

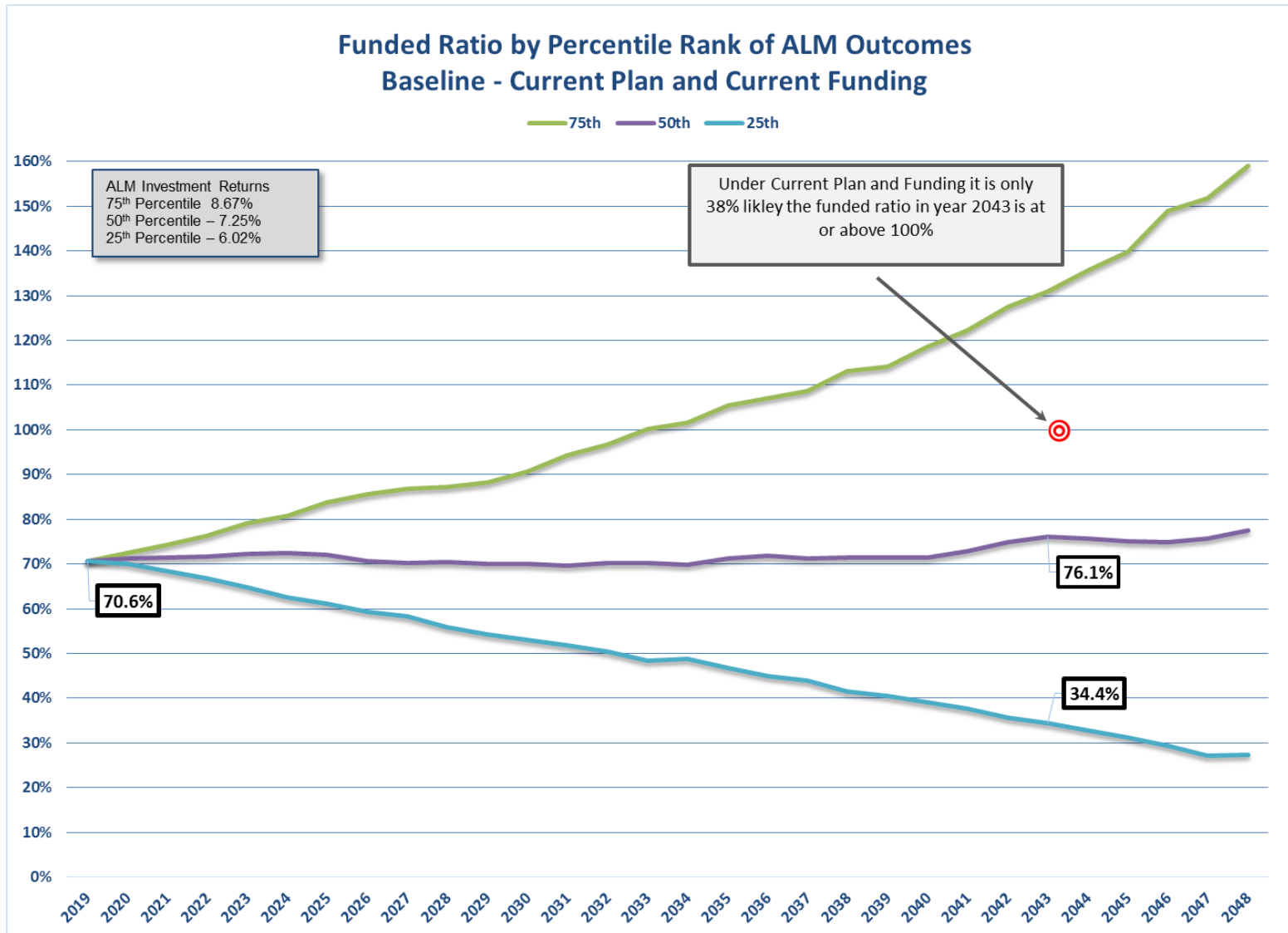
**Analysis of Governor's PERA Pension
Solvency Task Force
Preliminary Recommendations**

