



**PERA**

## Investments and Pensions Oversight Committee

*Senator Roberto “Bobby” J. Gonzales, Chair  
Representative Patricia Roybal Caballero, Vice Chair*

*July 30, 2024*

*Paula Fisher, Board Chair  
Greg Trujillo, Executive Director  
Michael Shackelford, Chief Investment Officer*

# History of COLA – Part I

1965

1973

1978

1971

1975

1979

1965	1971	1973	1975	1978	1979
<p>First COLA awarded effective July 1, 1965</p> <p>2% per year on base pension.</p>	<p>COLA increased to 2.3% less any amounts received in prior years of 2% adjustments.</p>	<p>Authorized COLAs between 0.25% and 6% based on member's retirement date, effective July 1, 1973.</p>	<p>Authorized COLAs of 6% for all annuities, effective July 1, 1975. Minimum adjustment \$10 and maximum \$25 per month.</p>	<p>Authorized COLAs ranging from 3% to 10% with adjustment caps for one year only, based on retiree's retirement date.</p>	<p>Permanent COLA tied to the Consumer Price Index (CPI), maximum 2% per year, not compounded, 5-year deferral to receive COLA.</p>

# History of COLA – Part II

1981

1992

2020

1982

2013

2023

1981	1982	1992	2013	2020	2023
Ad hoc COLA of \$1.00 per month for every year of service credit and \$1.00 per month for every year retired; Applicable to all members retired as of July 1, 1980	Permanent COLA tied to the Consumer Price Index (CPI), maximum 3% per year, compounded, 2-year deferral to receive COLA.	3% compounded annually.	2% compounded annually; Pension reform tied to SB27 affected all future, current and retired members of PERA.	SB72 enacted a 2% non-compounding , additional payment (13 <sup>th</sup> check) for FY21, FY22, and FY23.	SB72 enacted a profit-share COLA based on PERA's funded status and investment returns.

# 1998 Constitutional Amendment

- Effective November 8, 1998, the Constitution of New Mexico, Article XX, was amended to add a new Section 22 requiring that all assets of the public employees retirement system (“PERA”) and the education retirement system (“ERB”) be held in a trust fund for the exclusive benefit of the members, retirees and beneficiaries of the respective systems.
- The Constitutional Amendment requires the trustees for the retirement systems to contract with an independent actuary for the purpose of adopting actuarial assumptions for the system it administers.
- The Constitutional Amendment also contains a fiscal responsibility provision that ties into this requirement. Article 20, Section 22, in pertinent part, states: “ *The legislature shall not enact any law that increases the benefits paid by the system in any manner or change the funding formula for a retirement plan unless adequate funding is provided.*”
- Article 20, Section 22 expressly provides that nothing in it shall be construed to prohibit modifications to public employees and educational retirement plans that enhance or preserve actuarial soundness.

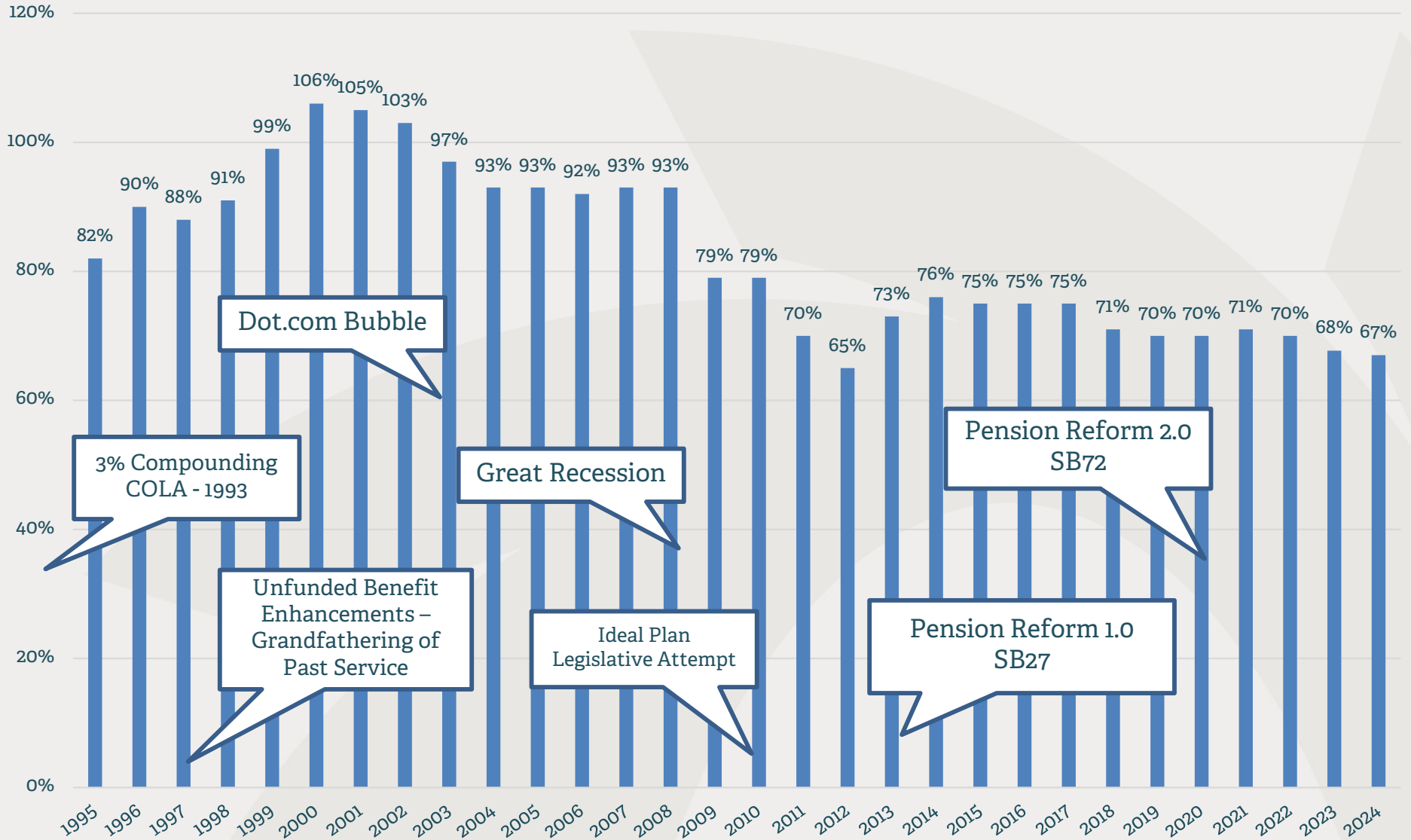
# *Bartlett v. Cameron, 316 P.3d, 889 (2013)*

