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Since 2007, Richard Sims has served as the Chief Economist of the National Education Association where he advises the leadership and members on issues relating to state and local economics, public finance, and the economics of school funding. Prior to coming to the NEA Richard served as Chief Economist for the Kentucky General Assembly, Director of Taxation and Economic Policy for the Arkansas Legislature, Policy Director for the Washington DC-based Institute on Taxation and Economic Policy, Director of Applied Economic Research at the Carl Vinson Institute of Government at the University of Georgia, and for two years was the Senior Advisor to the Parliament of the former Soviet Republic of Moldova on matters of budget, finance, and the economy.

Richard has served as Staff Chair of the Economic Development Committee of the National Council of State Legislatures, and has served on numerous boards and commissions. He has a Ph.D. in Applied Economics from the University of Kentucky and has taught graduate courses at several universities including the University of Kentucky, the University of Arkansas at Little Rock, the University of Georgia, and the University of Moldova.

He currently lives in Florida, but is from rural West Kentucky, which he continues to call home.

## Comparative Analysis of New Mexico's Teacher Pensions

The following analysis compares New Mexico's Educational Retirement Board plan to those found in neighboring states. For this comparison, we looked at the following plans: Arizona State Retirement System (ASRS), Colorado Public Employees' Retirement Association (PERA), Oklahoma Teachers' Retirement System (TRS), Teacher Retirement System of Texas (TRS) and the Utah Retirement Systems (URS).

To get a sense of the value offered by these plans, in New Mexico and its neighboring states, we have studied the basic benefit provisions, whether members of the plan participate in Social Security, as well as the cost to employees.

Additionally, we provide a graphic representation of the funding status for each of the plans. Finally, we briefly discuss worker preference for defined benefit (DB) plans over defined contribution (DC) plans and the positive influence that DB plans have on reducing employee turnover.

### Basic Benefits: Multiplier, Final Average Pay, and Social Security

For defined benefit plans, a multiplier is used to determine the amount of the annuity. A member's pension amount is typically based on years of service times a multiplier times the final average salary. New Mexico ERB offers a 2.35% multiplier, while the multipliers used in surrounding states range from 2-2.5%. This puts ERB's pay replacement at 70.5% after 30 years, while other plans' pay replacement rates come in between 60-75%. The only exception is the new tier in Utah, where a combined DB/DC plan offers a multiplier of 1.5% (45% pay replacement after 30 years), plus the value of each members individual DC account.

The ERB multiplier is most favorable when you consider that the only plan offering a stronger multiplier (2.5% in Colorado's PERA) is in a state where few workers participate in Social Security. Participation in Social Security is a common factor to consider when designing a pension benefit in the public sector.

Of the states surrounding New Mexico, only Utah has significantly reduced its multiplier since the crash, which was part of the move to the DB/DC hybrid plan for newer hires.

The following chart lays out the basic benefit data for each system:

<u>State/Plan</u>	<u>Multiplier</u>	<u>Final Average Pay</u>	<u>Covered by Social Security</u>
<i>New Mexico ERB</i>	<i>2.35%</i>	<i>5HC</i>	<i>All</i>

Arizona ASRS	First 20 years: 2.1% Years 20-25: 2.15% Years 25-30: 2.2% After 30 years: 2.3%	3HC or 5HC	All
Colorado PERA	2.5%	3H	Few/None
Oklahoma TRS	2.0%	3H or 5HC	Most
Texas TRS	2.3%	3H or 5H	Some
Utah URS	Hired before 7/1/2011: 2% Hired after 6/30/2011: 1.5% + DC account	3H, 5H for Hybrid	All
Under "Final Average Pay," H = Average of highest paying years and HC = Average of highest paying consecutive years.			

### Cost-of-Living Adjustments (COLA)

The COLA provided by New Mexico's ERB plan is competitive with what is available in the surrounding states. Arizona eliminated its COLA for those hired after 9/13/2013, while members hired before that date have a COLA based upon "excess earnings" resulting from favorable investment experience. Oklahoma and Texas' plans use ad hoc COLAs, leaving decisions on whether to grant a COLA and its size to the discretion of the state legislature. Colorado and Utah continue to offer COLA provisions, but in recent years, both states have also revised these rules in an unfavorable direction for newer hires.