August 8, 2019

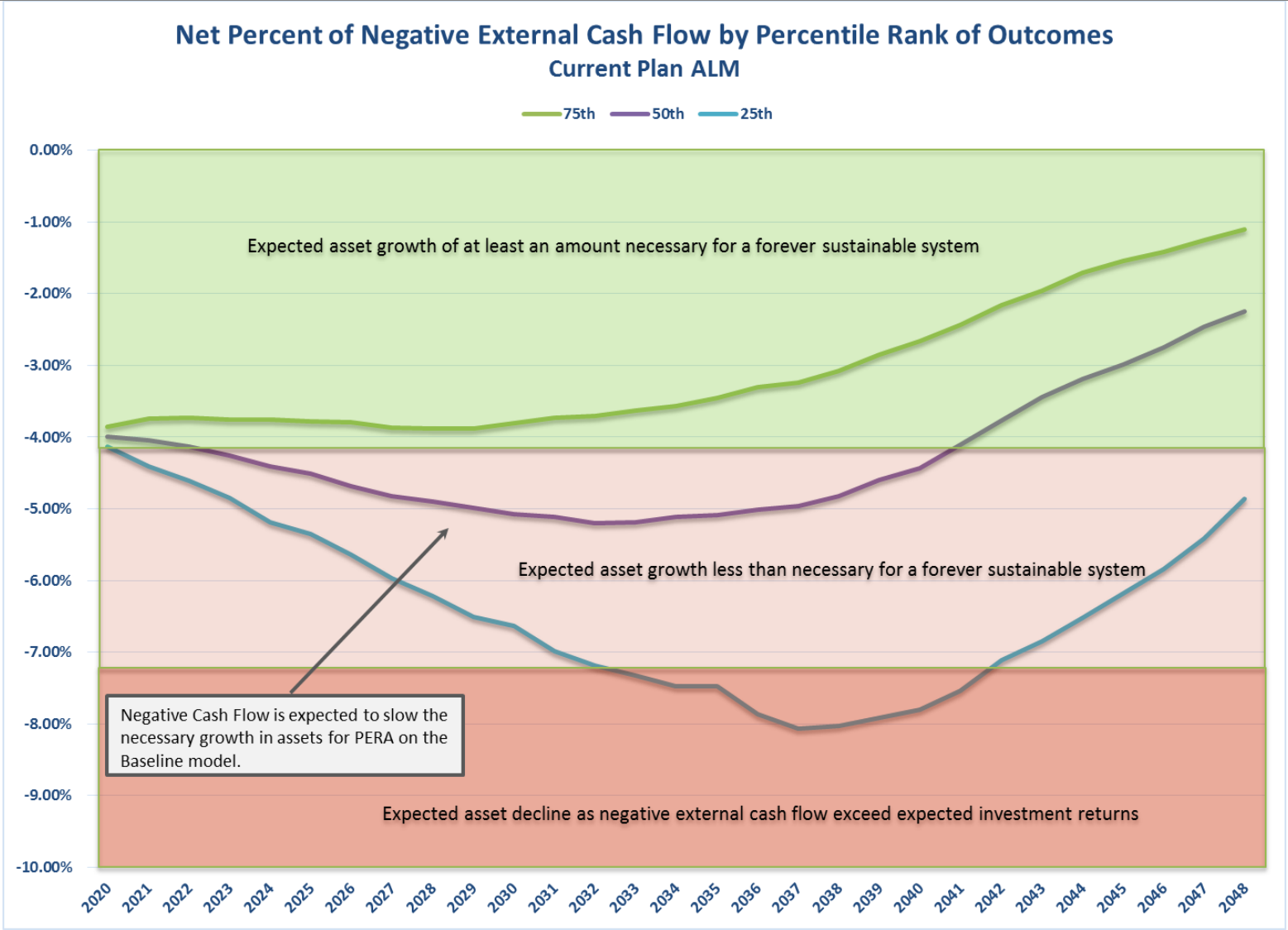
SUMMARY OF GOVERNOR'S PERA SOLVENCY TASK FORCE PRELIMINARY RECOMMENDATIONS

- Recommendations projected to eliminate PERA's \$6.1 billion unfunded liability within 25 years
- Recommendations projected to result in an immediate \$700 million reduction to PERA's unfunded liability
- Recommendations replace previous proposals to freeze COLAs for three years with a 2% COLA that pauses the compounding factor for the next 3 years
- Recommendations preserve a COLA for current and future retirees with a minimum COLA of .5% and a maximum of 3% based on a profit share model tied to investment performance. Once PERA achieves 100% funded level, maximum COLA increased to 5%
- Recommendations begin to address disparity in funding levels among PERA Divisions by exempting State Police and Adult Correctional Officers from proposed contribution increases
- Recommendations protect lowest income retirees by guaranteeing a COLA of 2.5% for retirees with pensions below \$25,000 who have worked 25 years
