45,797	\$21,972	60,057	\$43,493
2017	47,340	\$22,284	59,495	\$43,553
2018	48,919	\$22,668	60,358	\$43,228
2019	50,197	\$23,052	60,197	\$44,980

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## KEY FACTS ABOUT ERB

### Membership

- Active Members: 60,358
- Retirees & Beneficiaries: 48,919
- Inactive: 47,512
- Total: 156,789



### Average Benefit

- \$23,052 per year



### Average Retirement Age

- 61.79 years

Type of Employer	Number of Employers	Total Employees
Pre K - 12 Public	89	40,485
Universities/Colleges	15	16,445
Charters	97	2,552
Special Schools	4	532
State Agencies	11	344
<b>TOTAL</b>	<b>216</b>	<b>60,358</b>

January 2020



# ERB KEY FACTS

## Assets as of June 30, 2019

- Market Value: \$13.5 billion
- Actuarial Value: \$13.4 billion
- Employer Contributions: \$388,723,983
- Employee Contributions: \$287,323,804
- Retiree Payroll: \$1,069,597,322
- Net Investment Return: 8.1%



## Actuarial Metrics as of June 30, 2019

- ERB is solvent and on path to 100% funding.
- Normal Cost: 13.68%
- Unfunded Actuarial Accrued Liability (UAAL): \$7.9 billion
- Funded Ratio: 62.9%
- Funding Period (Open Group Projection): 47 years
- Investment Earnings Assumption: 7.25%
- Inflation Assumption: 2.5%

## Statutory Contribution Rates as of July 1, 2019

- Employer: 14.15%
- Member: 10.7% (salary above \$24K)  
7.9% (salary \$24K or less)

# PENSIONOMICS

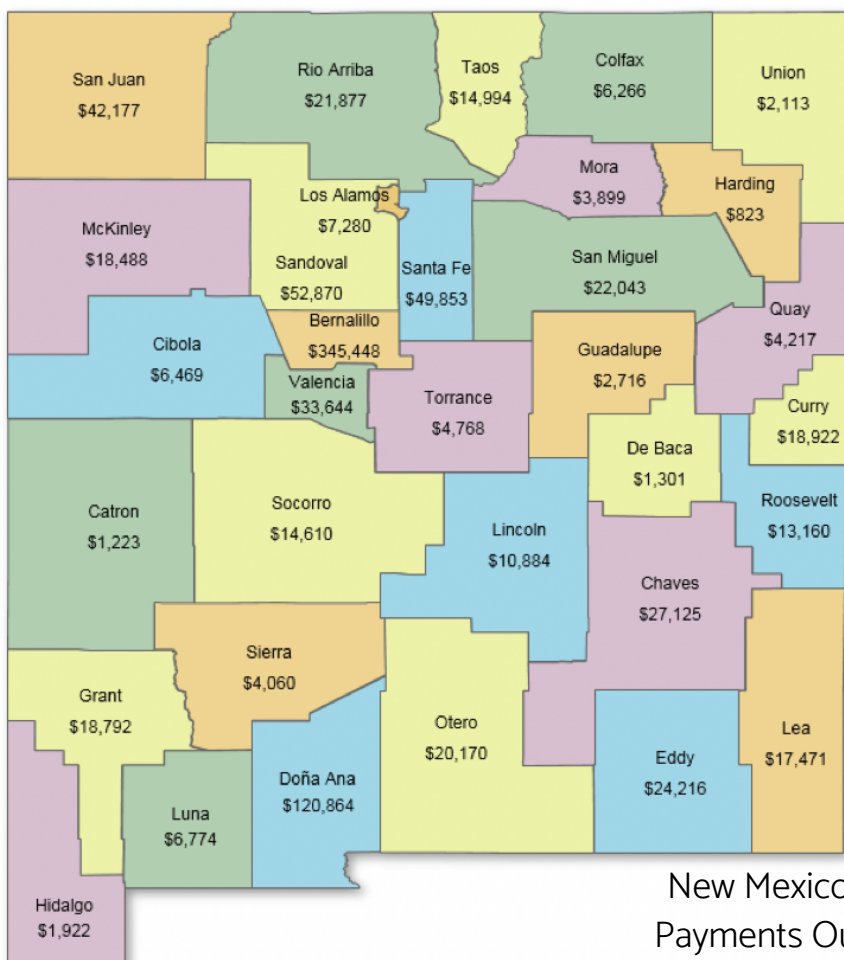
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## A SIZEABLE ECONOMIC IMPACT

Benefits paid by ERB support a significant amount of economic activity across New Mexico.

