

PERA 2013 Board

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Letter from the Board Chair

Dear PERA Members:

“Why does PERA have a \$6.2 billion unfunded liability when the stock market is at an all time high?”

PERA Board members and staff are often asked this question in conversations about the pension reform recently passed in SB 27. While it seems logical that the deficit would be reduced when the stock market is rising, there are other factors to consider.

First, no single-year, realistic investment returns can make up for the magnitude of losses PERA sustained in the 2008-09 market recession. At that time, PERA lost almost half of its total fund value. These losses created an unfunded liability that PERA cannot invest itself out of. PERA's funding projection shows that even if PERA makes its assumed 7.75% return on investments over the next 30 years, the plan will only be funded at 31.2% in 2042 if none of the benefit changes passed in SB 27 were made.

Pension payments and contributions also must be consid-

ered when looking at the fund's deficit.

PERA is a mature fund with more payments going out of the fund to pay retiree pensions than employee and employer contributions coming into the



fund. On average PERA transfers \$35 million out of the fund monthly to cover contribution shortfalls.

Finally, plan enhancements were passed by the Legislature during times when the fund was recording double digit returns. These benefit enhancements were made without funding to pay for them.

PERA is a long-term invest-

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MISSION STATEMENT

The mission of the Board of the Public Employees Retirement Association is to preserve, protect, and administer the Trust to meet its current and future obligations and provide quality services to association members.

Letter From Board Chair *(Continued from page 1)*

tor with a diversified portfolio aimed at weathering the ups and downs of investments. We are encouraged by recent stock market gains but know that markets will fluctuate.

That is why the pension reform changes just passed in SB 27 are so important to PERA's pension solvency and reducing the \$6.2 billion shortfall. By combining cost-saving pension reforms with stock market returns, PERA has a better chance of attaining its 100% solvency goal.

Sincerely,



Patricia (Patty) French
Board Chair

Governor Martinez Signs PERA Pension Reform

On April 5, 2013 Governor Susana Martinez signed SB 27, which was sponsored by Senator George K. Munoz and Representative Luciano "Lucky" Varela, and endorsed significant pension reform changes for PERA retirees, active members and future retirees.

"We are gratified that Governor Martinez recognized the urgency of pension reform," said PERA Board Chair Patricia (Patty) French. "I applaud her willingness to help ensure that public employees and retirees have a secure retirement future."

Board Chair French noted that SB 27 was not a perfect bill but that it sets PERA on a path to long-term solvency and does so fairly and responsibly.

SB 27 was the result of a legislative mandate that the solution to PERA's unfunded liability be one of shared sacrifice from all membership groups

including retirees, current active members and future members.

SB 27 had the unprecedented support of the Public Employees Retirement Association Board of Trustees, the New Mexico Association of Counties, the New Mexico Municipal League, the Retired Public Employees of New Mexico (RPENM) and the American Federation of State, County and Municipal Employees (AFSCME).

A summary of the pension reform changes is outlined in the SB 27 - Summary of Pension Plan Changes article on pages 3 and 4.

VOLUNTEER FIREFIGHTER RETIREMENT BENEFITS SIGNED BY GOVERNOR

Governor Martinez also signed HB 275, which increases monthly volunteer firefighter pension

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Get the Facts Before You Decide to Retire

With the numerous changes to PERA's retirement plans in SB 27, members have been contacting PERA for clarification of how the changes will apply to them. PERA wants to make sure that members are making important retirement decisions based on correct information.

Here are some of the most frequently asked questions PERA has received:

COLA ELIGIBILITY

Q: *If I retire before July 1, 2013, will I be grandfathered in and be eligible for a 3% annual Cost-of-Living Adjustment (COLA) after I have been retired for 2 years?*

No. The COLA reduction was made for current retirees as well as future retirees. No retirees are grandfathered in to be eligible for a 3% COLA. Any current

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Governor Martinez Signs Pension Reform *(continued from page 2)*

benefits as follows: Retirees age 55 or older with 25 or more years of service credit will receive a \$250 monthly pension, increased from \$200. Retirees age 55 with 10 or more years of service credit will receive a \$125 monthly pension, increased from \$100. These increases will be applied July 1, 2013



to volunteer firefighters already receiving pensions and to all volunteer firefighters retiring after that date.

JUDICIAL RETIREMENT ACT CHANGES VETOED

Pension reform for two of PERA's most underfunded retirement plans did not receive the support of Governor Martinez, who vetoed SB 25, which would have significantly amended the Judicial

Retirement Act and the Magistrate Retirement Act to change retirement benefits for both current and future judges, magistrates and retirees.

"The judicial and magistrate retirement plans are important to PERA," said Board Chair French. "The Board commends the work done on the bill by Administrative Office of the Courts staff and for the concessions the members of these two plans were willing to make to move toward solvency."