- Recommendations protect lowest income active members, and members with disability retirements by exempting those with income of \$25,000 or less from proposed contribution increases
- Recommendations eliminate the current 7 year wait to receive a COLA and reinstates the 2 year wait
- Recommendations eliminate current earnings cap of 90% to encourage employees to work longer

Current ALM Projection



Current ALM Cash Flow Projection



NM Profit Share Preliminary Recommendations

➤ Current COLA Structure Ends FY 2020

- Increase employee and employer contributions
 - 1% increase (0.5% from both) per year for 4 years
 - Would not apply to State Police/Adult Correctional Officers Division
- Eliminate current earnings cap of 90% to encourage employees to work longer

➤ COLA Structure for FYs 2021, 2022, 2023

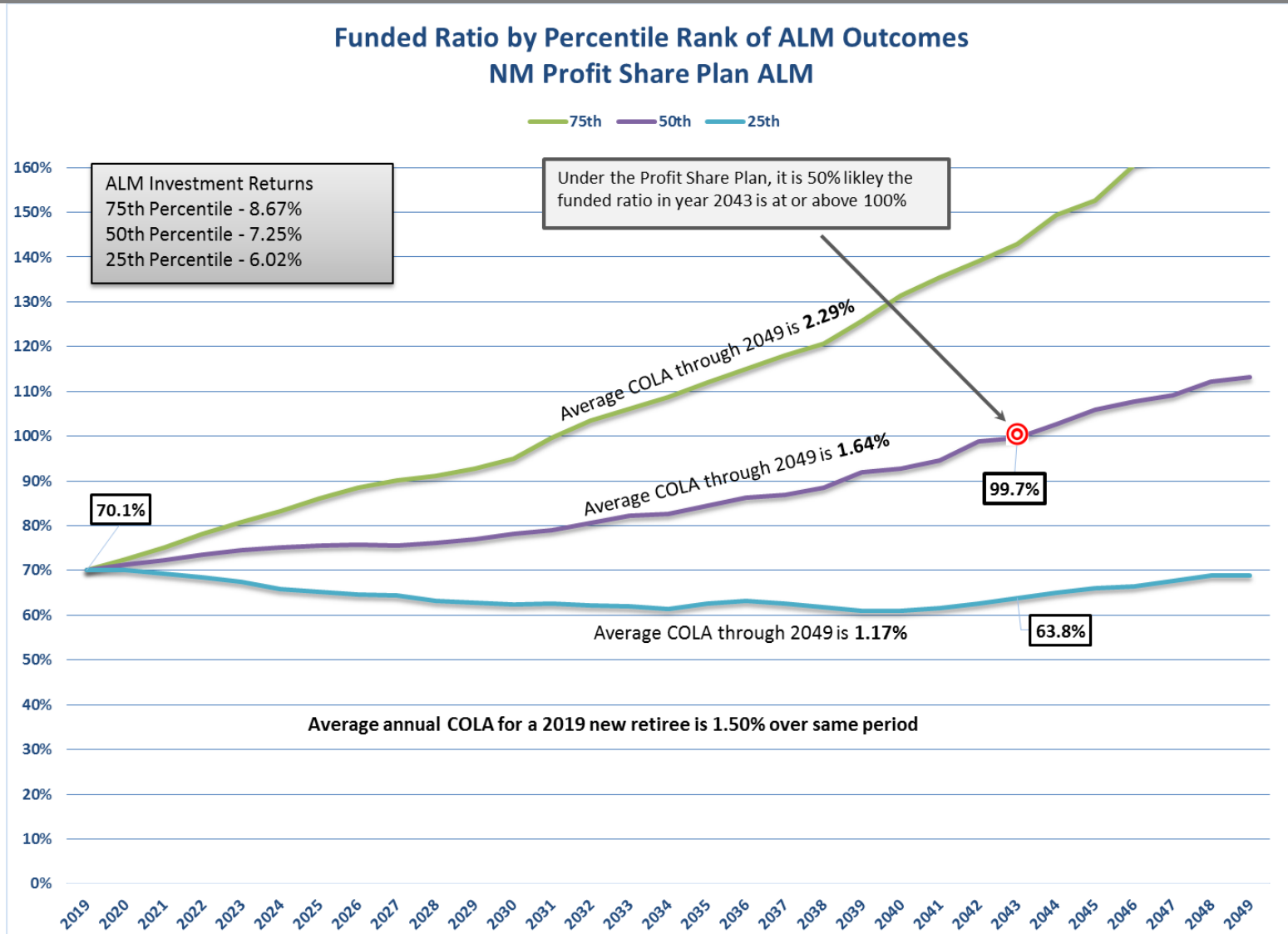
- Retirees with 25 years of service and annual pension less than \$25,000 receive 2.5% compounded COLA
- Disabled retirees with annual pension less than \$25,000 receive 2.5% compounded COLA
- All others retired at least 24 months receive 2% simple COLA paid as 13th check