## MORE THAN \$1 BILLION IN BENEFITS PAID TO ERB MEMBERS IN 2019



Pension benefits that are received by ERB retirees are spent in local communities.

Retirement benefit spending ripples through the local economy, creating a multiplier effect.

New Mexico Benefit Payments: \$941,586,033  
 Payments Outside New Mexico: \$180,688,278  
 Total Gross Benefit Payments: \$1,122,274,311

Note: Amount going into the counties is in thousands.

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# PENSIONOMICS

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## RETIREES SPEND

Expenditures made by ERB retirees provide a steady economic stimulus to New Mexico communities and the state economy.

### EXPENDITURES STEMMING FROM ERB PENSIONS SUPPORTED:

- **\$973.9 million** in total economic output in New Mexico.
- **7,307 jobs** in New Mexico.
- **\$100.9 million** in state & local tax revenue.
- **\$101.9 million** in federal tax revenue.



Each \$1 in benefits paid to New Mexico residents by ERB supported **\$1.08 in total output in the state**.

Each \$1 in taxpayer contributions to ERB & New Mexico's other pensions over 30 years supported **\$4.52 in total output in the state**.

ERB pensions replace **58.75% of pre-retirement income** for members with 25 years' service credit.

The average monthly retirement benefit in FY 2018 was **\$1,926 per month** (\$23,109 annually) for ERB's 39,021 retirees who reside in New Mexico.

Note: New Mexico ERB economic impact data calculated by using the National Institute on Retirement Security's "Pensionomics 2018: Measuring the Economic Impact of DB Pension Expenditures" and the related New Mexico Fact Sheet available at: <http://bit.ly/3orRMEr>

# ENSURING A FISCALLY RESPONSIBLE & SUSTAINABLE PENSION PLAN

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## STEP IN THE RIGHT DIRECTION

Pension legislation enacted in 2019 was important progress. However, more work remains to ensure a fiscally responsible and sustainable retirement plan.

