

New Mexico Educational Retirement Board Unfunded Liability and Improving Sustainability

NMASBO 2020 Winter Conference

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Proposal based on NMERB Board Action on October 18, 2019:

On July 1, 2020, fifty million dollars (\$50,000,000) plus an amount equivalent to 1% of the annual salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of June 30, 2019 plus the salary increases to members and participants in fiscal year 2020 in the General Appropriation Act of 2019 shall be transferred from the general fund to the educational retirement fund.

On July 1, 2021, an amount equivalent to 2% of the annual salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of June 30, 2021 shall be transferred from the general fund to the educational retirement fund.

On July 1, 2022, fifty million dollars (\$50,000,000) plus an amount equivalent to 3% of the salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of June 30, 2022 shall be transferred from the general fund to the educational retirement fund.

On July 1, 2023 and subsequent years until the educational retirement fund reaches 100% funded status, an amount equivalent to 3% of the salaries of all members employed by a local administrative unit and participants in the alternative retirement plan as of the last day for the immediate prior fiscal year shall be transferred from the general fund to the educational retirement fund.

- Lots of bills to address substitute teacher shortage:
 - SB 111
 - HB 226
 - HB 260

But are they dealing with the real causes of the substitute teacher shortage???

Upcoming changes at RHCA are making some ERB members consider retiring soon.

Why RHCA made the change-
Longstanding unfunded liability

ERB is working on a calculator to help members make an informed decision

- Return to Work statute is due to expire January 1, 2022
- But does RTW make financial sense for ERB members?
- In general, unless retiree works 11 years, retiree is better off suspending retirement and earning more service credit or working longer

1. Tiered Multipliers (applies to employees hired on or after July 1, 2019)
2. Anti-spiking (Applies to annual salary after July 1, 2019)
3. Revise Return-to-Work provisions (contributions for those working less than .25 FTE applies after July 1, 2020)
4. Require PERA retirees who work for ERB employers to pay contributions (police officers currently working for LAUs are grandfathered in)
5. Reduce pension benefits for those who retire before age 58, only affects members starting July 1, 2019 or later.
6. Substitute teachers who work more than .25 FTE will pay contributions (not effective until July 1, 2020)
7. Threshold for higher employee contributions raised from \$20,000 to \$24,000.

HB 501- increased employer contributions by 0.25% effective July 1, 2019

No immediate change to unfunded liability

Will cause UAAL to grow more slowly in the future

Funding period at 46 years, based on June 30, 2018 valuation

Why is 100% funding desirable for ERB?

1. It's good public policy!
2. Better able to withstand market downturns
3. Contribution rates can be lower
4. COLA reductions will end
5. GASB 68 reporting to employers will not be necessary



Fully funded by 2048, or sooner?

How do we do this?

If no additional money is available for employer contributions-

What kind of changes need to be made?