- In December 2013, the Supreme Court of New Mexico, rejected the claims of certain retired teachers, professors and other public education employees challenging the state constitutionality of Senate Bill 115 to the extent that it reduces the future amounts that all education retirees might receive as an annual COLA.
- The Court held that Article XX Section 22 of the State Constitution did not grant the retirees a right to an annual COLA based on the formula in effect on the date of their retirement. The Court held that any future COLA to a retirement benefit is merely a year-to-year expectation that, until paid, does not create a property right under the State Constitution. Once paid, the COLA by statute becomes part of the retirement benefit and a property right subject to those constitutional protections.
- The Supreme Court's constitutional analysis is applicable to the COLA provided under the PERA retirement systems.

# *Pierce v. State of New Mexico, 910 P.2d 288, 121 N.M. 212 (NMSA 1995)*

- The *Pierce v. State of New Mexico*, 910 P.2d 288, 121 N.M. 212 (NMSA 1995) case considered a challenge by retirees under the Public Employees Retirement Act, the Judicial Retirement Act, the Magistrate Retirement Act and the Educational Retirement to legislation that repealed a longstanding income tax exemption for state retirement benefits. The New Mexico Supreme Court upheld the legislation, finding that these public pension plan acts do not grant retirees contractual rights. The Court further found that because the acts provided an absolute right to receive some form of pension benefits after earning five years of service credits, they created vested property rights, but that those rights did not include the specific right to receive pension benefits exempt from tax.

# PERA Fund – Funded Ratio



# SB72

Effective 7/1/2020

## Retired Members:

- Non-compounding, additional 13<sup>th</sup> check in lieu of Cost Of Living Adjustment for three consecutive fiscal years (FY21, 22 and 23), funded by a \$55 million appropriation.
- Reduced the COLA eligibility period from 7 to 2 full calendar years before eligibility.
- Effective July 1, 2023, provides for a profit-share compounding COLA calculation tied to both investment performance and the funded ratio of the PERA Fund for all current and future retirees, with a .5% floor and 3% maximum until 100% funded.
- Protects most vulnerable pension recipients, including disability retirees and retirees with 25 years of service and annual pension benefit of \$25,000 or less, who will continue to receive a flat 2.5% COLA.
- Increased the COLA to 2.5% for pension recipients age 75 years on or before June 30, 2020.

## Active Members:

- State Employees: FY2021 – FY2024 - increases employee and employer contribution rates .5% over 4 years (2% employee/2% employer), excludes State Police & Adult Correctional Officer Plan and employees earning less than \$25,000.
- Municipal and County Employees: FY2023 – FY2026 – increases employee and employer contribution rates .5% over 4 years (2% employee/2% employer), excludes employees earning less than \$25,000.
  - ✓ Includes triggers to reduce contribution rates depending on the ratio of each coverage plan.
- Reduced vesting for Tier 2 members to 5 years for general members (from 8) and public safety members (from 6).