## PRE K - 12 BY THE NUMBERS

**37,150**

Total Full-Time Employees

**21,386**

Educators

**5,862**

Paraprofessionals

**3,223**

Maintenance/Custodial

**2,649**

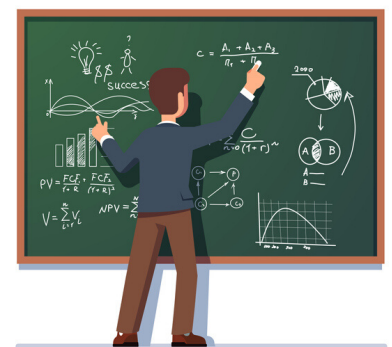
School Support

**2,412**

Administrators

**1,060**

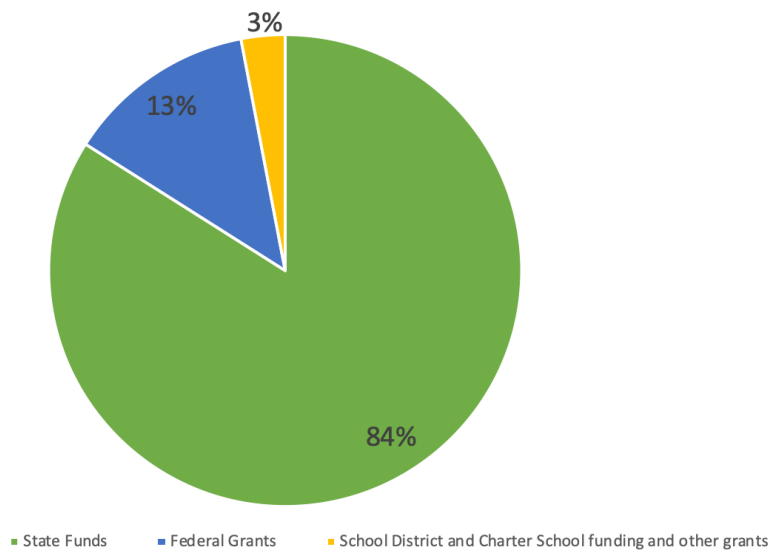
Student Support



# BY THE NUMBERS



## ERB FUNDING FOR PRE K - 12 EMPLOYER CONTRIBUTIONS



## PRE K - 12 EMPLOYEE AVERAGE SALARIES

<b>Certified Employees:</b>	<b>Average Annual Salary, FY 2018</b>
Educators	\$46,918
Paraprofessionals	\$40,254
Administrators	\$70,694
Student Support	\$51,448
<b>Non certified Employees:</b>	
Paraprofessionals	\$27,923
Administration & IT	\$46,011
School Support	\$27,517
Athletics & Activities	\$49,019
Maintenance & Custodial	\$41,519

# ENSURING A FISCALLY RESPONSIBLE & SUSTAINABLE PENSION PLAN

NEW MEXICO EDUCATIONAL RETIREMENT BOARD



## STEP IN THE RIGHT DIRECTION

Pension legislation enacted in 2019 was important progress. However, more work remains to ensure a fiscally responsible and sustainable retirement plan.

## HIGHER EDUCATION BY THE NUMBERS

**13,881**

Full-Time Employees

**3,560**

Faculty

**1,366**

Management

**1,180**

Librarians/Instructional Support

**1,221**

Business & Financial Operations

**1,218**

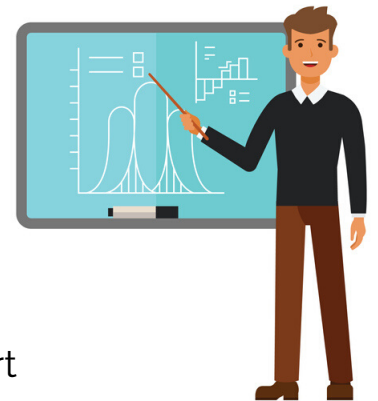
Computer & Engineering

**2,043**

Administrative Support

**3,293**

Other Support

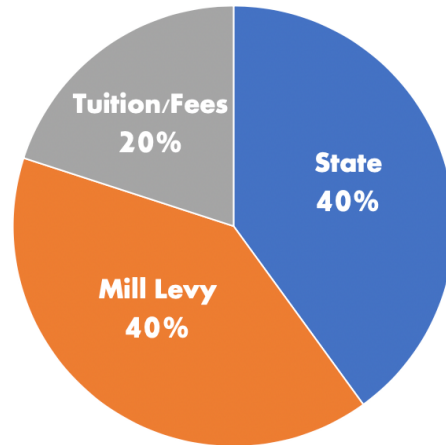
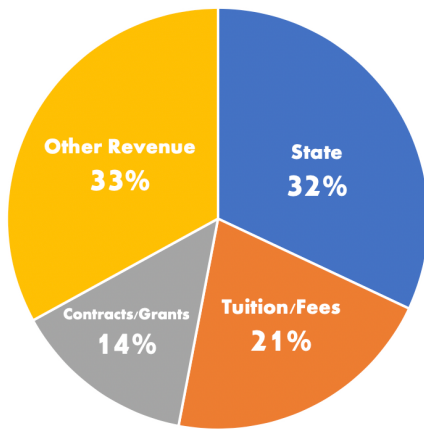


# BY THE NUMBERS



## ERB FUNDING FOR EMPLOYER CONTRIBUTIONS

**Typical Research University    Typical Community College**



## HIGHER EDUCATION EMPLOYEE AVERAGE SALARIES

### Faculty

Faculty Category	Average Annual Salary, FY 2018
Professor	\$92,294
Associate Professor	\$73,172
Assistant Professor	\$64,297
Instructor/Lecturer	\$53,995
Adjuncts	\$45,725

### Selected Staff Categories

Research	\$65,738
Librarians & Instructional Support	\$41,055
Administrative Support	\$55,842
Construction & Maintenance	\$36,735
Production & Transportation	\$31,963

# ENSURING A FISCALLY RESPONSIBLE & SUSTAINABLE PENSION PLAN

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## STEP IN THE RIGHT DIRECTION

Pension legislation enacted in 2019 was important progress. However, more work remains in 2020 to ensure a fiscally responsible and sustainable retirement plan.