NM Profit Share Preliminary Recommendations

- Profit Share Model FY 2024 +
 - Eliminate 7 year COLA waiting period and replace with 2 year waiting period (same as before SB 27)
 - Minimum COLA is 0.5% per year
 - Maximum COLA is 3.0% per year if funded ratio < 100%
 - Maximum COLA is 5.0% per year if funded ratio \geq 100%
 - COLA greater than minimum based on smoothed asset returns exceeding 6.0%

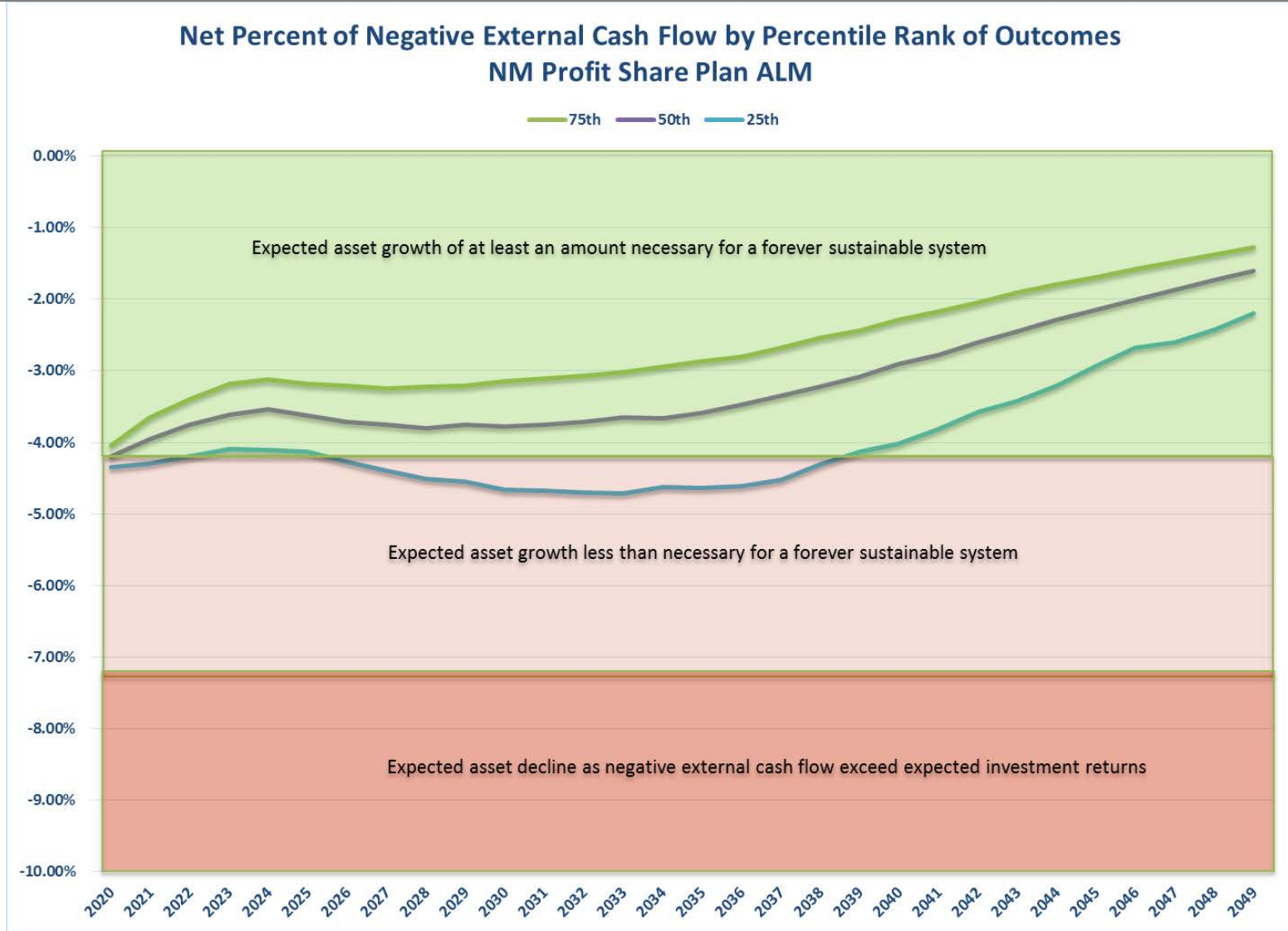
NM Profit Share Recommendations

ALM Results



NM Profit Share Recommendations

Cash Flow Results



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

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 a COLA of 1.50% on average*

NM Profit Share Preliminary Recommendations Phase In Period for 3 Years

COLA Difference based on \$30,000 Annual Benefit

COMPOUNDING COLA - CURRENT MODEL

	Starting Benefit	+	Current 2% COLA	=	Ending Benefit
Year 1	\$ 30,000.00	+	\$ 600.00	=	\$ 30,600.00
	Year 1 COLA (\$600) + Year 2 COLA (\$612) = \$1,212				
Year 2	\$ 30,600.00	+	\$ 1,212.00	=	\$ 31,212.00
	Year 1 COLA (\$600) + Year 2 COLA (\$612) + Year 3 COLA (\$624.24)				
Year 3	\$ 31,212.00	+	\$ 1,836.24	=	\$ 31,836.24

