



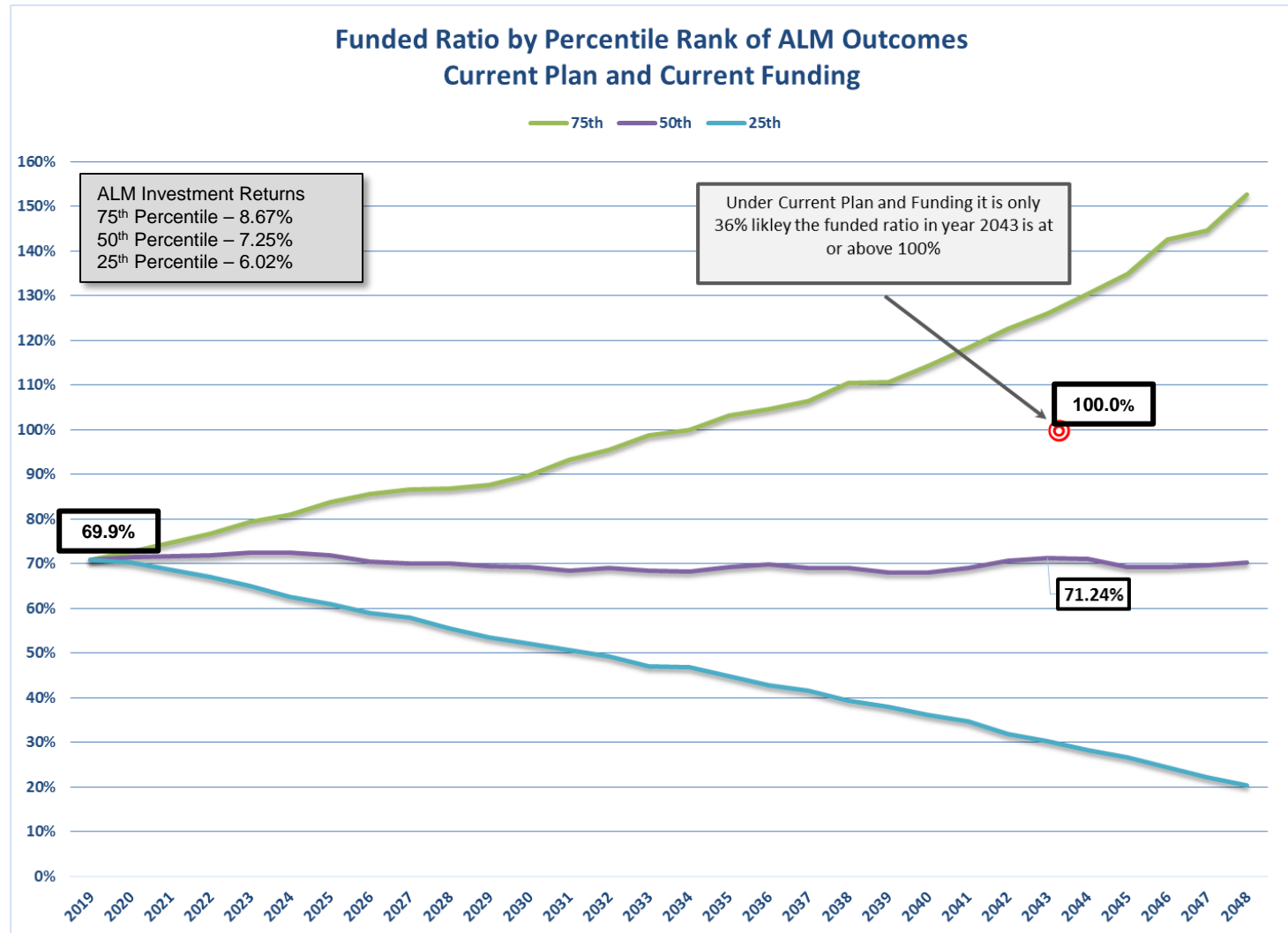
# PERA Solvency Task Force

July 11, 2019

John Garrett, ASA, FCA, MAAA  
Principal and Consulting Actuary

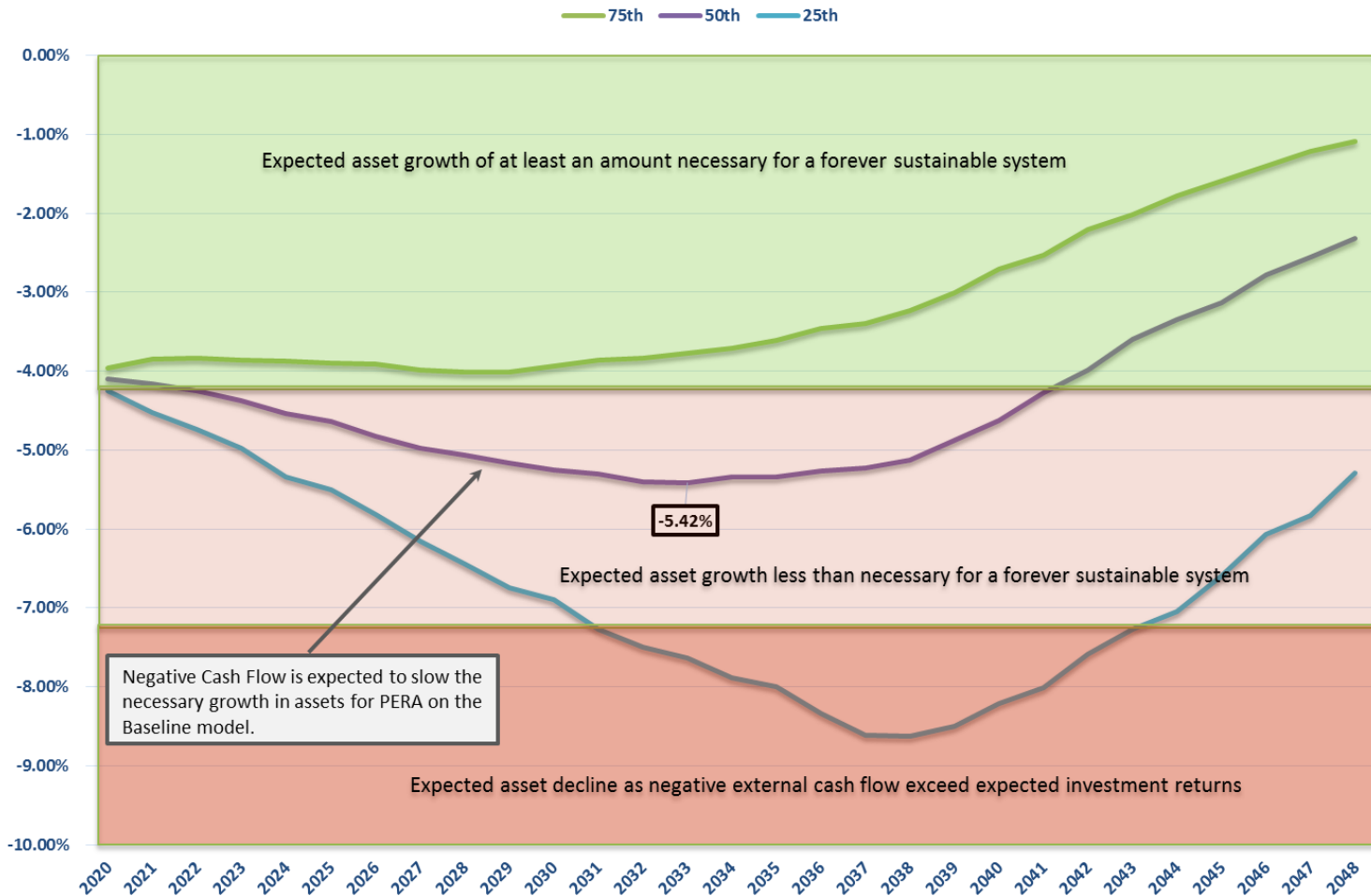
Jonathan Craven, ASA, FCA, MAAA, EA  
Consulting Actuary