Funded Ratio as of 6/30/2023

67.1%

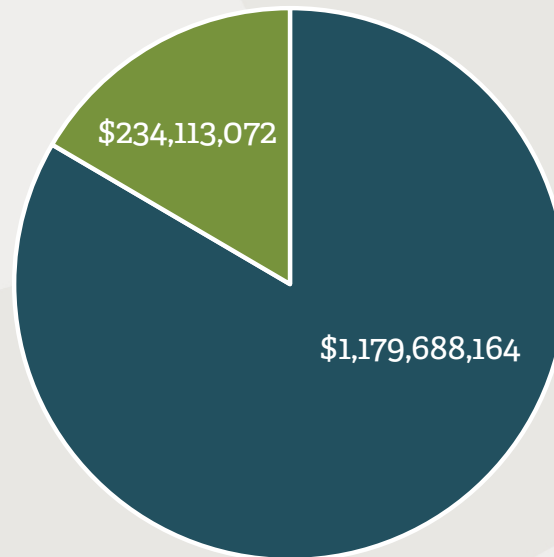
Funding Period

71 years



# Breakdown of Benefit Payments - PE

Breakdown of Benefit Payments - PE



Approximately 17% of Benefit Payroll is a result of Cost-of-Living Adjustments.

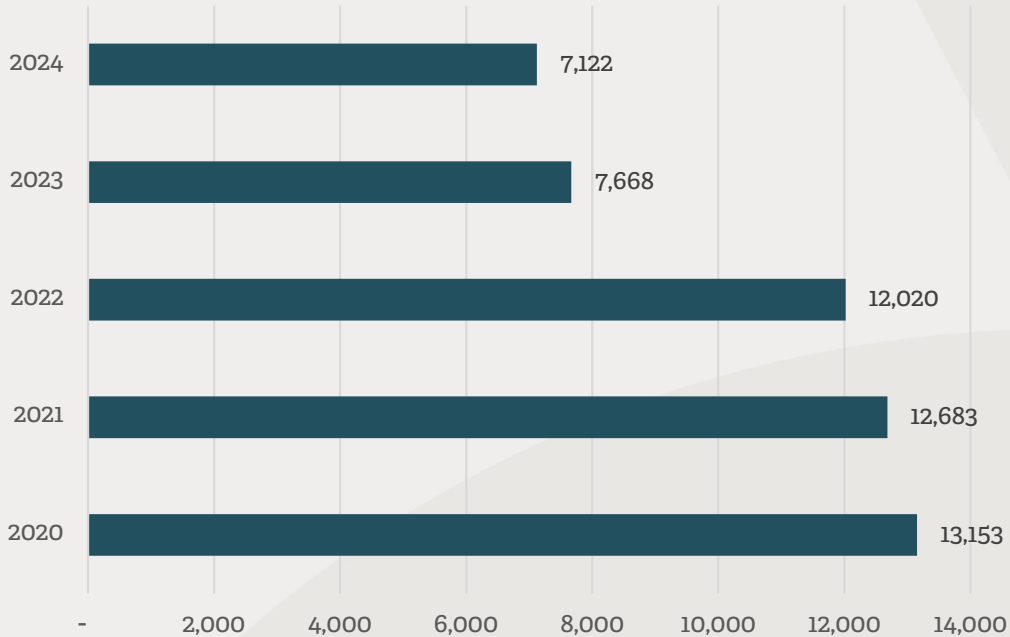
■ Initial Retirement Benefit    ■ COLA Related Benefit

Total Benefit	\$ 1,413,801,236
Initial Retirement Benefit	<u>\$ 1,179,688,164</u>
COLA Related Benefit	\$ 234,113,072

