

# LaVoz

The Voice of the Public Employees Retirement Association of New Mexico

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Dear Fellow PERA Members:

On behalf of the Board and staff at PERA, I wish you a wonderful New Year. We had much to be grateful for in 2019 and look forward to 2020.

As my time as a state employee and on the PERA Board comes to a close (yes, I am joining the ranks of our 41,000 happy retirees), I have a deep sense of gratitude for the pension benefit we earn as public employees. Without question, PERA provides one of the best pensions in the country. It is something worth fighting for, as well as sacrificing for, when necessary.

Earlier this year, I had the opportunity to serve on Governor Lujan Grisham's PERA Solvency Task Force and was impressed by the commitment each Task Force member showed in developing a fair set of recommendations to address PERA's solvency challenges. In September the PERA Board voted to support the recommendations of the Task Force and work with the Governor and the Legislature to pass legislation within the framework outlined in the recommendations.

This newsletter is dedicated to the outcomes of the Task Force's deliberations and the legislation the Governor plans to introduce in the 2020 Legislative Session.

During the PERA Board's work over the last three years, as well as my time on the Task Force, it has become abundantly clear that the PERA Fund is highly vulnerable to any future downturn in the economy and that our current situation is not sustainable. While pension reforms passed in 2013 had a positive impact on PERA and the economy and the stock market have generally had a positive impact as well, PERA is still being negatively affected by systemic, long standing imbalances between the benefit PERA provides and the revenue coming into the Fund. It is also clear that any modifications we make today to ensure long term solvency will pale in comparison to the changes we will need to make if we don't act now. Putting our heads in the sand and kicking the can down the road is simply not an option and would be a terrible disservice to current and future retirees.

The reforms proposed by the Task Force and included in the Governor's legislation are balanced and innovative. As just one example, more than 30% of our current retirees (11,000 plus), those with the lowest pensions and our more elderly pensioners, will actually see an increase in their Cost of Living Adjustments (COLA) from the current 2% to 2.5%. The remainder of our current, as well as future retirees will be guaranteed a COLA that can never go below .5% but could go as high as 3% based on PERA's investment returns.



**PERA**

Public Employees  
Retirement Association  
of New Mexico

## Mission Statement

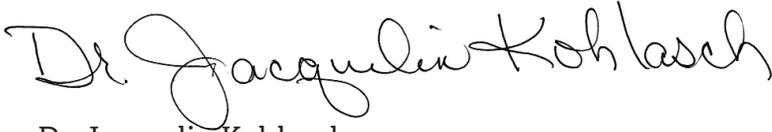
The mission of the Board of the Public Employees Retirement Association is to preserve, protect and administer the Trust to meet its current and future obligations and provide quality services to association members.

## Board Chair Letter Continued

It is important to stress that almost 60% of the impact of the proposed reforms will be borne by PERA's current and future active employees and their employers through higher contribution rates. Other changes improve upon the 2013 reforms and are discussed in greater detail in this newsletter.

I want to thank my colleagues on the Board, the Governor and the Investments and Pensions Oversight Committee in particular for their leadership over the past year. As I head into retirement, I am confident that the reforms being proposed, if enacted, will allow the state to keep the promise they have made to me and our other 90,000 members.

Sincerely,



Dr. Jacquelin Kohlasch  
PERA Board Chair

## Governor's Proposed Solvency Legislation

### Retired Members

- Will receive additional payments equalling 2% of the base pension in calendar years 2020, 2021, 2022 ("13th Check").
- \$76 million General Fund appropriation to cover the cost of the 13th check payments to eligible retirees.
- Eliminates the 7-year wait period and restores the 2 calendar year waiting period for first COLA
- Effective July 1, 2023, provides profit sharing, compounding COLA based on funded status and investment returns available to finance the COLA with a minimum COLA of .5% and a maximum of 3%. Once PERA reaches 100% funded status, COLA maximum increases to 5%.
- Increases COLA for low income and existing retirees aged 75, from 2% to 2.5%

### Return to Work Retired Members

- Restores COLA for those PERA retirees who return to work with ERB-covered employers (e.g. Retired Police Officers who return to work as School Resource Officers)
- Restores COLA to those PERA retirees who returned to work with PERA-covered employers before July 1, 2010

## What Does This Mean?

### All Retired Members

- 30% of retirees will receive a COLA increase. Disability retirees under \$25,000 receive a 2.5% compounding COLA. Retirees with 25 years of service and pensions under \$25,000 will receive a 2.5% compounding COLA. Retirees age 75 years as of July 1, 2020 will receive a 2.5% compounding COLA. These members would also be exempted from the three year 13th check period and instead receive a 2.5% compounding COLA during that period.
- All retirees who have been retired 2 full calendar years will be eligible to receive a 13th check or COLA.
- Effective July 1, 2023, a profit-share, compounding COLA would be implemented based on PERA's funded status and investment returns available to finance the COLA. If the funded ratio is: 1) Less than 100%, COLAs could be up to 3%, and 2) Over 100%, COLAs could be up to 5%.
- Retirees can now return to work and receive their COLA at the same time.



# FICTION vs. FACT

## Tracking Solvency for Retired Members

### FICTION

PERA, the Legislature and the Governor are **taking my COLA away.**

PERA, the Legislature and the Governor are taking away my COLA, Part II.

**We shouldn't rush** these changes.

These changes will affect retirees **the most.**

You are **taking away** something **that was promised to me.**

During pension reform in 2013, retirees gave up their COLA and **active members did nothing.**

### FACT

**The COLA for 30% of current retirees will increase from 2% to 2.5%.** Disability retirees earning less than \$25,000; retirees with 25 years of service earning less than \$25,000 and retirees over age 75 before July 1, 2020.