## WHY IS ACCELERATING 100% FUNDING NEEDED?

- 1** Will improve New Mexico and participating employers' credit ratings.
- 2** Contribution rates for taxpayers and employees can be lowered.
- 3** Retirement system better able to withstand future market downturns.
- 4** Cost-of-living reductions for retirees can end.
- 5** It's fiscally responsible, sound public policy.



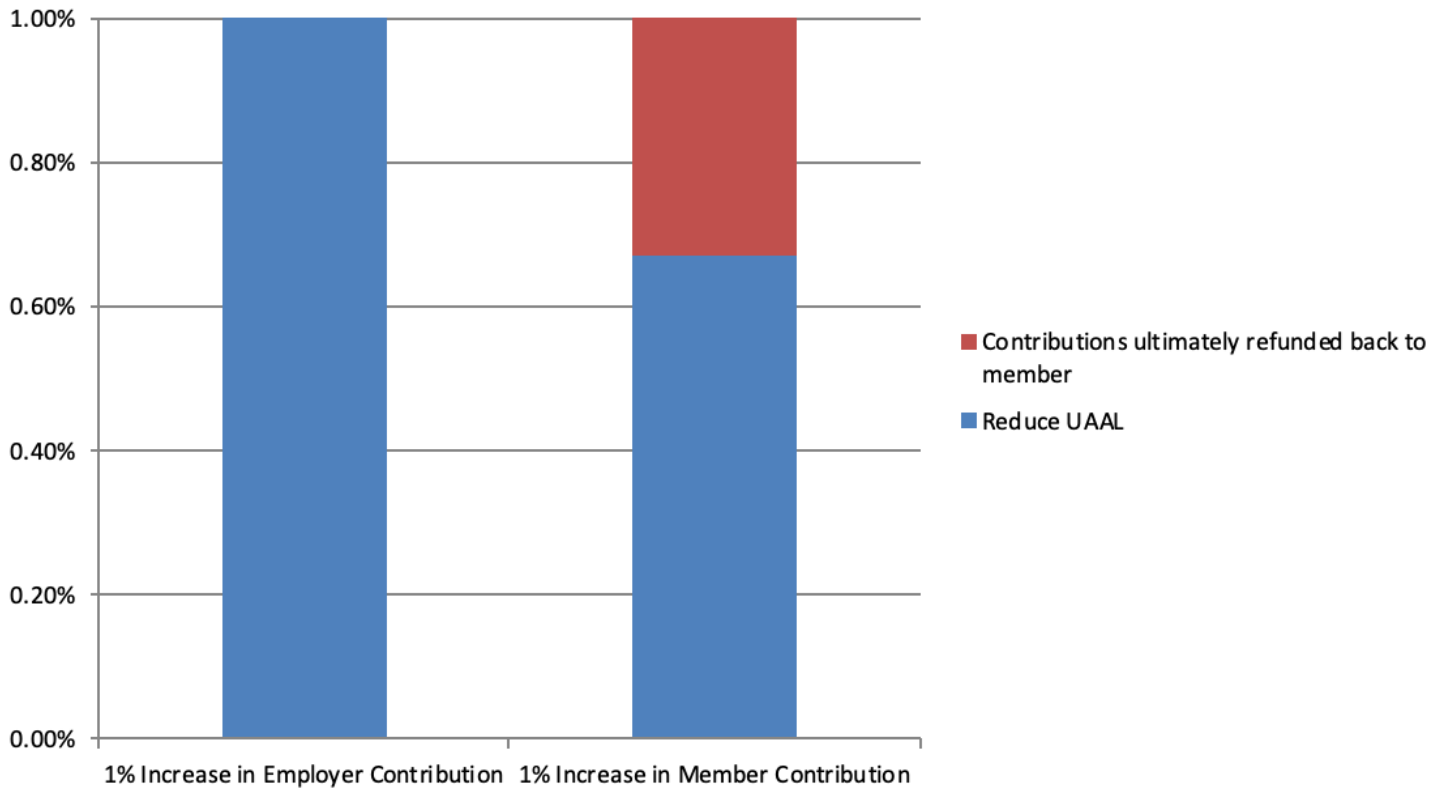
# EMPLOYER CONTRIBUTIONS ARE KEY TO EFFICIENTLY ADDRESSING FUNDING.

## Why?

100% of an increase in the employer contribution will be used to reduce the unfunded liability.