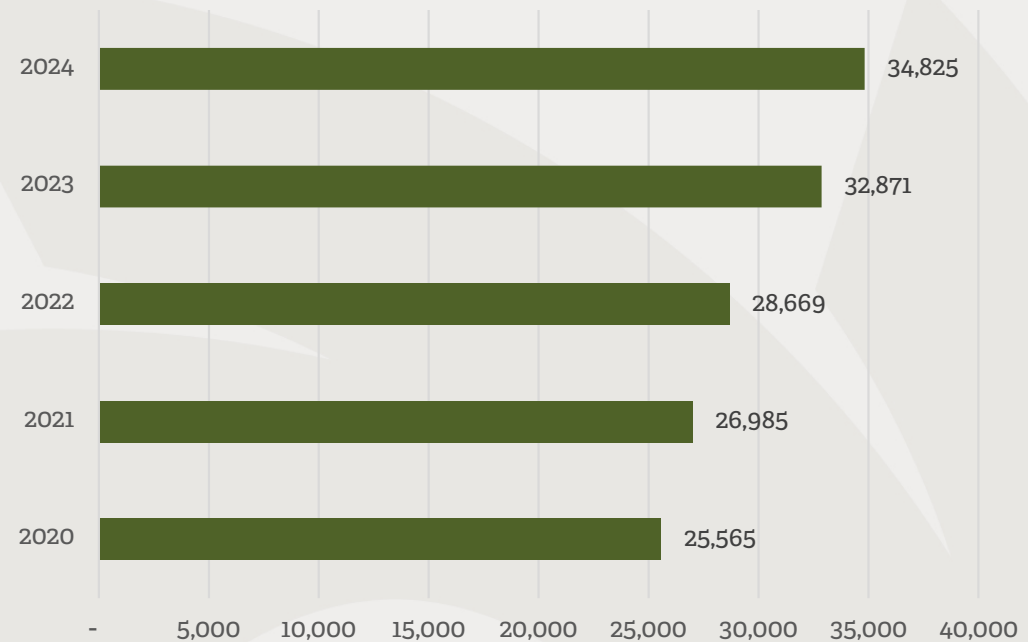
*Data as of 6/30/2023 Valuation*

# Cost of Living Adjustment: 2020 - 2024

## 2.50% Cost of Living Adjustment



## COLA/13th Check



41,947 PE Fund Retirees received a COLA in 2024, approximately 90.67% of Retirees.

182 JRA Fund Retirees received a COLA in 2024  
 100 MRA Fund Retirees Received a COLA in 2024  
JRA/MRA Retirees receive a 2% COLA every 3<sup>rd</sup> year  
VFF Retirees are not eligible for a COLA

