



Office of the Governor

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Governor backs balanced pension reform proposal

Bill will incorporate retiree concerns into task force recommendations

SANTA FE – Gov. Michelle Lujan Grisham on Tuesday endorsed an essential and equitable public employee pension reform proposal that accommodates the concerns of current and future state of New Mexico retirees while establishing safeguards against the effects of future economic downturns. Key legislative leaders also voiced support for the proposal, which is scheduled to be heard Wednesday at the legislative Investments and Pensions Oversight Committee.

The proposed legislation builds upon the sound recommendations of the pension solvency task force, which this year rigorously studied various means of gradually eliminating the state pension system's \$6.6 billion unfunded liability. The proposal will, per the governor's direction, deliver an increased cost-of-living adjustment to 30 percent of PERA retirees; deliver on the governor's solvency mandate within 25 years; and make important accommodations for the oldest and most vulnerable retirees.

In short, the legislation will ensure a sustainable future for the Public Employees Retirement Association. Key components include the following:

- The proposal will ensure a 2.5 percent cost-of-living adjustment, an increase from 2 percent, for retirees over the age of 75 as of July 1, 2020, roughly a third of the state's public retirees, per the governor's direction;
- Exempt from the contemplated changes the most vulnerable groups of retirees: Those over the age of 75 as of July 1, disability retirees and retirees with pensions lower than \$25,000 with 25 years of service;
- Preserve annual cost-of-living adjustments through a new "profit-share" model aligned with investment performance, with COLAs rising as high as 3 percent;
- Eliminate the 7-year wait period to qualify for cost-of-living adjustments, reverting the wait period to two years;
- Eliminate the earnings cap of 90 percent;
- Incrementally increase contributions in a model that shares the burden across active workers and public employers;
- Delay contribution increases for municipal and county workers for two fiscal years, per the governor's direction;

- Provide for incremental decrease in employer contributions as coverage plan funded ratios improve, per the governor's direction.
- And allow return-to-work employees such as retired police officers who serve as school resources officers, to receive a COLA, per the governor's direction.

The state's pension liability was explicitly noted as a cause for concern by Moody's Credit Service in its June credit analysis of New Mexico. The draft proposal would immediately reduce the unfunded PERA liability by \$700 million and set the state on track to eliminate the liability in its entirety within 25 years.

"Reforming our pension system, making sure it remains one of the best in the United States, requires backbone and shared sacrifice," Gov. Lujan Grisham said. "We must be proactive. A kick-the-can-down-the-road approach when we have a multibillion-dollar unfunded liability hanging over employees' and retirees' heads is unacceptable. Left unattended, that shortfall will, sooner than later, obligate painful cuts and wreak havoc on future generations of retirees -- if we do not come together and act now.

"I commend the work of the PERA Solvency Task Force," the governor added, "and I want to thank everyone who contributed their voices and feedback. That input ultimately improved the draft proposal we will introduce for the upcoming legislative session. I wanted to be sure we delivered a fair deal for our retirees and take care of our most vulnerable, and we have done that. I look forward to the collaborative, bipartisan and expedient work of the Legislature in shoring up our retirees' benefits for the future."

Recognizing the need for reform, the governor in February ordered the creation of a PERA Solvency Task Force, a balanced group of stakeholders tasked with identifying solutions and making recommendations. The work product of the task force has been endorsed by AFSCME Council 18; Communication Workers of America; New Mexico Professional Firefighters Association; Fraternal Order of Police; National Association of Police Officers; and the Albuquerque Fire Department Retirees' Association.

"I applaud Governor Lujan Grisham's proactive approach to tackling the pension solvency problem and appreciate the work done by the task force," said Senate Majority Leader Peter Wirth. "The proposed solutions are innovative and fair. With shared sacrifice we can strengthen the program for current and future retirees."

"When we began this process, we knew we had a difficult problem to solve: ensuring we keep our pension promises to hard working state employees while still maintaining financial security of the plan and our state," said House Speaker Brian Egolf. "Our dangerously underfunded pension fund threatens our credit rating today and would have forced us to break promises to employees in the future. The governor, along with the Pension Solvency Task Force, have done what seemed almost impossible: create a plan with broad support that balances solvency with critical needs of families and seniors. With this new plan, we will keep our promises to employees for decades to come. I thank the governor for her outstanding leadership on this complex problem and look forward to helping pass this critical legislation in the upcoming session."

"Immediate action is a necessary and crucial step for our financial security and our bond rating," said Sen. John Arthur Smith, chair of the Senate Finance Committee. "The longer we postpone corrective action, the more painful it becomes."

“Change is never easy, but when you are faced with serious bond rating concerns, when you are faced with the collapse of a retirement system so many New Mexicans depend on if the economy faces a downturn, everybody has to step up,” said Sen. George Muñoz, chair of the Investment and Pensions Oversight Committee. “We’ve got to show leadership and compassion to fix the problems we face. The governor’s leadership on this legislation shows she is willing to do what is right and fair and work with the Legislature to get it done.”

“I would like to thank the governor for taking on this important issue and working diligently to resolve the problem of long-term solvency,” said Rep. Patricia Lundstrom, chair of the House Appropriations and Finance Committee. “I support the bill and hope my colleagues will also support it.”

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