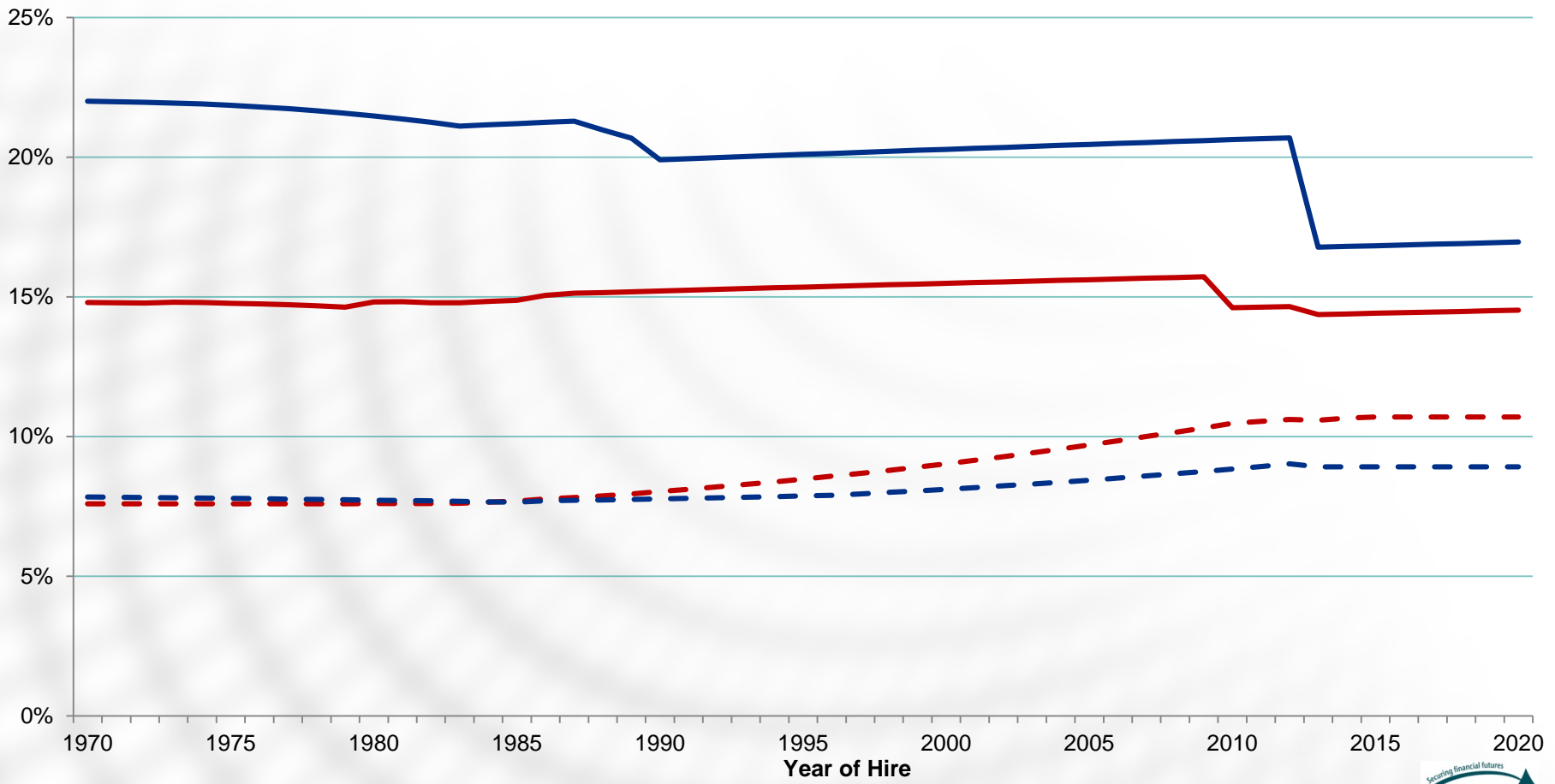
Cuts for active and new members- reduce multiplier by 0.35% for all future work AND

COLA reduction- cap at 0.5%

Will be fully funded within 25 years

Benefit Comparison : ERB and PERA State General Plan 3

Present Value of Benefits and Contributions (% of Lifetime Pay)



--- ERB Contributions — ERB Benefits --- PERA Contributions — PERA Benefits



The PERA State Employee Pension Is More Generous, But Employees Pay More Towards NMERB

	PERA State General Plans	ERB
Multiplier	3.0%	2.35%
COLA	Yes, 3% 2 years after retirement	Yes, on average 2% at age 65
Employee Contribution Rate (2012)	10.67%	11.15%

Note: Prior to 2013 changes. Contribution rates for salaries over \$20,000 per year.

As a Result, After a Lifetime of Work, ERB Members Have Lower Total Take-Home Pay and a Lower Total Pension Benefit