The Governor's proposal maintains a **guaranteed COLA** but for the first time ensures that it is **fully funded** and therefore **sustainable.**

The PERA Board of Trustees has been working on pension solvency for **3 years.** Any changes made now before a future economic downturn will keep PERA from having to make more **difficult changes** if we wait.

The impact to the unfunded liability from changes to the COLA is **40%.** **60%** is due to **contribution increases** to active members and their employers.

Your **guaranteed lifetime** monthly benefit is **not being affected.**

Employee contributions increased by 1.50% and employer contributions increased by .40%. Tier 2 was also implemented, which provides benefits approximately **20% less than Tier 1 members** will receive in retirement.

# FICTION vs. FACT

## Tracking Solvency for Active Members

### FICTION

I heard PERA will be **creating a Tier 3** next.

I **have to wait longer** to be vested as a Tier 2 active member.

PERA is ranked one of the **worst pension plans in the country.**

PERA's Trust Fund is **69.9% funded right now.** Why is everyone panicking?

I've been watching the news and PERA **can invest its way out** of cash flow problems.

### FACT

PERA **will not** be adding another tier but if these legislative changes are made, active member and employer contributions will increase.

Tier 2 Active Members vesting period will match Tier 1 vesting of **5 years.** It is currently an 8 year vesting period for General Members and a 6 year vesting period for Public Safety Members.

Both Tier 1 & Tier 2 under PERA are ranked in the **top 5 best pension plans** in the country. This is why PERA members pay some of the highest contribution rates in the country.

PERA wants to make sure that **future generations** of Public Employees have a guaranteed lifelong monthly benefit like current members and retirees.

The probability of PERA investing its way to 100% funding in 2043 is **approximately 15%,** a risk that the PERA Board has decided is imprudent to protect the retirement security of our current active and retired members.

## State Employees

- Contribution rates will increase by 4% (2% employee, 2% employer) phased in .5% increments over 4 fiscal years
- Employee: 10.92% (from 8.92%)  
Employer: 19.24% (from 17.24%)
- No contribution increases for State Police and Adult Correction Officers
- No contribution increase for members earning less than \$25,000 a year

## All Municipal (City and County) Coverage Plans

- Contribution increases will be delayed for 2 fiscal years. Rates will increase by 4% (2% employee, 2% employer) beginning on July 1, 2022 phased in .5% increments over 4 fiscal years

## All Members

- Eliminates pension maximum under all plans

## Tier 2 Members

- 5 year vesting period for both General and Public Safety Members

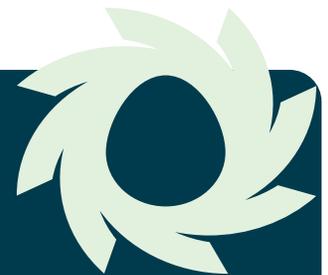
## What Does This Mean?

### State General Plan 3

- Employer and employee contributions increase effective July 1, 2020.

### All Municipal (City and County Coverage Plans)

- Delays increases for two fiscal years until July 1, 2022 to allow time for municipalities and counties to budget increases.
- Will allow Municipal Employers to opt-out of “pick-up” of contribution increases.
- Increases low income employees exemption from contribution rate hikes.
- As funding status improves, allows contribution rates to decrease.



## Related Articles & Podcasts

**Why the longest US bull market has failed to fix the nation's public pensions**

[www.msn.com](http://www.msn.com)

**Virginia Pension in Worse Shape to Weather Crash than in 2008**

[www.ai-cio.com](http://www.ai-cio.com)

**The State Pension Funding Gap: 2017**

[www.pewtrusts.org](http://www.pewtrusts.org)

**South Dakota Gears Up Emergency Plan**

[www.ai-cio.com](http://www.ai-cio.com)

**The Pension Fund Problem Just Got Much Worse**

[www.bloomberg.com](http://www.bloomberg.com)

**Colorado state employees and retirees both taking hits with PERA change**

[www.denverpost.com](http://www.denverpost.com)

**Let's Talk New Mexico State Pensions**

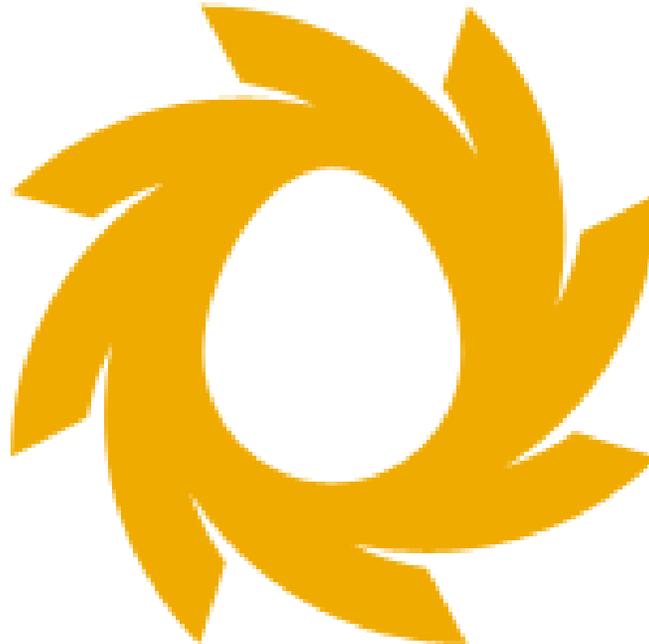
[www.kunm.org](http://www.kunm.org)

**How to Avert a Public-Pension Crisis**

[www.nationalaffairs.com](http://www.nationalaffairs.com)

**How Fast Can CalPERS \$360 Billion Grow?**

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