The most significant concession made in SB 25 was suspending the Cost-of-Living Adjustment (COLA) for all current Judicial and Magistrate plan retirees for two years (2013 and 2014) and subsequent years based on a solvency threshold. Employee contributions were increased by 3% and a new, more reduced benefit structure was introduced as well.

The plans were also restructured to move from contributions partially being based on docket fees to contributions based on employer contributions as a statutory percentage of salary.

The PERA Board is committed to working on changes to ensure the long-term solvency of these two plans during the 2014 legislative session.

LEGISLATIVE RETIREMENT OPEN ENROLLMENT VETOED

SB 114 would have allowed legislative members who missed the prior deadline to enhance benefits to pay any additional contributions per year of service credit, with interest, before January 1, 2014 and receive an enhanced benefit. The bill would also have raised the annual legislator contribution from \$600 per year to \$700.

SB 27 - Summary of PERA Pension Plan Changes

Effective July 1, 2013, SB 27 establishes two tiers of benefits under each PERA coverage plan.

TIER 1

Individuals who are retired members or members (i.e. currently employed, contributing employees of an affiliated public employer or individuals who have been, but are not currently, employed by an affiliated public employer who have not retired and who have not received a refund of member contributions) on June 30, 2013 are in Tier 1.

State and Municipal General Members hired

between July 1, 2010 and June 30, 2013 are grandfathered into Tier 1 coverage plans.

TIER 2

Individuals who are not retired members or members on June 30, 2013 (i.e. were first hired by a PERA employer on or after July 1, 2013) are in Tier 2.

CHANGES FOR TIER 1 MEMBERS

Pension Maximum

- Increased to 90% of final average salary for all plans.

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SB 27 - Summary of PERA Pension Plan Changes (continued from page 3)

Blended Pension

- Establishes blended pensions for service credit earned after July 1, 2013. A blended pension benefit is calculated using the service credit the member has earned under each coverage plan with different pension factors. Please refer to PERA's website for more detailed information and examples.

Cost-of-Living Adjustment (COLA)

Eligible retired members will receive a 2% COLA.

- A member's retirement date is always the first day of the month following the member's termination date. For example, a member whose last day of employment is August 31, 2013 would be a September 1, 2013 retiree.
- The graduated COLA eligibility period is:
 - ✓ Retirement dates through June 1, 2014: no change to current 2 full-calendar years after retirement to receive a COLA;
 - ✓ Retirement dates of July 1, 2014 through June 1, 2015: 3 full-calendar year eligibility period to receive a COLA;
 - ✓ Retirement dates of July 1, 2015 through June 1, 2016: 4 full-calendar year eligibility period to receive a COLA; and
 - ✓ Retirement dates on or after July 1, 2016: 7 full-calendar year eligibility period to receive a COLA.
- No change in 1-year COLA eligibility for disability retirees or retirees age 65 or older.

Employee Contribution Rate

- Increases the statutory employee contribution rate by 1.5% for employees who earn more than \$20,000 in annual salary.
- For state members, this will be put in place by removing the sunset of the remaining 1.5% 2009 contribution shift.

CHANGES FOR TIER 2 MEMBERS

Pension Benefits General Members

(Non-Public Safety Employees)

- 0.5% Reduction in the annual pension factor
- 5-Year final average salary calculation
- Retirement eligibility: rule of 85 or age 65 with 8 years of service
- 8-Year vesting period
- 90% Pension maximum
- 2% COLA
- 7 full-calendar year eligibility period to receive a COLA

Public Safety Plan Members

(State Police Officers, Adult Correctional Officers, Peace

Officers, Juvenile Correctional Officers, Municipal Police, Fire, Detention Officers)

- 0.5% reduction in the annual pension factor except for Peace Officers
- 5-year final average salary calculation
- No enhanced service credit for State Police Officers, Adult Correctional Officers and Municipal Detention Officers
- Retirement eligibility: 25 years of service credit/ any age or age 60 with 6 years of service
- 6-Year vesting period
- 90% pension maximum
- 2% COLA
- 7 full-calendar year eligibility period to receive a COLA

Blended pension is calculated using the service credit the member has earned under each coverage plan with different pension factors.

Employee Contribution Rate (Same as Tier 1)

- Increases the statutory employee contribution rate by 1.5% for employees who earn more than \$20,000 in annual salary.
- For state members, this will be put in place by removing the sunset of the remaining 1.5% 2009 contribution shift.

RETIREEES

Cost-of-Living Adjustment (COLA)

Reduces the COLA from 3% to 2% except for:

- 2.5% COLA for members retired with 25 or more years of PERA service credit (not including reciprocity) and whose annual pensions are \$20,000 or less.
- 2.5% COLA for disability retired members whose annual pensions are \$20,000 or less.

RE-EMPLOYED RETIREES

- Effective July 1, 2013, the COLA will be suspended for re-employed PERA retirees who were grandfathered in and are receiving both a pension and a salary from a PERA-covered employer. A re-employed retiree's COLA will be reinstated once they terminate their present employment.
- The COLA will be suspended for PERA retirees who become employed on or after July 1, 2013 by entities covered by the Educational Retirement Act.