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%

Total Lifetime Compensation is \$630,000 to \$930,000 Lower for NMERB Members

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

ERB & PERA Contribution Rate History

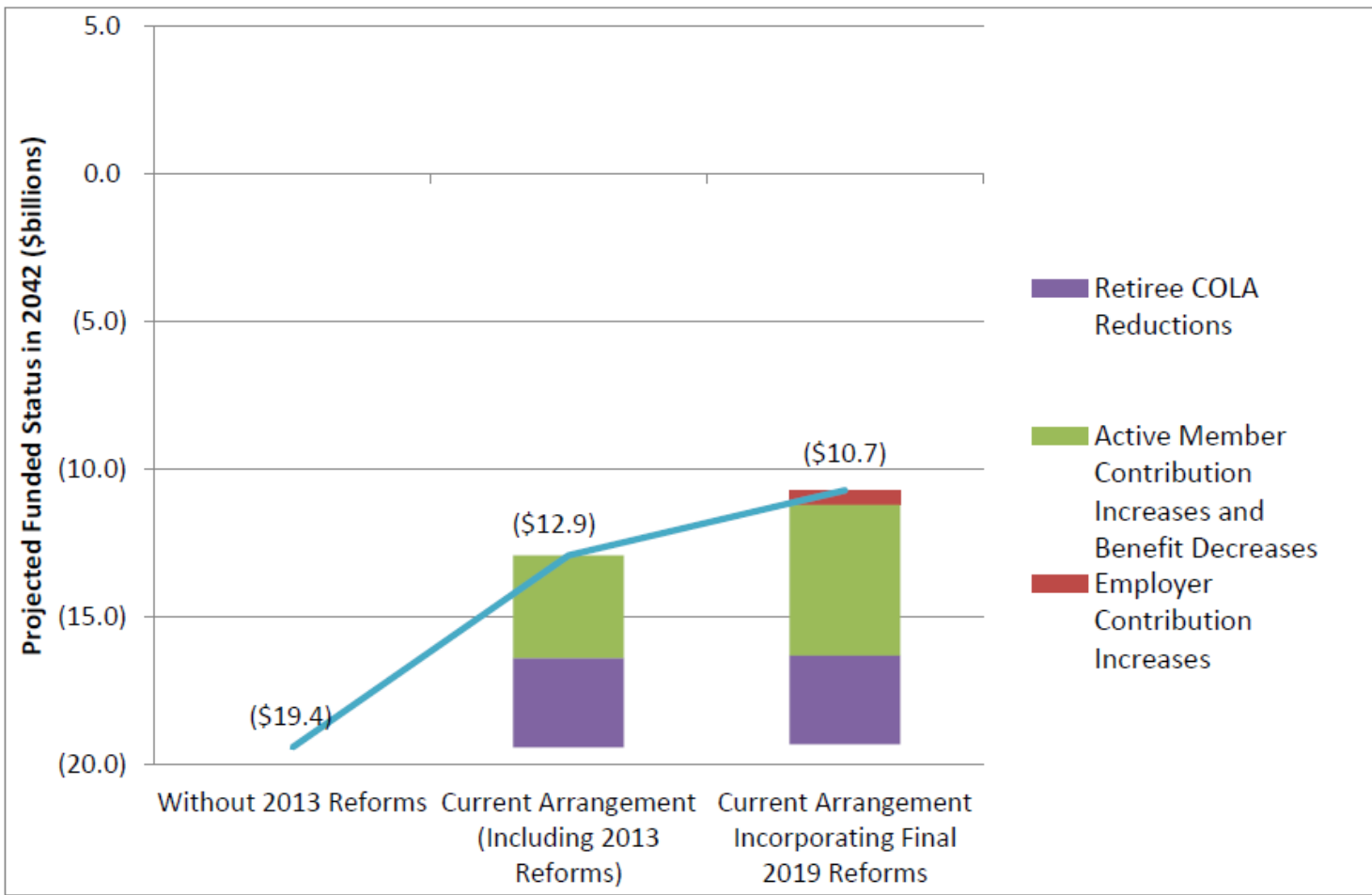
ERB and PERA Contribution Rate History									
(PERA = non public safety state employees)									
Fiscal Year	Wage Category	Employee Rate		Schools/ Colleges	State Agencies	TOTAL		% of Total Contribution Employee Pays	
		NMERB	PERA	NMERB	PERA	NMERB	PERA	NMERB	PERA
1953			5.00%		5.00%		10.00%		50.00%
1958		3.00%	5.00%	4.00%	5.00%	7.00%	10.00%	42.86%	50.00%
1973		4.00%	5.00%	6.50%	6.00%	10.50%	11.00%	38.10%	45.45%
1982		6.80%	7.85%	6.80%	7.85%	13.60%	15.70%	50.00%	50.00%
1986		7.60%	3.83%	7.60%	11.84%	15.20%	15.67%	50.00%	24.44%
1987		7.60%	6.18%	7.60%	13.83%	15.20%	20.01%	50.00%	30.88%
1995		7.60%	7.42%	8.65%	16.59%	16.25%	24.01%	46.77%	30.90%
2006		7.675%	7.42%	9.40%	16.59%	17.08%	24.01%	44.95%	30.90%
2007		7.75%	7.42%	10.15%	16.59%	17.90%	24.01%	43.30%	30.90%
2008		7.825%	7.42%	10.90%	16.59%	18.73%	24.01%	41.79%	30.90%
2009		7.90%	7.42%	11.65%	16.59%	19.55%	24.01%	40.41%	30.90%
2010 - 2011	\$20K or less	7.90%	7.42%	12.40%	16.59%	20.30%	24.01%	38.92%	30.90%
	Over \$20K	9.40%	8.92%	10.90%	15.09%	20.30%	24.01%	46.31%	37.15%
2012	\$20K or less	7.90%	7.42%	12.40%	16.09%	20.30%	23.51%	38.92%	31.56%
	Over \$20K	11.15%	10.67%	9.15%	13.34%	20.30%	24.01%	54.93%	44.44%
2013	\$20K or less	7.90%	7.42%	12.40%	16.59%	20.30%	24.01%	38.92%	30.90%
	Over \$20K	9.40%	8.92%	10.90%	15.09%	20.30%	24.01%	46.31%	37.15%
2014	\$20K or less	7.90%	7.42%	13.15%	16.59%	21.05%	24.01%	37.53%	30.90%
	Over \$20K	10.10%	8.92%	13.15%	16.59%	23.25%	25.51%	43.44%	34.97%
2015 to present	\$20K or less	7.90%	8.92%	13.90%	16.99%	21.80%	25.91%	36.24%	34.43%
	Over \$20K	10.70%	8.92%	13.90%	16.99%	24.60%	25.91%	43.50%	34.43%