SIMPLE COLA - PROPOSED MODEL for 3 YEAR PERIOD

	Starting Benefit	+	2% Simple COLA	=	Ending Benefit
Year 1	\$ 30,000.00	+	\$ 600.00	=	\$ 30,600.00
Year 2	\$ 30,000.00	+	\$ 600.00	=	\$ 30,600.00
Year 3	\$ 30,000.00	+	\$ 600.00	=	\$ 30,600.00

Total COLA Over 3 Years = \$ 3,648.24

Total COLA Over 3 Years = \$ 1,800.00

Difference in COLA \$ 1,848.24

NM Profit Share Preliminary Recommendations Phase In Period for 3 Years

COLA Difference based on \$50,000 Annual Benefit

COMPOUNDING COLA - CURRENT MODEL

Starting Benefit + Current 2% COLA = Ending Benefit

Year 1 \$ 50,000.00 + \$ 1,000.00 = \$ 51,000.00

Year 1 COLA (\$1,000) + Year 2 COLA (\$1,020) = \$2,020

Year 2 \$ 51,000.00 + \$ 2,020.00 = \$ 52,020.00

Year 1 COLA (\$1,000) + Year 2 COLA (\$1,020) + Year 3 COLA
(\$1,040.40)

Year 3 \$ 52,020.00 + \$ 3,060.40 = \$ 53,060.40

SIMPLE COLA - PROPOSED MODEL for 3 YEAR PERIOD

Starting Benefit + 2% Simple COLA = Ending Benefit

Year 1 \$ 50,000.00 + \$ 1,000.00 = \$ 51,000.00

Year 2 \$ 50,000.00 + \$ 1,000.00 = \$ 51,000.00

Year 3 \$ 50,000.00 + \$ 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 \$ 3,080.40