**“13th Check” Payments**  
 Non-compounding 2% payment = \$33 million per year  
 In addition to compounding COLA



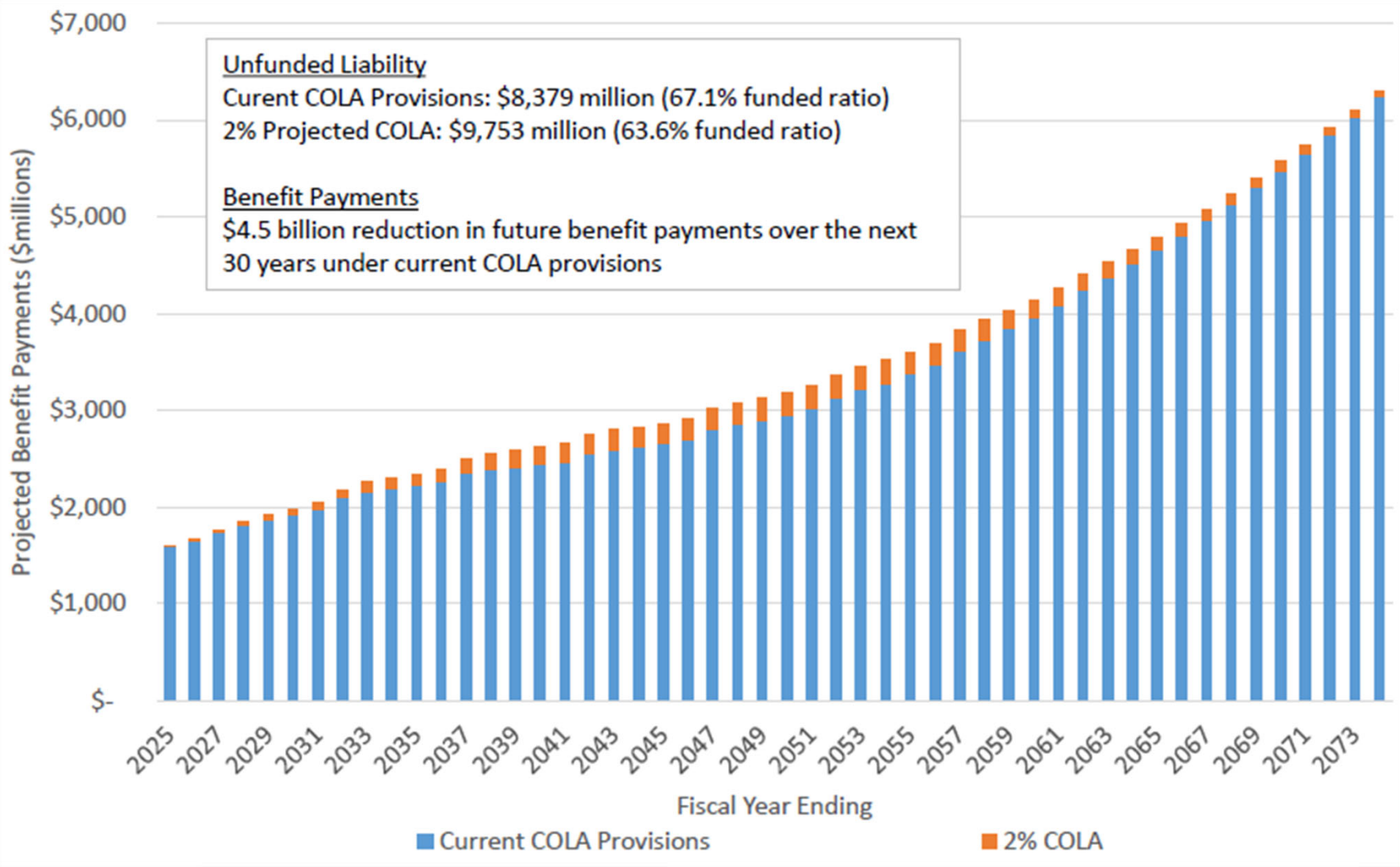
# Lump Sum Appropriations

Lump Sum Amount*	Funding Period	Impact on Funding Period	Funded Ratio**	Impact on Funded Ratio
None	73 Years		67.1%	
\$200 million for 1 Year	65 Years	8 Years	67.8%	0.7%
\$200 million for 5 Years	49 Years	24 Years	71.0%	3.9%
\$200 million for 10 Years	40 Years	33 Years	74.9%	7.8%
\$200 million for 20 Years	33 Years	40 Years	82.8%	15.7%
One-time \$500 million	57 Years	16 Years	69.0%	1.9%
One-time \$1.0 billion	47 Years	26 Years	71.0%	3.9%
One-time \$2.0 billion	35 Years	38 Years	74.9%	7.8%
One-time \$8.9 billion	Fully Fund the Plan by 7/1/2025			

Contribution Increases (State General)		
Year	Increase %	Total Increased Contributions (Combined)
FY2021	0.50%	\$ 10,846,176.11
FY2022	1.00%	\$ 21,591,456.78
FY2023	1.50%	\$ 36,312,731.55
Total		\$68,750,364.44

Contribution Increases (Municipal General, Police, Fire)		
Year	Increase %	Total Increased Contributions (Combined)
FY2023	0.50%	\$ 17,640,967.50
Total		\$ 17,640,967.50
Total Recurring Contributions in Year 3 of SB72		\$ 86,391,331.94

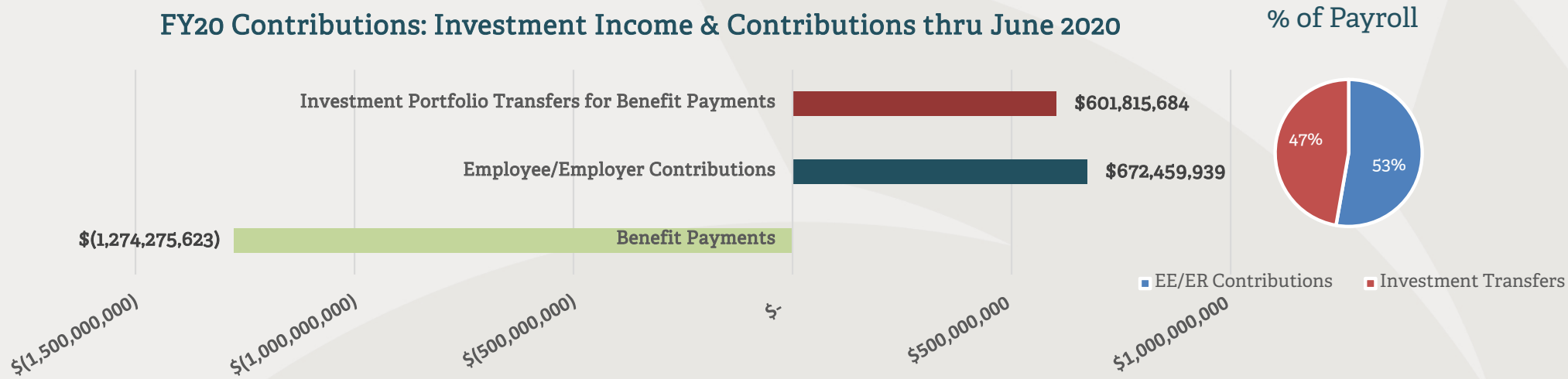
# Current COLA Provision and 2% Projected COLA