Greg Trujillo, PERA Deputy Director

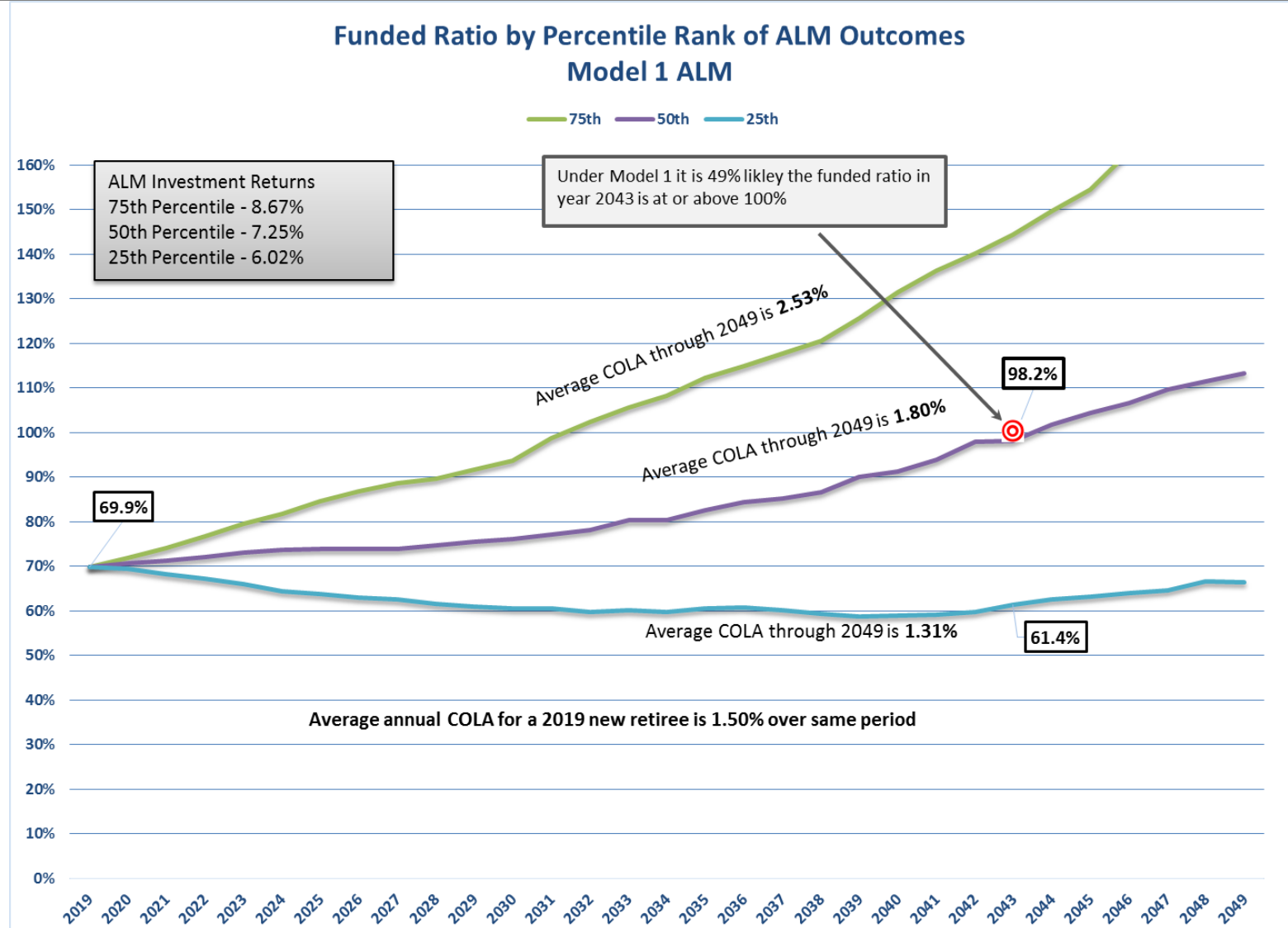


# Projected Net External Cash Flow

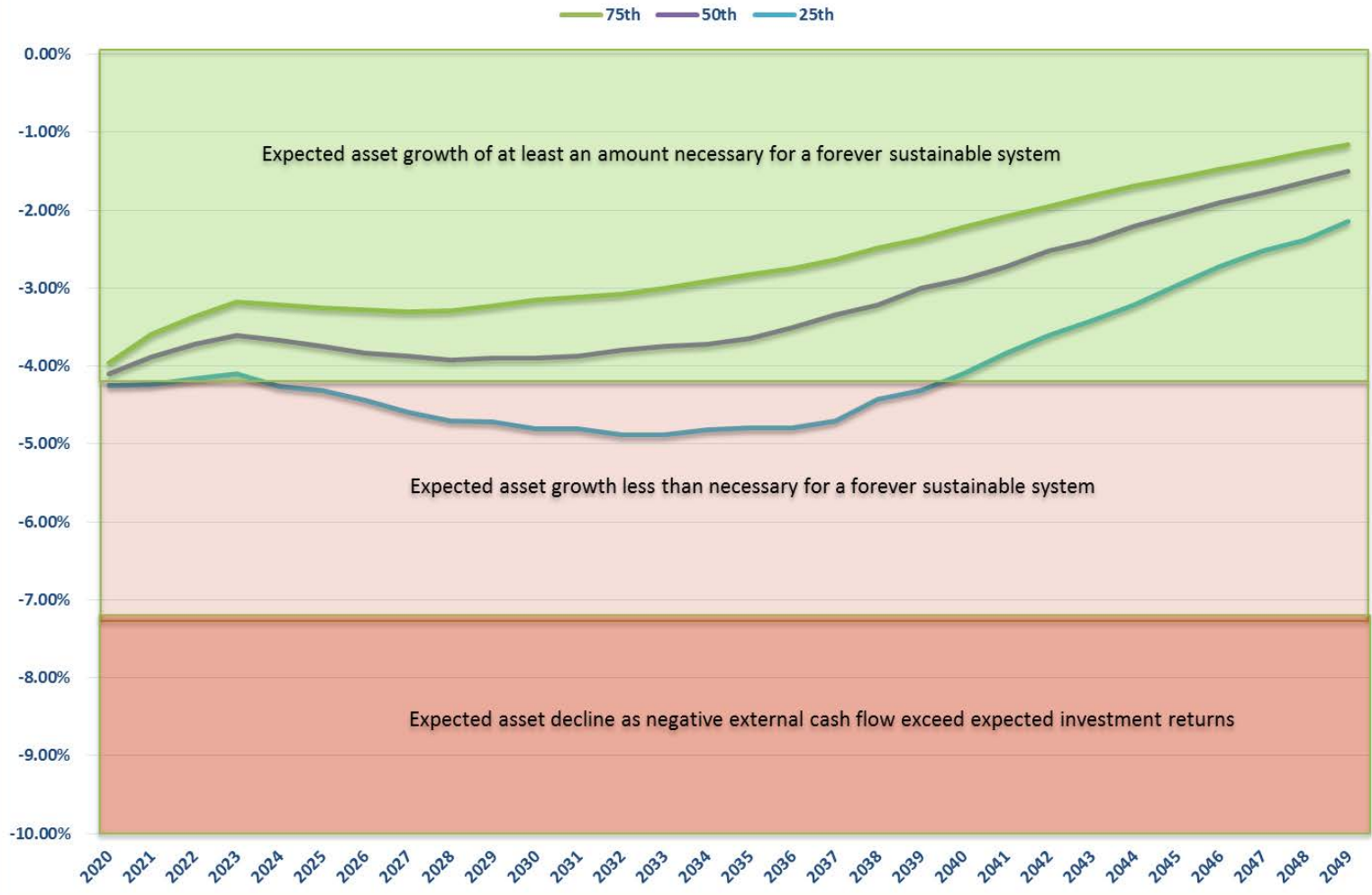
**Net Percent of Negative External Cash Flow by Percentile Rank of Outcomes**  
Current Plan ALM