“The best time to fix your roof isn’t when it’s raining – it’s when the sun is shining,” -
Governor Lujan Grisham

Lawmakers pass tax package at last minute
Albuquerque Journal March 16th, 2019

New Mexico ERB Stakeholders Impacted by 2013 Reforms and Final 2019 Reforms



The cost of NOT being 100% Funded

Funding Period (Years)	Interest Cost
46	\$29.1 billion
30	\$14.9 billion
25	\$11.5 billion
20	\$8.6 billion
15	\$6.3 billion
10	\$4.1 billion
5	\$2.3 billion

If we can get additional funding for employer contributions

Need to ensure that we stay on track as there are inevitably bumps in the road

Have employer contributions automatically increase, in concert with employee contribution increases and other benefit reductions?

Or in times of good revenues, automatically increase employer contributions in concert with employee contribution increases and other benefit reductions?

Possible Sources of Funding

- Pension Obligation Bond
- State Revenues
- ???

Working with DFA to calculate cost to General Fund of increasing the employer contribution

Need to understand how your institution pays for the 13.9% employer contribution (what are the revenue streams?)

Please send input to Jan.Goodwin@state.nm.us

History of ERB Retirement Benefits

YEAR	RETIREMENT ELIGIBILITY	MULTIPLIER	COLA	Life expectancy * at age 65	
				Males	Females
1962	30 years of service with actuarial reduction if younger than age 60	1.5% first \$4,000 of Final Average Salary (FAS) and 1% thereafter	Ad Hoc	13.2	17.4
	Age 60 with 15 years of service				
1965	30 years of service with actuarial reduction if younger than age 60	SAME	Ad Hoc	13.2	17.4
	Age 60 with 15 years' service				
	Age 65 with 10 years of service				
1971	35 years of service	1.50%	Ad Hoc	13.8	18.6
	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				
1974	35 years of service	1.5% for years before July 1, 1957 2% for years after July 1, 1957	Ad Hoc	13.8	18.6
	Rule of 75 with reduction if younger than age 60				
	Age 65 with 5 years of service				
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.	13.8	18.6
1981	30 years of service	SAME	SAME	14.6	19.1
	Rule of 75 with reduction if younger than age 60				
	Age 65 with 5 years of service				
1984	25 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.	14.6	19.1
	Rule of 75 with reduction if younger than age 60				
	Age 65 with 5 years of service				

*From 1960 through 1999, the stated life expectancies are based on the life expectancies of Social Security at the time (<https://www.ssa.gov/history/lifeexpect.html>). Beginning in 2000, life expectancies are based on the actuarial valuation assumption for NMERB.



History of ERB Retirement Benefits

YEAR	RETIREMENT ELIGIBILITY	MULTIPLIER	COLA	Life expectancy* at age 65	
				Males	Females
1987	SAME	2.15%	SAME	14.6	19.1
1991	SAME	2.35%	SAME	15.3	19.6
2010	SAME	SAME	Elimination of negative COLA	19.6	22.4
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	19.6	22.4
2013	Hired after 7/1/2013: Actuarially reduced benefit if member retires with 30 years of service and is younger than age 55	SAME	Hired after 7/1/2013: COLA begins at later of age 67 or one year following retirement <u>Until ERB is > 90% funded:</u> Retirees with benefits at or below the median AND with 25 or more years' service have a 10% COLA reduction from statutory COLA formula. All other retirees have a 20% COLA reduction. <u>ERB Funding >90% <100%</u> Retirees with benefits at or below the median AND with 25 or more years' service have a 5% COLA reduction from statutory COLA formula. All other retirees have a 10% COLA reduction. <u>ERB Funding=100%</u> COLA reductions cease.	20.2	23.1

*From 1960 through 1999, the stated life expectancies are based on the life expectancies of Social Security at the time (<https://www.ssa.gov/history/lifeexpect.html>). Beginning in 2000, life expectancies are based on the actuarial valuation assumption for NMERB.



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