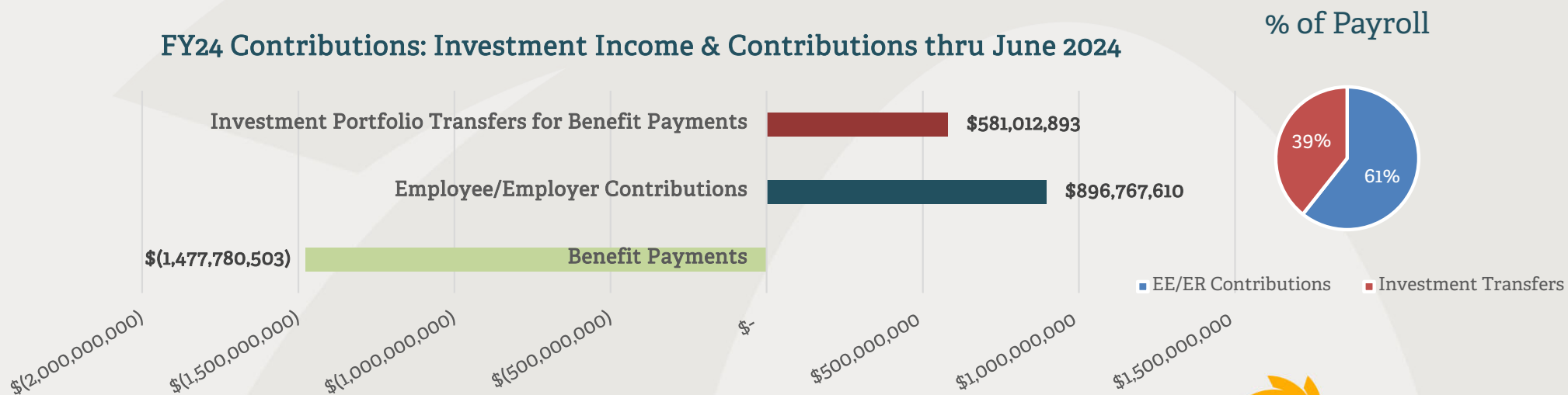
# Benefit Payments

- The main driver of SB72 was the Investment Trust fund was subsidizing payroll at a rate that was unsustainable for the long term.

FY20 Contributions: Investment Income & Contributions thru June 2020



FY24 Contributions: Investment Income & Contributions thru June 2024



FY24 numbers are estimated

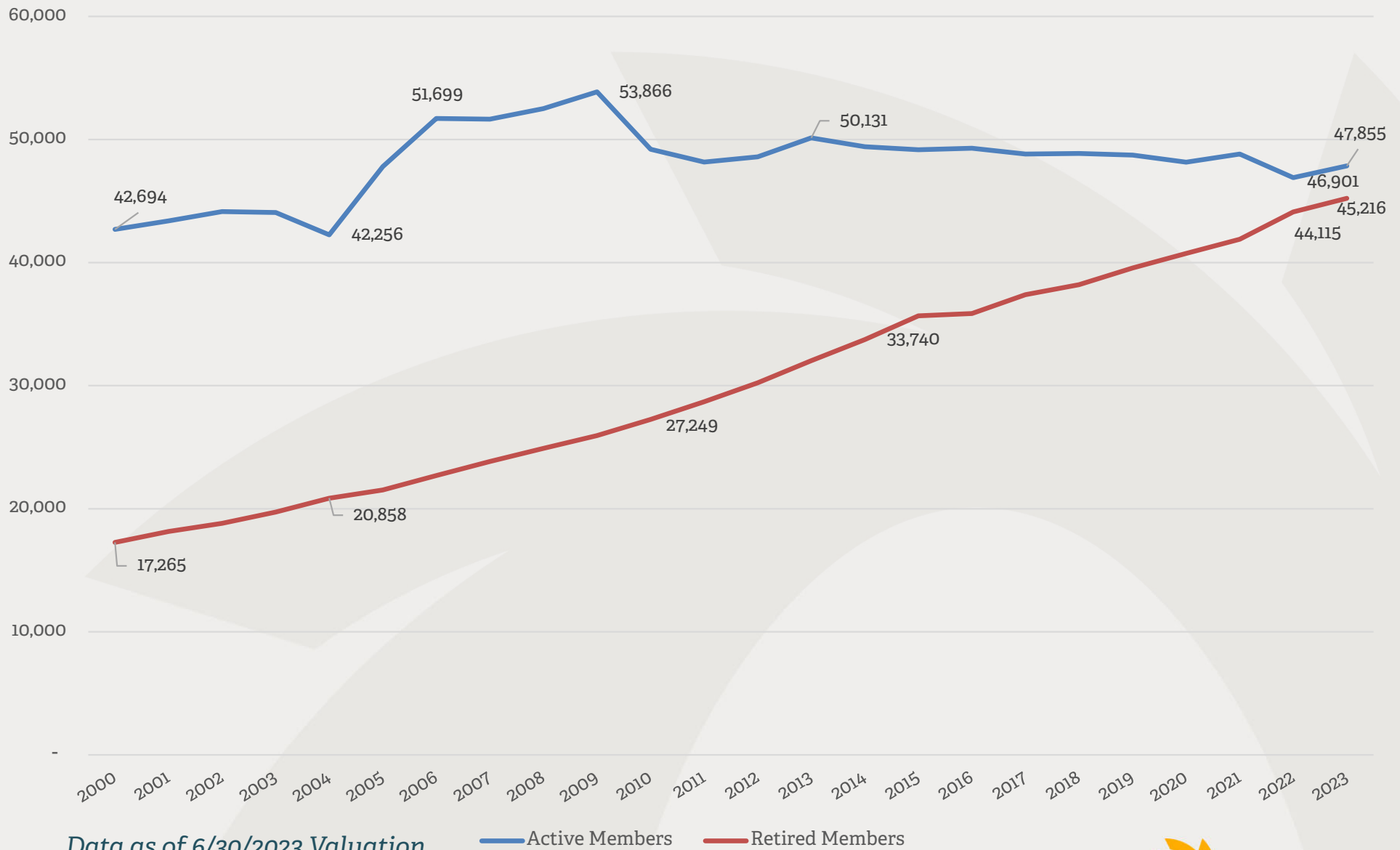
# Distribution of Retirees by Service and Years Since Retirement