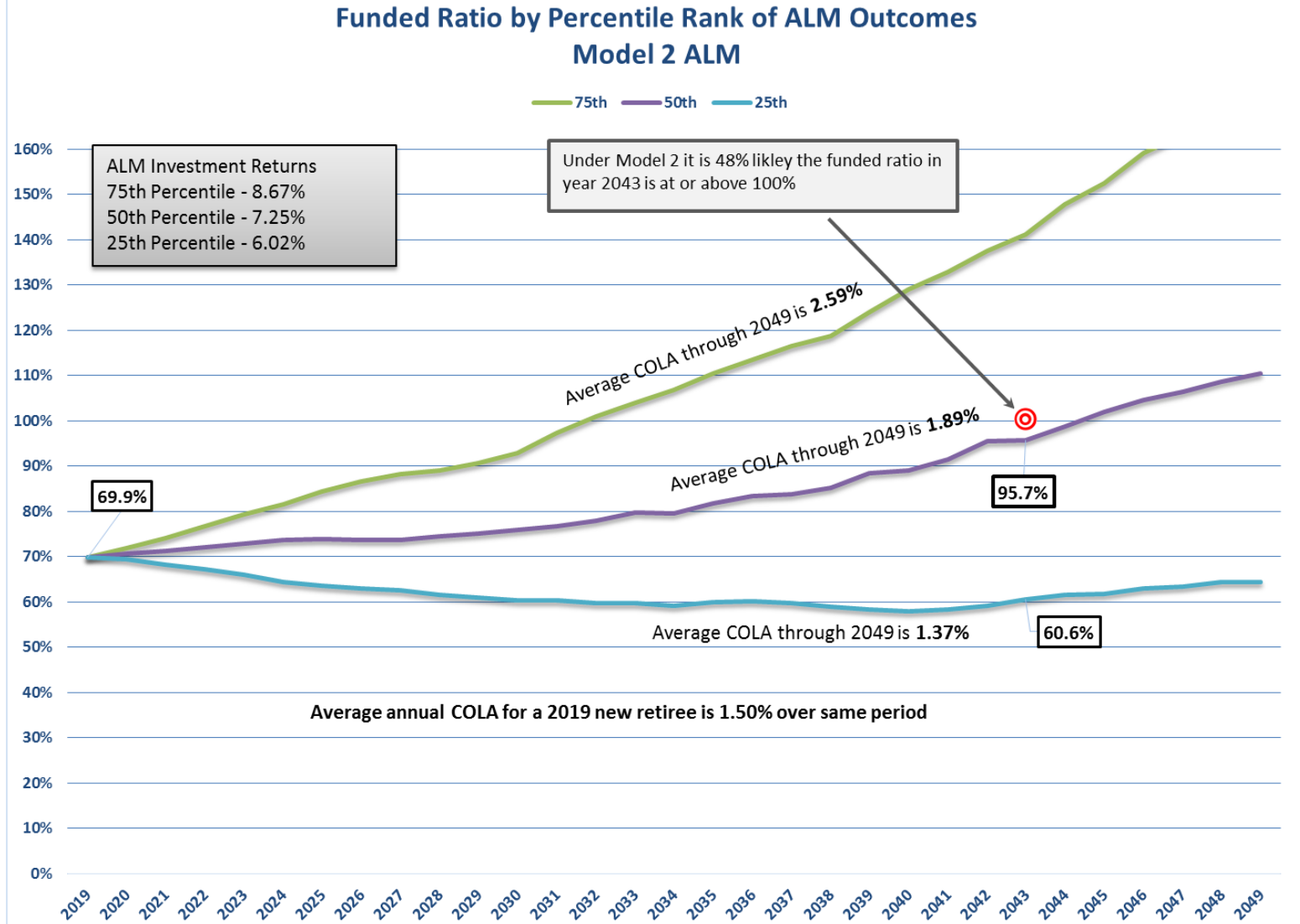
- Profit shared COLAs for current and future retirees with a minimum 0.5% COLA capped at 5.0% but not greater than **2.5%** until PERA funded ratio is at least 100% (retirees with annual pensions of \$25,000 or less with 25 years of service would receive a fixed 2.5% COLA)
- COLAs suspended for 3 years (FYs 2021, 2022, 2023)
- Eliminate current 7 year wait for first COLA and replace with a 2 year wait
- Increase employee and employer contributions
  - 1% increase (0.5% from both) per year for 4 years beginning 7/1/2020 (Increase would not apply to State Police/Adult Correctional Officers Division)



**Net Percent of Negative External Cash Flow by Percentile Rank of Outcomes  
Model 1 ALM**



- Profit shared COLAs for current and future retirees with a 0.5% minimum COLA and capped at 5.0% but not greater than **3.0%** until PERA funded ratio is at least 100% (retirees with annual pensions of \$25,000 or less with 25 years of service would receive a 2.5% fixed COLA)
- COLAs suspended for 3 years (FYs 2021, 2022, 2023)
- Eliminate current 7 year wait for first COLA and replace with a two year wait
- Increase employee and employer contributions
  - 1% increase (0.5% from both) per year for 4 years beginning 7/1/2020 (Increase would not apply to State Police/Adult Correctional Officers Division)
- Eliminate Earnings Cap of 90%

