

INVESTED IN TOMORROW.

Dear Retired Member,

PERA's solvency has been in the news so much recently that many of you have called me to voice your concerns and ask what is being done. I have attempted to answer all of your calls but may have missed some of you.

Through PERA's regular publication, *La Voz*, as well as guest editorials, PERA's Board Chair James Maxon has been proactive in outlining 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.

Regrettably, there is a significant amount of misinformation being provided to retirees about what the Board has been discussing, the true nature of our challenges and the possible recommendations we may make to the Legislature for the 2019 session.

As a Member of the PERA Board and a retiree myself, I want to tell you directly what we have heard from experts, such as our actuaries and investment advisors, and exactly what the Board is considering going forward.

First and foremost, we want to make clear that PERA's current retirees' base pension benefits are not in jeopardy and no one is talking about eliminating the cost-of-living-adjustment (COLA). Since 1947, PERA has paid benefits to retirees month after month, through good times and bad. However, we do face challenges that need to be addressed to ensure we have a "forever" defined benefit system for all generations of PERA members. Fortunately, our challenges are manageable.

Second, despite what you may have heard, 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 being studied because it has out-paced inflation for at least the last 20 years and is the major driver of ongoing unfunded liabilities. In particular, members 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, we put much of the COLA liability for the past couple of decades on a "credit card" and that "credit card" bill has come due.

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

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Finally, refinements to the PERA benefit structure are necessary to weather a 10-year projection for an uncertain and volatile market environment and to manage future cash flow. However, even with refinements, PERA will still offer one of the most generous public pension benefits in the nation. We believe we can sustain both the base benefit and some form of COLA going forward.

The story of how we got here dates back to the mid-to-late 1990s. At that time, (the “good times”), investment returns were plentiful and PERA was projected to be 100% or greater funded. Collectively, the PERA Board and Legislature at the time chose to enhance benefits (we weren’t alone, many plans across the country did the same) and grandfathered in past service without ensuring that PERA had the funds to pay for that enhancement. This encouraged a spike in early retirements that created a large increase in enhanced retirement benefits that were not funded.

PERA then experienced two major economic downturns in the Dot.com bust and the Great Recession, resulting in 20 year investment returns of 6.4%, well short of the 7.75% goal at the time. During this same period, PERA increased and paid a fixed 3%, compounded COLA that was significantly above inflation when investments didn’t earn the returns to pay for it.

While pension reform in 2013 helped in the long term by establishing a lower benefit for members hired after July 1, 2013, currently PERA’s funded ratio is 73% and is only projected to reach 77% by 2043. Another recession (even if small) could devastate this projection, and does not address the bulk of the unfunded liability attributable to current retirees still working through the system.

Looking at the PERA Fund’s liabilities, we have a math problem. Of PERA’s roughly \$20 billion total liabilities, nearly 70% of it is attributable to current retirees. That math problem needs to be addressed if we are to ensure future public employees also have a sustainable retirement benefit.

The Board is examining different solutions that get us to our goal of full funding status and pays down the unfunded liability within 25-30 years. This will better align funding status between the multiple Divisions within PERA and ease future cash flow strains. 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 few options.

As fiduciaries, the PERA Board is focused on the challenges we face and are working diligently to find responsible solutions that balance interests of all of our members and, most importantly, solutions that ensure a forever sustainable PERA.

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.

Chair Maxon and I welcome your comments and thoughts and PERA will continue to keep you updated as the Board deliberates on these matters further. 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.

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Sincerely,



Dan Mayfield
PERA Board of Trustees
Retiree Member



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.