Conversely, only about two-thirds of the increase in member contributions will be available to reduce the unfunded liability.

**Efficiency of 1% Increase in Contributions  
(Employer vs. Member Contributions)**

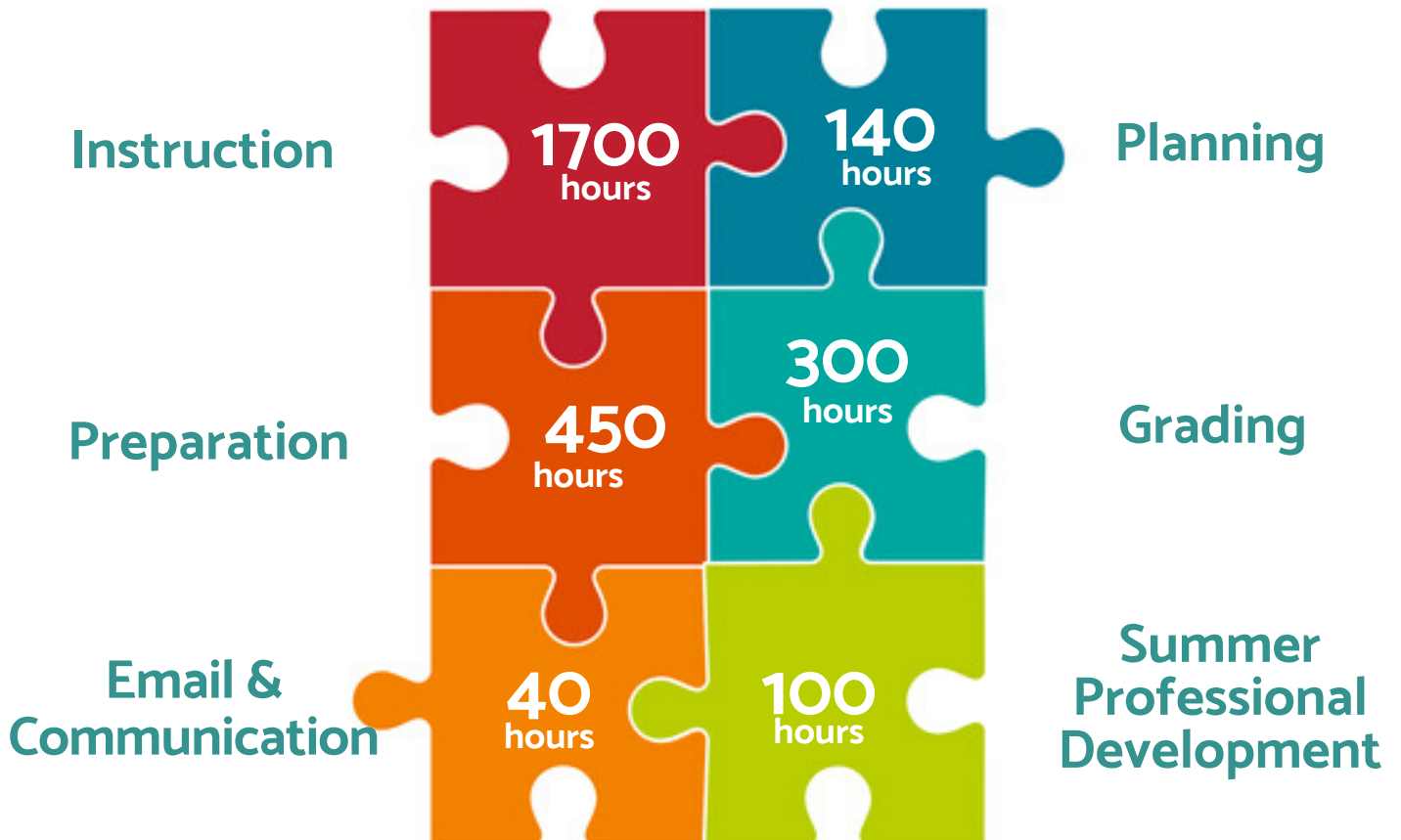


# KEY FACTS ON TEACHER WORKLOAD

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Teachers typically work 2200 hours annually.



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# KEY FACTS

## Education

- All teachers have a four year bachelor's degree, and many have advance degrees and licensures.
- All New Mexico teachers must complete a teacher preparation program and pass all required examinations.