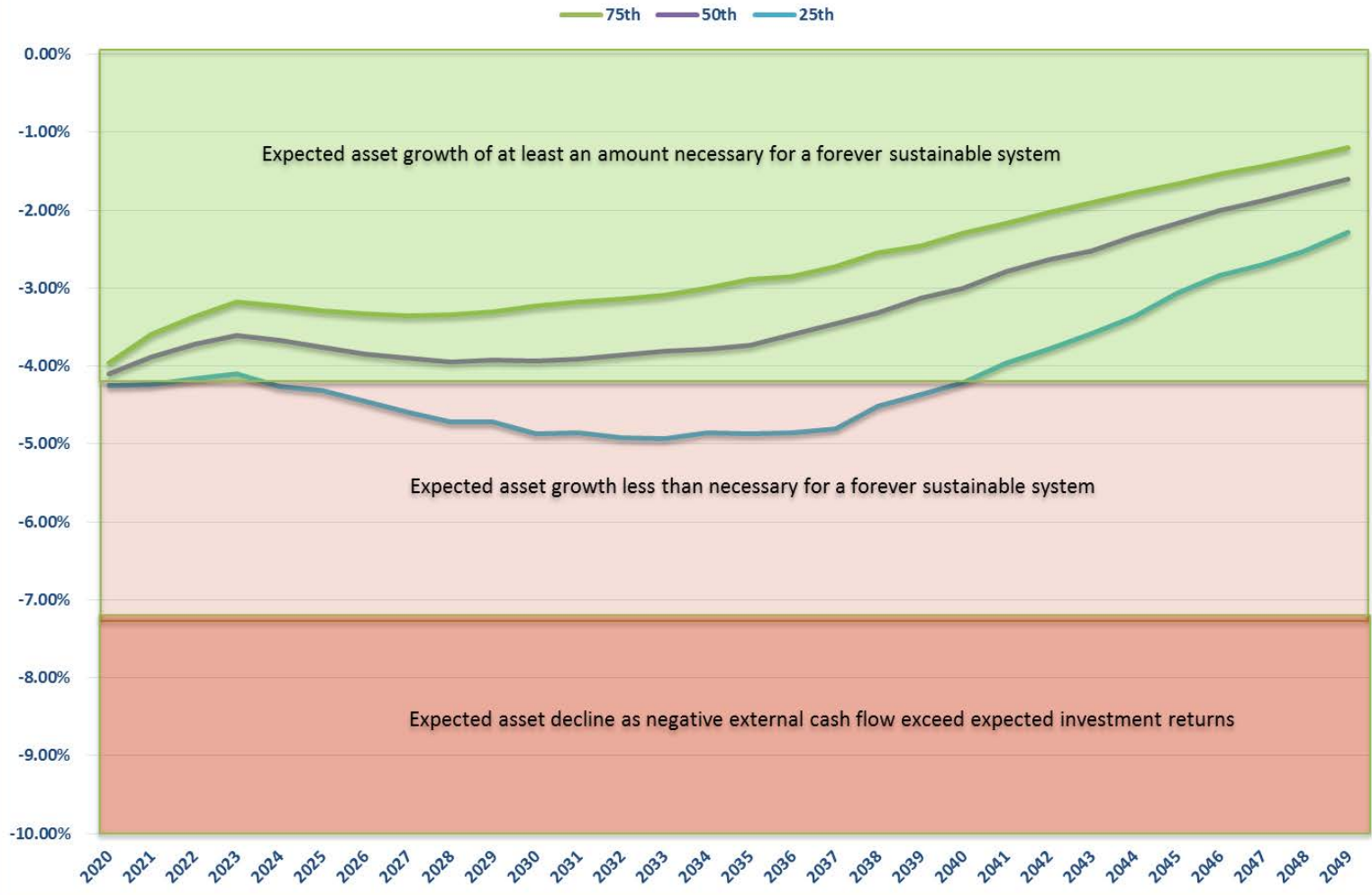




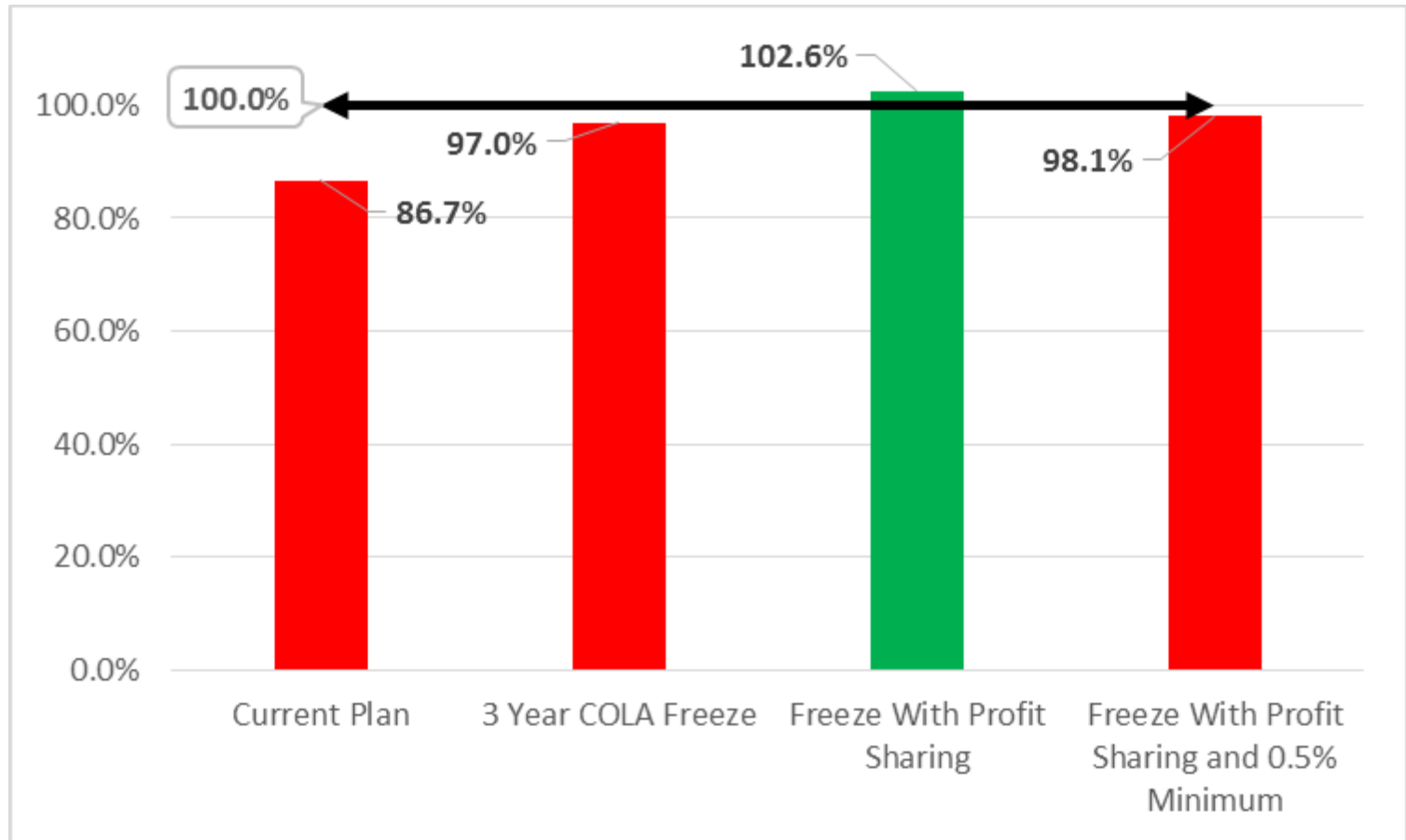
# NM Profit Share Plan, Model 2