NM Profit Share Preliminary Recommendations Phase In Period for 3 Years

COLA Difference based on \$70,000 Annual Benefit

COMPOUNDING COLA - CURRENT MODEL

Starting Benefit + Current 2% COLA = Ending Benefit

Year 1 \$ 70,000.00 + \$ 1,400.00 = \$ 71,400.00

Year 1 COLA (\$1,400) + Year 2 COLA (\$1,428) = \$2,828

Year 2 \$ 71,400.00 + \$ 2,828.00 = \$ 72,828.00

Year 1 COLA (\$1,400) + Year 2 COLA (\$1,428) + Year 3 COLA (\$1,456.56)

Year 3 \$ 72,828.00 + \$ 4,284.56 = \$ 74,284.56

SIMPLE COLA - PROPOSED MODEL for 3 YEAR PERIOD

Starting Benefit + 2% Simple COLA = Ending Benefit

Year 1 \$ 70,000.00 + \$ 1,400.00 = \$ 71,400.00

Year 2 \$ 70,000.00 + \$ 1,400.00 = \$ 71,400.00

Year 3 \$ 70,000.00 + \$ 1,400.00 = \$ 71,400.00

Total COLA Over 3 Years = \$ 8,512.56

Total COLA Over 3 Years = \$ 4,200.00

Difference in COLA \$ 4,312.56

Estimated Savings of 2% Non-Compounding COLA for FY 2021, 2022, and 2023

**6/30/2020
UAAL Reduction for
3-Year Suspension of
Current COLA**

\$693,000,000

**Cost of 3 Annual
2% Simple
COLA
Payments**

\$76,000,000

NM Profit Share Preliminary Recommendations Contribution Increases Impact

Contribution Increase Based on \$30,000 Annual Salary

Salary	Employee Contribution = 8.92%	Employer Contribution = 17.24%
\$ 30,000.00	\$ 2,676.00	\$ 5,172.00
PROPOSED CONTRIBUTION 2% INCREASE (STATE PLAN 3)		
Salary	Employee Contribution = 10.92%	Employer Contribution = 19.24%
\$ 30,000.00	\$ 3,276.00	\$ 5,772.00
Annual Increase	\$ 600.00	\$ 600.00
Increase x 3 Years	\$ 1,800.00	\$ 1,800.00
Total Increase Employee/Employer		\$ 3,600.00

NM Profit Share Preliminary Recommendations Contribution Increases Impact

Contribution Increase Based on \$50,000 Annual Salary

Salary	Employee Contribution = 8.92%	Employer Contribution = 17.24%
\$ 50,000.00	\$ 4,460.00	\$ 8,620.00
PROPOSED CONTRIBUTION 2% INCREASE (STATE PLAN 3)		
Salary	Employee Contribution = 10.92%	Employer Contribution = 19.24%
\$ 50,000.00	\$ 5,460.00	\$ 9,620.00
Annual Increase	\$ 1,000.00	\$ 1,000.00
Increase x 3 Years	\$ 3,000.00	\$ 3,000.00
Total Increase Employee/Employer		\$ 6,000.00