EMPLOYERS

- Increases the statutory employer contribution rate 0.4% beginning in FY15.
- Optional municipal employer "pickup" of future employee contribution increases.

Annual Member Statements Update

Each year, PERA issues Annual Member Statements summarizing information about your PERA account. The statement shows service credit history, salary reported to PERA, member contributions for a fiscal year and interest paid on those member contributions. Your current employer and beneficiary are also provided on the statement.

Annual Member Statements reflecting information for the period of July 1, 2011 through June 30, 2012, were not issued to allow PERA to conduct interim interest testing and in anticipation of significant benefit plan changes in the 2013 legislative session.

In 2009, the Legislature increased retirement age and service requirements for PERA general members hired after July 1, 2010 creating a 30-year retirement plan. During the 2013 legislative session, SB 27 grandfathered State and Municipal General Members hired between

July 1, 2010 and June 30, 2013 into existing coverage plans.

Annual Member Statements going forward will reflect that all general members hired after July 1, 2010 but before July 1, 2013 are now in the 25-year plans which will help avoid some of the confusion that was caused by the 30-year retirement plan.

Annual Member Statements will be issued this year after interest is posted to member accounts on June 30, 2013. PERA anticipates that Annual Member Statements will be printed and mailed by September 1, 2013. Any member who would like a 2011-2012 Annual Member Statement for their records can print one off of the RIO self-service online account site after July 1, 2013 when all interest calculations are updated. If you would prefer to have a PERA customer service representative provide you with a 2011-2012 Annual Member Statement, please make the request by emailing pera-memberservices@state.nm.us.

Get The Facts Before You Decide to Retire (continued from page 2)

retiree who is receiving or is eligible to receive a COLA will receive a 2% compounding COLA (with the exception explained below) beginning July 1, 2013.

Q. *How long will I have to wait to receive my COLA when I retire?*

Retirement dates:

- ✓ between now and June 1, 2014: no change to current 2 full-calendar years after retirement to receive a COLA;
- ✓ July 1, 2014 through June 1, 2015: 3 full-calendar year eligibility period to receive a COLA;
- ✓ July 1, 2015 through June 1, 2016: 4 full-calendar year eligibility period to receive a COLA; and
- ✓ on or after July 1, 2016: 7 full-calendar year eligibility period to receive a COLA.

There is no change in 1-year COLA eligibility for disability retirees or retirees age 65 or older.

Q. *After I retire, what COLA will I be eligible to receive?*

Eligible retirees receiving an annual pension greater than \$20,000 will receive a 2% annual compounding COLA. Eligible retirees with 25 or more years of service credit AND with annual pensions of \$20,000 or less will receive a 2.5% COLA for as long as their annual pension does not exceed \$20,000 annually.

Q. *I retired from PERA with 5 years of PERA service credit and 20 years of Educational Retirement Board (ERB) service credit with an annual pension of less than \$20,000. Am I eligible for a 2.5% COLA from PERA?*

No. A retiree must have 25 years of PERA service credit and receive an annual pension of less than \$20,000. Reciprocity service credit (combined PERA and ERB service credit) does not qualify for the 2.5% COLA.

Look for additional questions and answers on PERA's website at pera.state.nm.us.

PERA Fund Status

By Joelle Mevi, Chief Investment Officer

The PERA Fund ended March with a market value of \$13 billion. So far this fiscal year (July – June), the Fund has had a 13.5% return. The U.S. stock market has been strong, seeing gains to the S&P 500 of 16.90% from July through March and 10.61% for the calendar year through March 31. While international stock markets have recorded impressive 20% gains through March 31, the recent months have seen lackluster investment returns due to financial issues in the Eurozone and slowing economies in China and Brazil.

The recent bank failure in Cyprus (a Eurozone country) spooked the stock markets during March and investors retreated from stocks and instead chose to invest in safer assets, such as bonds. The PERA Fund is diversified across multiple asset classes, such as stocks and bonds, and was able to achieve a positive 1.77% investment return for the month of March.

Although the stock markets may remain shaky in the near term, our expectation is for the Fund to continue to trend upward - primarily due to positive U.S. stock market performance - through the remainder of 2013.



Important Information

Thinking of Refunding Your PERA Contributions?

During the 2013 legislative session, the legislature passed significant pension reform changes, including provisions that establish two tiers of retirement benefits under each coverage plan with different retirement eligibility requirements and pension factors. These legislative changes are described in greater detail on PERA's website: pera.state.nm.us.

You will have to work longer and will have reduced retirement benefits as compared to the plan you are now in if you:

- refund your employee contributions at this time; and
- are not working for a PERA affiliated public employer on June 30, 2013; and
- have no employee contributions on account with PERA on June 30, 2013; and
- become employed by a PERA affiliated public employer on or after July 1, 2013.

Please carefully consider your options before refunding employee contributions.

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