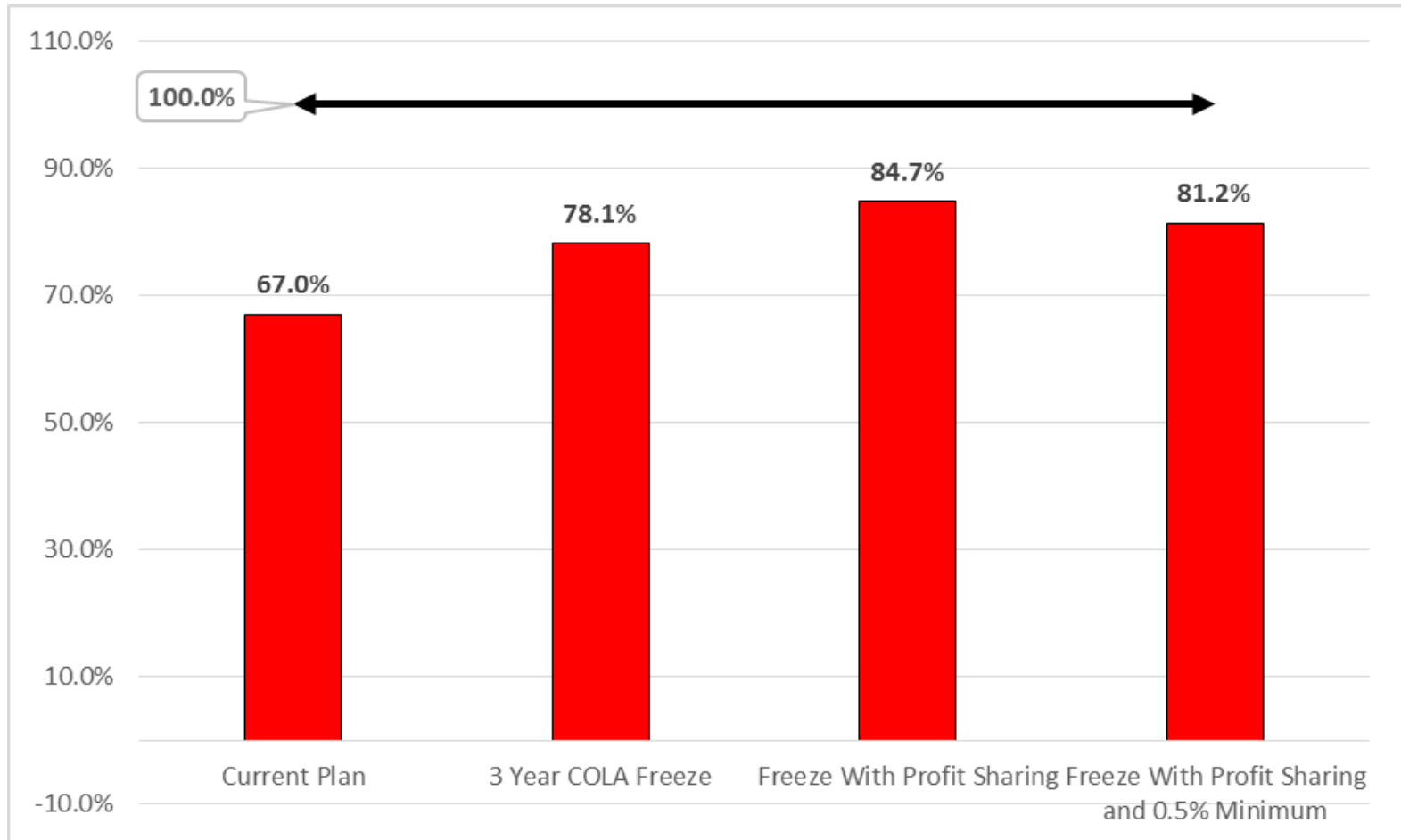
**Net Percent of Negative External Cash Flow by Percentile Rank of Outcomes  
Model 2 ALM**