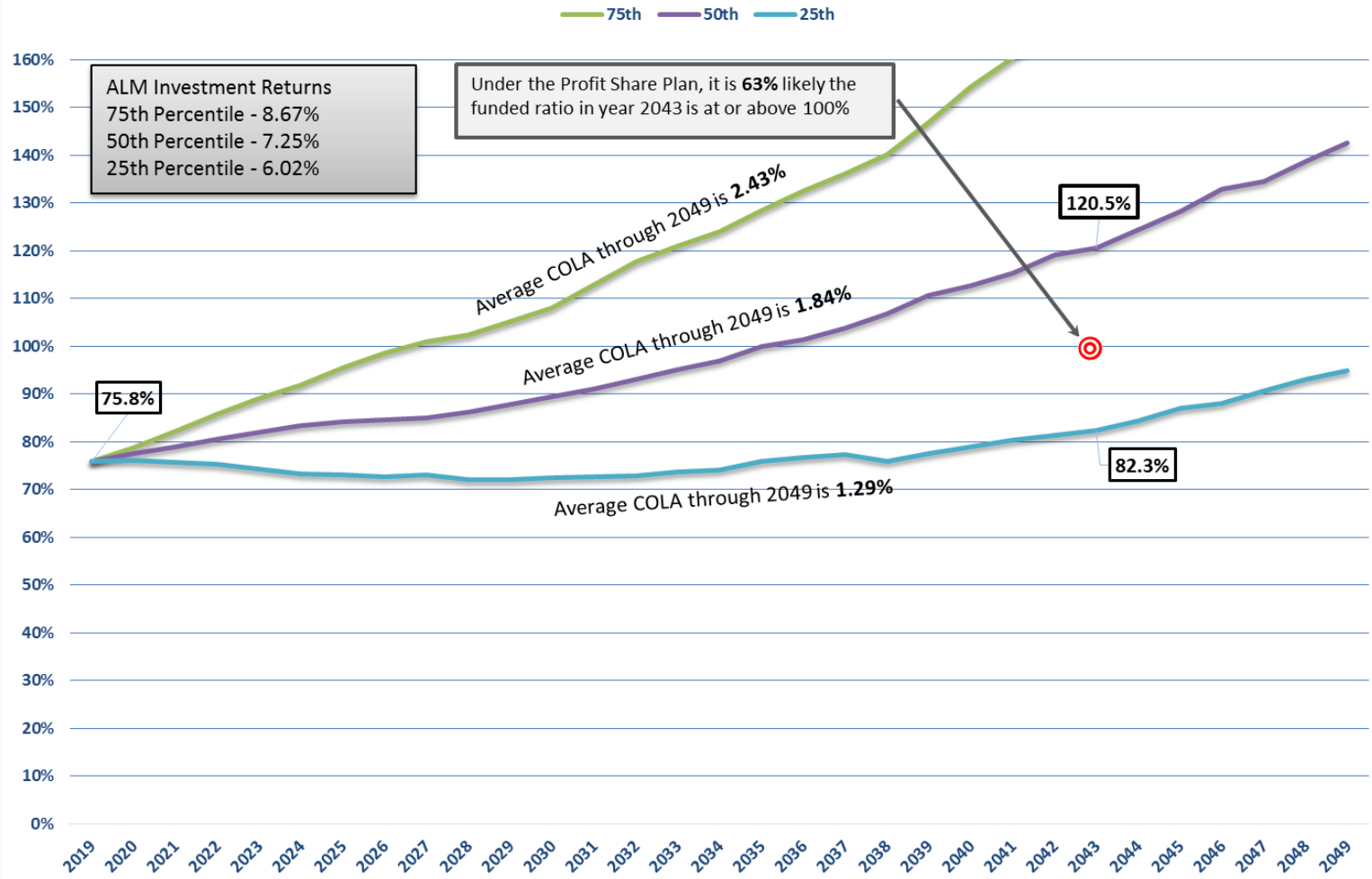
NM Profit Share Preliminary Recommendations Contribution Increases Impact

Contribution Increase Based on \$70,000 Annual Salary

Salary	Employee Contribution = 8.92%	Employer Contribution = 17.24%
\$ 70,000.00	\$ 6,244.00	\$ 12,068.00
PROPOSED CONTRIBUTION 2% INCREASE (STATE PLAN 3)		
Salary	Employee Contribution = 10.92%	Employer Contribution = 19.24%
\$ 70,000.00	\$ 7,644.00	\$ 13,468.00
Annual Increase	\$ 1,400.00	\$ 1,400.00
Increase x 3 Years	\$ 4,200.00	\$ 4,200.00
Total Increase Employee/Employer		\$ 8,400.00

Retroactive Application of NM Profit Share Recommendations Effective 7/1/2013

Funded Ratio by Percentile Rank of ALM Outcomes
 NM Profit Share Plan ALM Implemented in 2013



Retroactive Application of NM Profit Share Recommendations Effective 7/1/2013

