



# Public Employee Pensions

Most state and local government employees in New Mexico, from small town firefighters to college professors, are eligible for pension plans administered by the Educational Retirement Board or Public Employees Retirement Association. These quasi-governmental agencies offer “defined benefit” plans that ensure plan members receive a set monthly retirement payment. Risk to the funds is reduced by the large membership pool; however, the number of employees, pay levels, and investment returns all impact the health of the funds and the ability to meet obligations to members.

## Benefits

While pay for public employees in New Mexico often lags behind that of those in the private sector or public employees in nearby states, public employee retirement benefits are considered competitive. The Public Employee Retirement Association (PERA) and the Educational Retirement Board (ERB) offer defined benefit plans that provide retirees with a pre-determined monthly annuity payment based on years of service multiplied by the final average salary, and then multiplied by a factor set by the Legislature. For ERB retirees, that factor is 2.35 percent, while the factor is 2.5 percent for new PERA workers and 3 percent for those hired before July 2013. The factor for similar plans in other states typically range from 1.5 percent to 2.5 percent.

In contrast to defined benefits plans, employees and employers in 401(k) and other “defined contribution” plans common in the private sector, make tax-deferred contributions to a retirement account in an employee’s name. At retirement, the worker receives the accumulated money, which can vary depending on investment returns.

ERB and PERA plan members hired before 2013 are vested – guaranteed benefits – after five years of employment. Most PERA members hired after 2013 need eight years. Contributions from employees and employers vary among different groups of employees. Employer contributions for state police and certain other public safety employees are more generous because those employees can retire earlier and do not pay into the federal social security system.

In addition to contributions to pension funds, ERB and PERA employers and employees also contribute an additional 1 percent and 2 percent, respectively, to the Retiree Health Care Authority fund for health insurance benefits, an OPEB, or “other post-employment benefit.”

## Solvency

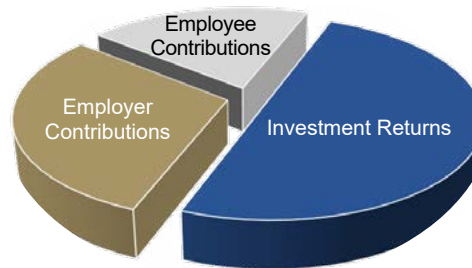
Because retirement payments are set regardless of investment returns or contribution levels, the soundness of the retirement funds are judged on their ability to meet not only current obligations but also the obligation to future retirees. The pension and retiree health care funds follow an actuarial approach that includes paying into the funds an amount expected to be sufficient, if invested wisely, to finance benefits for 30 or more years. The amount of money needed over time to cover any shortfall is called the unfunded liability.

The Governmental Accounting Standards Board maintains the relevant accounting standards for these systems.

The pension plans are maturing, a normal development in the evolution of a pension plan that means the number of active employees is dropping while the number of retirees is growing. Mature plans rely heavily on investment returns because more is paid out in benefits than is collected in contributions. This has an impact on the allocation of the fund into different types of investment assets because of the need to increase returns, often through riskier assets. Failing to meet the investment return assumption, currently 7.25 percent, requires an increase in contributions or cut in benefits, or both.

The stock market dive during the Great Recession, along with slow growth in the workforce and a pay freeze, significantly hurt the long-term health of the pension funds and benefits were reduced. The Legislature must approve any changes in retirement benefits, including the annual cost of living adjustment. The Retiree Health Care Authority board needs legislative approval only to change contributions.

### Pension Financing



### For More Information:

- Information on retiree benefit funds, including investment performance and fund solvency, is available through the agency websites: [www.pera.state.nm.us](http://www.pera.state.nm.us), [www.nmerb.org](http://www.nmerb.org), and [nmrhca.org](http://nmrhca.org).
- State laws related to retiree benefits are in Chapter 10, Article 11, 12A and 12B for state employees; Chapter 22, Article 11 for school employees; and Article 7C for retiree health care.