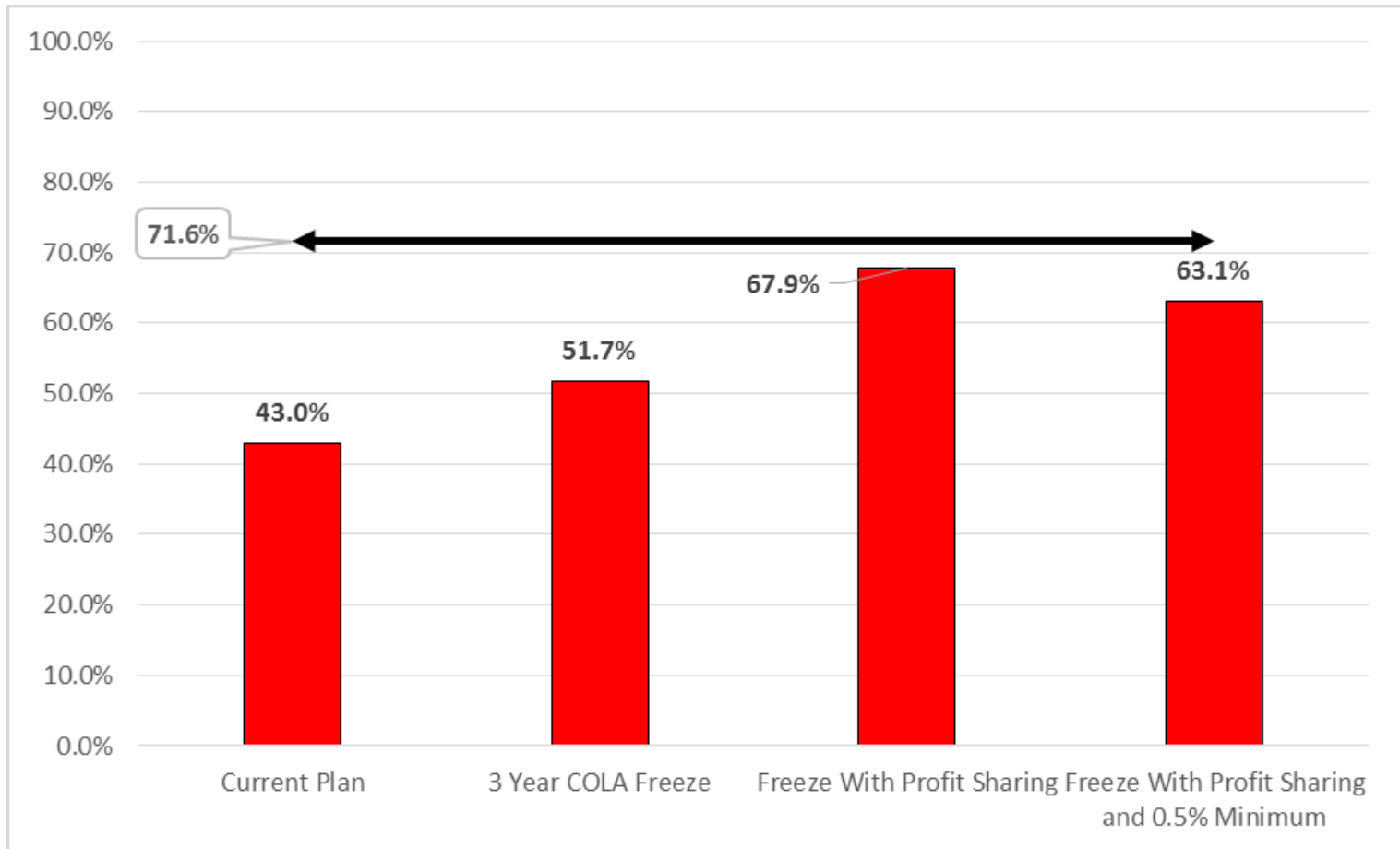
# 2043 Median Funded Ratios with 4% Increase in Contributions