## Retiree Headcount

Service at Retirement	Years Since Retirement									Total
	Under 5	5 to 9	10 to 14	15 to 19	20 to 24	25 to 39	30 to 35	35 to 39	40+	
Under 5	506	362	724	560	218	149	68	52	30	2,699
5 to 9	1,054	1,032	683	375	262	109	67	31	17	3,630
10 to 14	1,119	1,051	645	491	317	144	56	30	11	3,864
15 to 19	1,093	892	721	522	418	245	125	98	13	4,127
20 to 24	1,802	1,663	1,599	1,315	830	500	280	157	15	8,161
25 to 29	2,625	2,716	2,449	1,909	1,477	1,022	292	249	24	12,763
30+	331	204	127	137	120	140	62	94	13	1,228
<b>Total</b>	<b>8,530</b>	<b>7,920</b>	<b>6,948</b>	<b>5,309</b>	<b>3,642</b>	<b>2,309</b>	<b>950</b>	<b>711</b>	<b>123</b>	<b>36,442</b>

*Data as of 6/30/2023 Valuation, only includes service retirees, does not include beneficiaries or co-payees*

# Active Members vs: Retired Members



# PERA Fund Performance – FYTD 2024

- PERA’s market value increased by \$743m fiscal year to date 2024 to a balance of \$17.4b
- PERA paid out \$1.17b in total member benefits for FYTD 2024, investment activities funded \$430m (39%) of member benefit payments
- PERA continues to outperform its Policy benchmark in the medium and long-term
- Despite significant market volatility, long-term results continue to track PERA’s assumed rate of return (7.25%)
- PERA outperforms peers on a risk adjusted basis with Sharpe Ratios in the upper third of public pension peers >\$1b for the medium and long-term

As of 03/31/2024	FYTD 2024	3 Years	5 Years	7 Years	10 Years	20 Years	30 Years	ITD (1985)
PERA Total Fund Returns*	7.11%	5.43%	6.68%	6.64%	6.06%	6.08%	7.74%	8.59%
Policy Benchmark*	10.06%	3.80%	5.74%	5.82%	5.73%	6.12%	7.36%	8.41%
Value Add	-2.95%	1.63%	0.94%	0.82%	0.33%	-0.04%	0.38%	0.18%

NOTE: performance is based on annualized, net of fee, lagged private market results.



# Active Member Statistics

	PERA	Judicial	Magistrate	Legislative	VFF
Number	47,855	129	53	110	7,578
Average Salary	\$58,589	\$163,488	\$116,303	\$0.00	\$0.00
Average Age	43.3	54.9	50.8	58.9	42.8
Average Service	8.8	8.1	5.1	7.4	3.7