## Extra, Unpaid After School Activities

- Student Help
- Teacher Meetings
- Clubs, Sports and Other Activities
- Professional Development and Training
- Communication with Parents



## Myths & Facts

### Myths

- Teachers have summers off.
- Teachers only work 9 months annually.
- Teachers only work 6.5 hours daily.

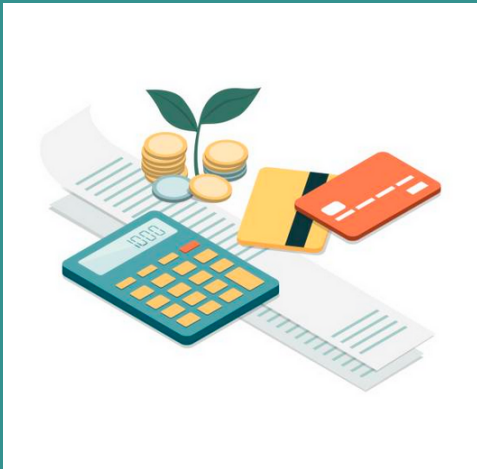
### Facts

- Teacher pay does not include vacations.
- Sick leave must be negotiated with local school districts.

Source: WeAreTeachers.com

# COST OF LIVING ADJUSTMENTS

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## WHAT IS A COLA?

A cost of living adjustment (COLA) is a change in one's monthly retirement benefit to account for increasing prices.

COLAs help ensure a retiree's pension can sustain its purchasing power no matter how long they live and how quickly prices rise.

## Why COLAs?

Rising prices and inflation can quickly erode retirement income to the point that a retirement benefit that was adequate to pay monthly expenses at retirement can become inadequate over time.

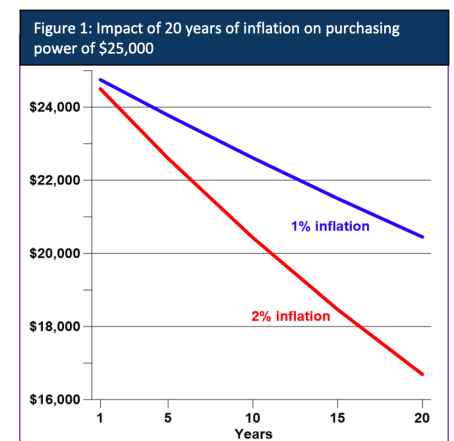
## Most Public Pensions Provide COLAs

Three-fourths of state and local government pension plans provide some form of an automatic cost-of-living-adjustment. Other types of public sector plans have "ad hoc" COLAs that require specific action by the plan sponsor or "investment-based" COLAs that increase benefits when the pension fund's investment performance surpasses a designated benchmark.

## NMERB Provides a Fiscally Responsible COLA

NMERB has structured a COLA that is fiscally responsible and protects the retirement security of its members. This is accomplished through a risk sharing COLA structure when NMERB has an unfunded liability. When members are eligible for a COLA, the amount depends on the funded status of NMERB and the annual change in the Consumer Price Index (CPI).

In fact, the state pension plan (PERA) has recently proposed a risk sharing recommendation for its COLA structure, emulating NMERB's approach.



## Who is eligible for an NMERB COLA?

NMERB members may receive an annual COLA to retirement benefits as follows:

- For those who joined NMERB prior to July 1, 2013, they may begin receiving a COLA on July 1st upon reaching age 65 or July 1 of the year following the retirement, whichever date is later.
- For those who joined NMERB on or after July 1, 2013, they may begin receiving a COLA on July 1 of the year reaching age 67 or July 1 of the year retirement, whichever dates later.



Disability benefit recipients receive a COLA after three years and no COLA reductions unlike other retirees.

## How does NMERB determine the COLA?

For those eligible for a COLA, the amount depends on the funded status of NMERB and the annual change in CPI.