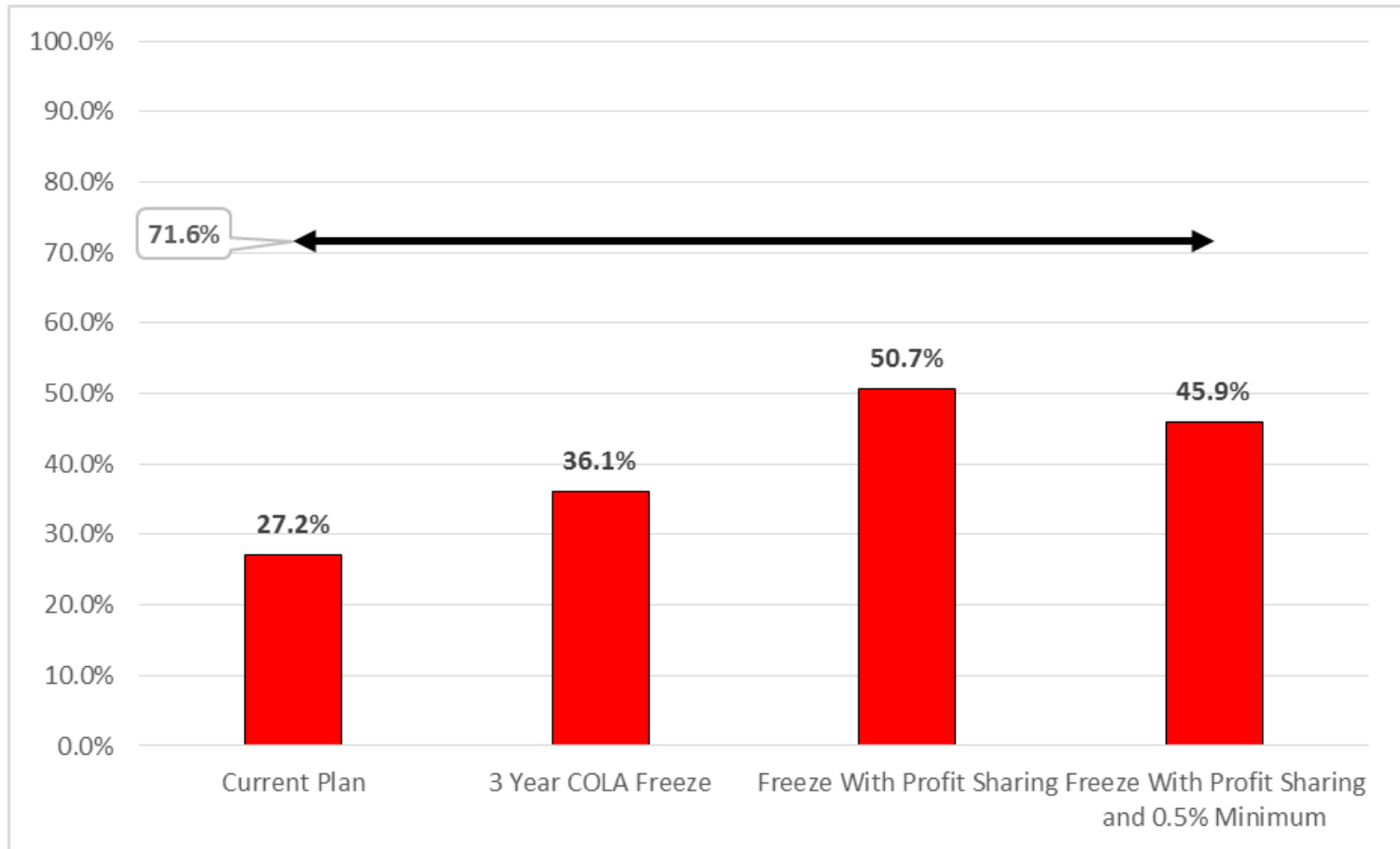
# 2043 Median Funded Ratios with No Increase in Contributions



# 2043 25<sup>th</sup> Percentile Funded Ratios with 4% Increase in Contributions Compared with 6/30/2018 Funded Ratio



# 2043 25<sup>th</sup> Percentile Funded Ratios with No Increase in Contributions Compared with 6/30/2018 Funded Ratio



# Look Back of NM Profit Share COLA Since SB 27



	AAV	AAV	Hurdle	Shared	Funded	
<u>FYE</u>	<u>Return</u>	<u>Assmpt.</u>	<u>Rate</u>	<u>Gain</u>	<u>Ratio</u>	<u>COLA</u>
2013	10.45%	7.75%	6.00%	4.45%	72.9%	2.50%
2014	11.94%	7.75%	6.00%	5.94%	75.8%	2.50%
2015	7.64%	7.75%	6.00%	1.64%	74.9%	1.23%
2016	7.65%	7.75%	6.00%	1.65%	75.3%	1.24%
2017	6.97%	7.25%	5.50%	1.47%	74.9%	1.10%
2018	4.85%	7.25%	5.50%	0.00%	71.6%	0.50%

*\* Member that retires with 7 year deferral period will receive an COLA of 1.50% on average*