Tier 1 Members (prior to 6/30/13)	43%
Tier 2 Members (7/1/13 & after)	57%

*Data as of 6/30/2023 Valuation*

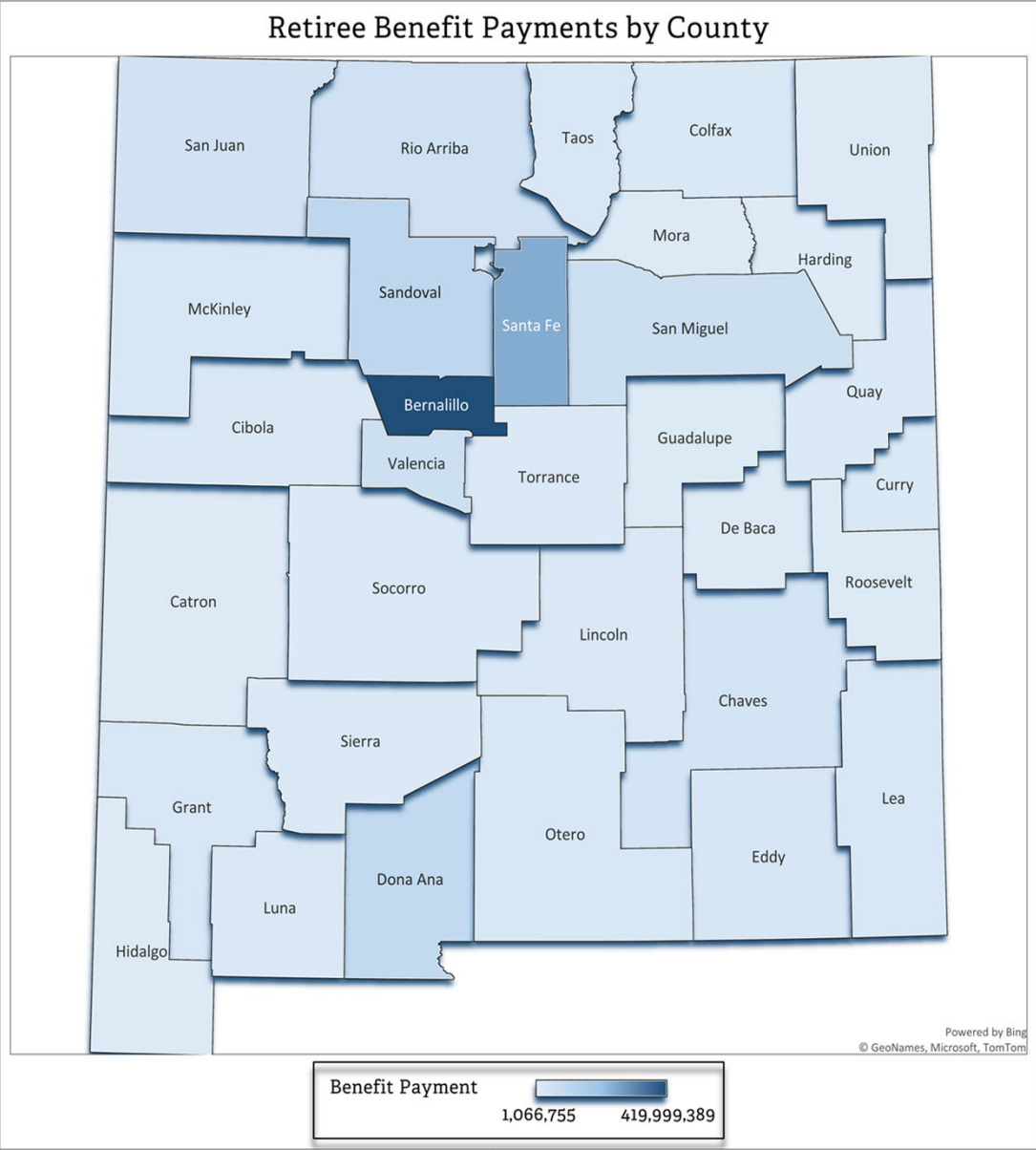
# Retired Member Statistics

PERA Service Retirees		Age at Retirement	2022 – 2023 Retirees
Number	37,878	36,442	1,730
Average Age	69.1	56.54	59.79
Average Benefit	\$33,154	\$33,936	\$34,536
Judicial Service Retirees		Age at Retirement	2022 – 2023 Retirees
Number	161	149	9
Average Age	73.0	62.94	66.19
Average Benefit	\$68,345	\$71,796	\$64,248
Magistrate Service Retirees		Age at Retirement	2022 – 2023 Retirees
Number	94	90	14
Average Age	71.6	60.95	62.44
Average Benefit	\$49,608	\$42,924	\$50,904
VFF Service Retirees		Age at Retirement	2022 – 2023 Retirees
Number	1,515	1,515	50
Average Age	71.1	61.50	62.79
Average Benefit	\$1,817	\$1,812	\$1,680
Legislative Service Retirees		Age at Retirement	2022 – 2023 Retirees
Number	166	162	13
Average Age	74.9	63.58	60.83
Average Benefit	\$11,743	\$11,916	\$14,760

Data as of 6/30/2023 Valuation

# PERA's Economic Force in New Mexico

NM PERA provides financial stability for thousands of New Mexico retirees and their communities. In FY23, PERA paid \$1.42 billion in pension benefits 91% went to retirees living in New Mexico.



New Mexico	Benefit Payment
Bernalillo	419,999,389
Santa Fe	250,628,832
Sandoval	103,877,609
Dona Ana	89,902,643
Valencia	58,148,561
San Miguel	57,127,817
Rio Arriba	48,377,923
San Juan	42,452,158
Chaves	33,719,573
Eddy	22,118,446
Taos	19,726,613
Otero	18,618,834
Grant	18,359,006
Mckinley	17,928,821
Lea	17,758,671
Colfax	15,826,030
Cibola	13,109,386
Luna	12,151,283
Lincoln	11,951,903
Curry	10,802,024
Socorro	9,744,616
Sierra	9,457,160
Torrance	9,297,660
Quay	7,636,320
Los Alamos	5,883,630
Mora	5,815,506
Roosevelt	5,507,797
Guadalupe	4,746,647
Union	2,803,176
Hidalgo	2,361,929
Catron	2,071,146
De Baca	1,716,340
Harding	1,066,755
<b>TOTAL NM Benefits</b>	<b>1,350,694,204</b>