- If there is no increase in the CPI, or the CPI is negative, a COLA is not paid. If the CPI is negative, retirement benefits will not be decreased.
- When NMERB is 100% funded, if the increase in the CPI is less than 2%, the COLA will be the same amount as the increase in the CPI. If the increase in the CPI is 2% or greater, the COLA will be one-half of the CPI increase, except that it will not exceed 4% or be less than 2%.
- Until NMERB is 100% funded, the COLA will be reduced. The reduction is tied to the median annual retirement benefit. The median benefit is recalculated after the end of each fiscal year (i.e., after June 30 each year).
- When the funded ratio is 90% or less, the COLA for retirees whose annuity is at or below the median who have 25 or more years of service credit at retirement will be reduced by 10%. For all other retirees, the COLA will be reduced by 20%.
- When the funded ratio exceeds 90% but is less than 100%, the COLA for retirees who had 25 or more years of service credit at retirement whose annuity is equal to or less than the median adjusted annuity will be reduced by 5%. For all other retirees, it will be reduced by 10%.
- When the funded ratio is 100%, the COLA reduction ends.

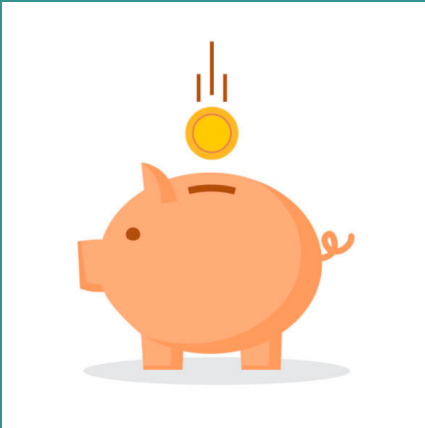
# HOW PENSION BENEFITS WORK

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## DEFINED BENEFIT PENSIONS

The NMERB provides a defined benefit retirement plan funded by contributions from both the employee and the employer for the majority of NMERB members.

The retirement benefit is determined by a formula applied to the member's salary history and years of qualified service.



## Benefits Based on Three Components

- 1 Average annual salary for high five consecutive fiscal years.
- 2 Earned and allowed service credit.
- 3 A benefit multiplier.

Average Annual Salary

**\$44,980**



Service Credit

**25 years**



Benefit Multiplier

**2.35%**

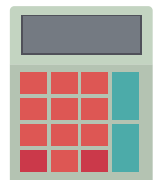
= Annual Benefit

**\$26,426.**

## NMERB Benefits Calculator

The ERB Benefits Calculator– available at [www.nmerb.org](http://www.nmerb.org)– may be used to calculate an “unofficial” estimate of annual and monthly retirement benefits.

The online calculator does not annualize earnings and only provides an “unofficial” estimate of retirement benefits. For an official estimate, including annualized earnings, members can contact ERB.



## Retirement Eligibility: Age & Benefits

Vesting means a member has earned five or more years of service credit with ERB.

If a member is vested, but terminates employment before qualifying for retirement, a member may leave accumulated contributions with ERB and receive a pension when satisfying retirement eligibility requirements.



## Four Retirement Benefit Tiers

Retirement eligibility is determined by a member's start date.

**TIER 1:** Membership prior to July 1, 2010 & additional criteria.

**TIER 2:** Membership on or after July 1, 2010 & prior to July 1, 2013 & additional criteria.

**TIER 3:** Membership beginning on or after July 1, 2013 & additional criteria.

**TIER 4:** Membership beginning on or after July 1, 2019 & additional criteria.

The retirement benefits of members in Tiers 1, 2 and 3 is calculated using a multiplier of 2.35%. Retirement benefits for members under Tier 4 is calculated using graduated multipliers. The pension factor changes every ten years up to year 30 and then remains at 2.4% thereafter.

Years of Service	Multiplier
10 or less	1.35%
10.25 to 20	2.35%
20.25 to 30	3.35%
30.25 plus	2.4%

# 2020 LEGISLATION NEEDED TO SHORTEN THE PATH TO FULL FUNDING OF NMERB

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Legislation enacted in 2010, 2013 and 2019 was important progress.

However, work remains to ensure fiscal responsibility & shorten the path to full funding.

## ACTION NEEDED TO SHORTEN THE PATH TO FULL FUNDING

Even with the 2019 legislation, NMERB will not achieve full funding for another 47 years.

Action to accelerate full funding will improve the credit rating for the state, schools, colleges and universities, and it will save money over the long-term.

These steps, as called for in House Bill 46, can be taken to substantially shorten the path to full funding in a fair and fiscally responsible fashion:



Implement two transfers of \$50 million in 2020 and 2022 to NMERB.



Make an appropriation from the General Fund in 2020 equal to a one percent increase in employer contributions.