## Examples of NM Profit Share Plan COLA 0.5% Minimum and 2.5% Maximum if Funded Ratio < 100%



		<i><b>Funded Ratio</b></i>				
		<i><b>60%</b></i>	<i><b>70%</b></i>	<i><b>80%</b></i>	<i><b>90%</b></i>	<i><b>100%</b></i>
<i><b>Smoothed Investment Return</b></i>	<i><b>5.00</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>
	<i><b>5.50</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>
	<i><b>6.00</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>	<i><b>0.50%</b></i>
	<i><b>6.50</b></i>	<i><b>0.80%</b></i>	<i><b>0.85%</b></i>	<i><b>0.90%</b></i>	<i><b>0.95%</b></i>	<i><b>1.00%</b></i>
	<i><b>7.00</b></i>	<i><b>1.10%</b></i>	<i><b>1.20%</b></i>	<i><b>1.30%</b></i>	<i><b>1.40%</b></i>	<i><b>1.50%</b></i>
	<i><b>7.50</b></i>	<i><b>1.40%</b></i>	<i><b>1.55%</b></i>	<i><b>1.70%</b></i>	<i><b>1.85%</b></i>	<i><b>2.00%</b></i>
	<i><b>8.00</b></i>	<i><b>1.70%</b></i>	<i><b>1.90%</b></i>	<i><b>2.10%</b></i>	<i><b>2.30%</b></i>	<i><b>2.50%</b></i>
	<i><b>8.50</b></i>	<i><b>2.00%</b></i>	<i><b>2.25%</b></i>	<i><b>2.50%</b></i>	<i><b>2.50%</b></i>	<i><b>3.00%</b></i>
	<i><b>9.00</b></i>	<i><b>2.30%</b></i>	<i><b>2.50%</b></i>	<i><b>2.50%</b></i>	<i><b>2.50%</b></i>	<i><b>3.50%</b></i>
	<i><b>9.50</b></i>	<i><b>2.50%</b></i>	<i><b>2.50%</b></i>	<i><b>2.50%</b></i>	<i><b>2.50%</b></i>	<i><b>4.00%</b></i>

# Examples of NM Profit Share COLA

0.5% Minimum and 3.0% Maximum if  
Funded Ratio < 100%



		<i>Funded Ratio</i>				
		<i>60%</i>	<i>70%</i>	<i>80%</i>	<i>90%</i>	<i>100%</i>
<b>Smoothed Investment Return</b>	<b>5.00</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>
	<b>5.50</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>
	<b>6.00</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b>
	<b>6.50</b>	<b>0.80%</b>	<b>0.85%</b>	<b>0.90%</b>	<b>0.95%</b>	<b>1.00%</b>
	<b>7.00</b>	<b>1.10%</b>	<b>1.20%</b>	<b>1.30%</b>	<b>1.40%</b>	<b>1.50%</b>
	<b>7.50</b>	<b>1.40%</b>	<b>1.55%</b>	<b>1.70%</b>	<b>1.85%</b>	<b>2.00%</b>
	<b>8.00</b>	<b>1.70%</b>	<b>1.90%</b>	<b>2.10%</b>	<b>2.30%</b>	<b>2.50%</b>
	<b>8.50</b>	<b>2.00%</b>	<b>2.25%</b>	<b>2.50%</b>	<b>2.75%</b>	<b>3.00%</b>
	<b>9.00</b>	<b>2.30%</b>	<b>2.60%</b>	<b>2.90%</b>	<b>3.00%</b>	<b>3.50%</b>
	<b>9.50</b>	<b>2.60%</b>	<b>2.95%</b>	<b>3.00%</b>	<b>3.00%</b>	<b>4.00%</b>



# 2% Simple COLA in lieu of Three Year COLA Freeze

## Starting Annual Pension of \$30,000



<u>Year</u>	<u>Current COLA</u>	<u>Total</u>	<u>2% Simple COLA</u>	<u>Total</u>
1	\$ 600.00	\$ 30,600.00	\$ 600.00	\$ 30,600.00
2	\$ 1,212.00	\$ 31,212.00	\$ 600.00	\$ 30,600.00
3	\$ 1,836.24	\$ 31,836.24	\$ 600.00	\$ 30,600.00
	Total COLA over 3 Years	\$ 3,648.24	Total COLA over 3 Years	\$ 1,800.00
	Difference in COLA over 3 Years		\$ 1,848.24	

# 2% Simple COLA in lieu of Three Year COLA Freeze

## Starting Annual Pension of \$50,000



<u>Year</u>	<u>Current COLA</u>	<u>Total</u>	<u>2% Simple COLA</u>	<u>Total</u>
1	\$ 1,000.00	\$ 51,000.00	\$ 1,000.00	\$ 51,000.00
2	\$ 2,020.00	\$ 52,020.00	\$ 1,000.00	\$ 51,000.00
3	\$ 3,060.40	\$ 53,060.40	\$ 1,000.00	\$ 51,000.00
	Total COLA over 3 Years	\$ 6,080.40	Total COLA over 3 Years	\$ 3,000.00
	Difference in COLA over 3 Years		\$ 3,080.40	

# 2% Simple COLA in lieu of Three Year COLA Freeze



**Starting Annual Pension of \$70,000**

<u>Year</u>	<u>Current COLA</u>	<u>Total</u>	<u>2% Simple COLA</u>	<u>Total</u>
<b>1</b>	<b>\$ 1,400.00</b>	<b>\$ 71,400.00</b>	<b>\$ 1,400.00</b>	<b>\$ 71,400.00</b>
<b>2</b>	<b>\$ 2,828.00</b>	<b>\$ 72,828.00</b>	<b>\$ 1,400.00</b>	<b>\$ 71,400.00</b>
<b>3</b>	<b>\$ 4,284.56</b>	<b>\$ 74,284.56</b>	<b>\$ 1,400.00</b>	<b>\$ 71,400.00</b>
	<b>Total COLA over 3 Years</b>	<b>\$ 8,512.56</b>	<b>Total COLA over 3 Years</b>	<b>\$ 4,200.00</b>
	<b>Difference in COLA over 3 Years</b>		<b>\$ 4,312.56</b>	

# Estimated Savings of 2% Simple COLA for FY 2021, 2022, and 2023 instead of Current COLA



2% COLA Paid to	6/30/2020 UAAL Reduction for 3 Year COLA Suspension	Cost of 3 Annual 2% Simple COLA Payments
Currently Eligible Retirees	\$693,097,910	\$66,000,000
All Retired at least 2 Years	\$693,097,910	\$76,000,000