

INVESTED IN TOMORROW.

Dear Member:

Often when people think about PERA they focus on our 41,000 retirees. As one of the more than 50,000 members of PERA, you have as much of a stake in PERA's success as our retirees.

You may have seen or heard reports about the solvency of PERA and the need for changes to “shore-up” the PERA Fund. Through PERA's regular publication, *La Voz*, as well as recent guest editorials in the *Albuquerque Journal*, we have outlined some of the Board's efforts to ensure the stability of PERA's defined benefit retirement system for current and future generations of New Mexico's public employees.

Unfortunately, there is a significant amount of misinformation circulating about what the Board is discussing and the possible recommendations we may make to the New Mexico Legislature for the 2019 Legislative Session.

I encourage you to be as active of a participant in the debate on the future of PERA as our retirees are. Retirement may seem far off now, but we need your help to protect the benefit you are working towards as well. I hope you will make your voice heard to the Legislature in particular and support the Board as it makes important decisions that will affect your retirement.

As Chair of the PERA Board I want to tell you directly what we have heard from experts, including PERA's actuaries and investment advisors, and what the Board is considering going forward.

First and foremost, current retirees' pension benefits are not in jeopardy and no one is talking about eliminating the cost-of-living-adjustment (COLA). However, we are facing challenges that need to be addressed to ensure that we maintain a “forever” defined benefit system not just for current retirees but for future retirees such as yourself. Fortunately, our challenges are manageable.

Second, PERA cannot invest its way out of its liabilities without taking on significant and ill-advised levels of risk with your money, risk levels that would be counter to the Board's fiduciary duty to you. The Board has acted prudently in recent years to lower our expected investment return assumption to help ensure that we can pay the benefit our members have earned. That is one example of the Board being responsible with your retirement monies.

Third, the current fixed, compounding COLA is the single largest contributor to our unfunded liabilities and has out-paced inflation for at least the last 20 years. Current retirees who retired before 1997 have received COLAs that have exceeded the CPI by a total of 20% for the 20-year period preceding 2018. In short, PERA put much of the COLA liability for the past couple of decades on a “credit card” and that “credit card” bill has come due. Therefore adjustments to the COLA must be part of our discussions.

Fourth, simply increasing contributions on current active employees is not a “fix” to the problem. Our actuary estimates that contributions would need to be increased by more than 8% to get PERA to full funding. Contributions levels from employers and employees into PERA are already some of the highest in the nation. Likewise, one-time cash infusions to PERA, while appreciated, would be unlikely to significantly impact our liabilities. For example, a \$100 million one-time infusion would increase our funded ratio in 2043 by less than 2%.

Currently, our funded ratio is 73% and PERA’s actuaries project for this funded ratio to only reach 77% by 2043. This modest improvement leaves little room for uncertainties in the markets, such as another market correction. As a result, refinements to the PERA benefit structure are necessary to ensure we pay down our liabilities within a reasonable period of time and that we can weather investment volatility. However, even with refinements, PERA will still offer one of the most generous public pension benefits in the nation.

In 2013, the PERA Board led pension reform that addressed the problem for the future by creating an affordable benefit structure for new employees hired after July 1, 2013. However, the Tier 1 retiree liability was not sufficiently addressed and will not work through the system until 2040, which is also the same time when the bulk of the benefit of the reforms of 2013, new Tier 2 employees, will kick-in. Put another way, 2013 pension reform has proven insufficient to deal with the bulk of the unfunded liability attributable to current retirees.

Looking at PERA’s liabilities we have a math problem. Of PERA’s roughly \$20 billion total incurred liabilities, nearly 70% is attributable to current retirees. That math problem needs to be addressed if we are to ensure active employees like you have a sustainable retirement benefit like others have received in the past.

The Board is examining different solutions to achieve our goal of full funding within 25-30 years, which means paying our unfunded liability within 25-30 years, better alignment of funding between the multiple retirement plans under the PERA umbrella, and easing future cash flow challenges. The Board has not decided on a specific option or set of options as of today. However, the way the math works and the facts line up, there are really only two options that fix the problem: increased contributions and further refinements to benefits, including the COLA. Those are the only ways to guarantee the long term solvency of the Fund.

As fiduciaries, the PERA Board is focused on the challenges we face and are working diligently to find responsible solutions that balance the interests of our members and, most importantly, solutions that ensure a forever sustainable PERA. I believe, based on nearly two years of study by the Board and input from our experts and staff, that we can sustain both the current base benefit and preserve some form of COLA going forward.

In the coming weeks, PERA Board Members and staff will be holding a series of town hall meetings across New Mexico to discuss these matters in more detail. A schedule is included at the end of this letter.

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I welcome your comments and thoughts and PERA will continue to keep you updated as the Board deliberates on these matters further. Feel free to contact me at jmaxon@nmpera.org. Additional meeting dates may be added, please visit our website, www.nmpera.org and consider following us on social media to stay up to date with the latest about PERA.

Sincerely,



James Maxon, MPA
Chairman, PERA Board of Trustees
Fire Chief
Sandoval County Fire Department

SOLVENCY OUTREACH MEETINGS*

Date	City	Location
10/15/2018 1:00 pm to 3:00 pm	Santa Fe (NE Region)	NMDOH Runnels Auditorium 1190 S. St. Francis Dr. Santa Fe, NM 87505
10/22/2018 10 am to noon	Las Vegas (NE Region)	San Miguel County Commission 500 National Ave. Las Vegas, NM 87701
10/24/2018 1:30 pm to 3:30 pm	Albuquerque (Central Region)	UNM Continuing Education Conference Center 1634 University Blvd. NE Albuquerque, NM 87131
10/29/2018 1:00 pm to 3:00 pm	Gallup (NW Region)	El Morro Event Center 210 S. Second Street Gallup, NM 87301
11/01/2018 1:00 pm to 3:00 pm	Roswell (SE Region)	Convention Center or Museum & Arts Center
11/02/2018 10 am to noon	Las Cruces (Southern Region)	Dona Ana County Commission Chambers 845 N. Motel Blvd. Las Cruces, NM 88007

*Additional dates and locations may be added, please visit our website at www.nmpera.org to stay up to date.