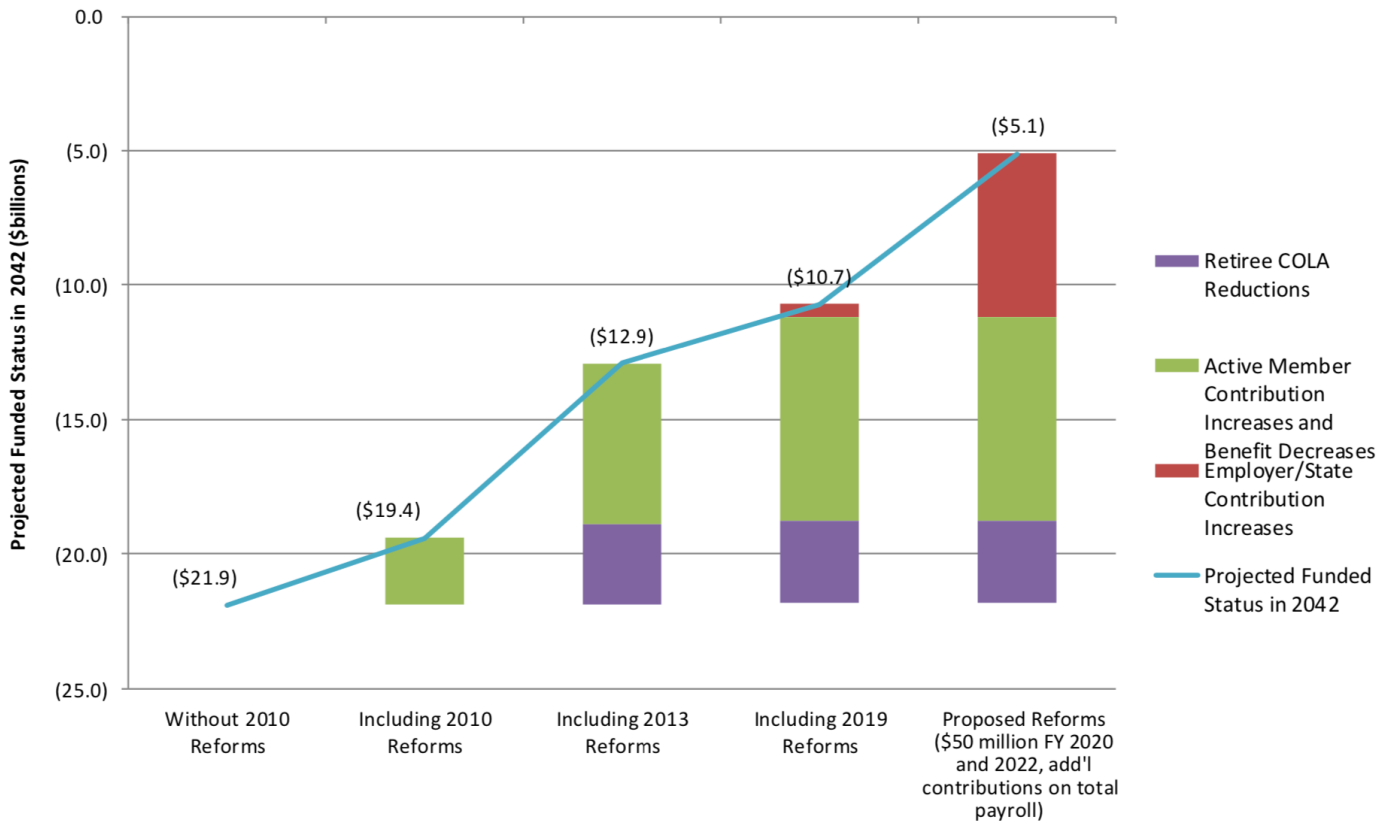


Make distributions from the Gross Receipts Tax Fund each year until 100% funding is achieved.

**With these steps, NMERB is projected to reach full funding in 30 years.**



## NMERB STAKEHOLDERS IMPACTED BY 2010, 2013 AND 2019 REFORMS, AND 2020 PROPOSED REFORMS



Past reforms to close the funding gap have been borne primarily by NMERB active and retired members via higher contributions, increased retirement requirements and cost-of-living adjustment reductions.

Now, it's time for the state to do its share.