It is also worth noting that New Mexico's COLA does not begin until age 67 following recent changes, so one retiring at an earlier age could face significant erosion of buying power before the COLA provisions begin to apply.

This table provides a summary of these COLA policies:

<u>Cost-of-Living Adjustment</u>	<u>Legacy Tier</u>	<u>Tier for New Hires</u>
<i>New Mexico ERB</i>	<i>CPI up to 2%, plus 1/2 of change in CPI above 2%, but not more than 4% - begins at age 67</i>	Same
Arizona ASRS	Hired before 9/13/2013: up to 4%, paid from a reserve of "excess investment earnings"	Hired on or after 9/13/2013: no COLA mechanism
Colorado PERA	Hired before 1/1/2007: COLA Cap (currently 2.0%), compounded	Hired on or after 1/1/2007: non-guaranteed COLA, lesser of the COLA Cap (currently 2%) or average of CPI-W
Oklahoma TRS	Ad hoc	Same
Texas TRS	Ad hoc	Same
Utah URS	CPI up to 4%	CPI up to 2.5%

### Normal Retirement Age

The normal retirement age provisions in New Mexico are competitive for those in earlier tiers. However, for hires after 7/1/13, the normal retirement age in New Mexico ERB is a less generous than surrounding states, especially for anyone who is short of working a full career in the plan. The 30-and-out provision (with a minimum age of 55 for unreduced) allows earlier—and unreduced—retirement for those with 30 years. But, anyone short of 30 years has a normal retirement age of 67 or 65 (with Rule of 80 or R-80; when the member's age plus the number of years of earned service credit equals 80). Every other plan has new hire provisions that allow retirement at least by age 65 with 5 years.

Here is a fuller description of the normal retirement provisions in these plans:

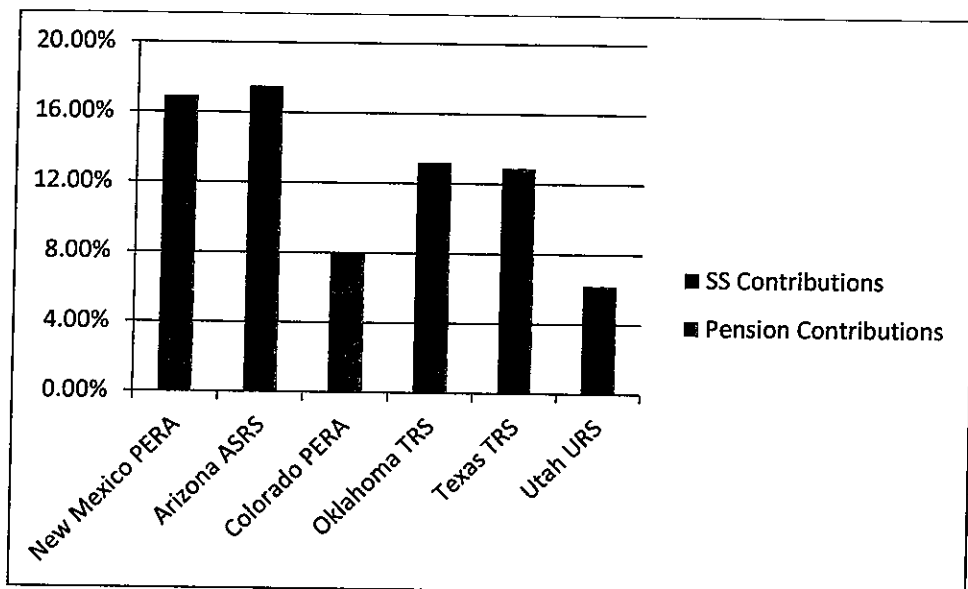
<u>Normal Retirement</u>	<u>Tier 1</u>	<u>Tier 2 (if applicable)</u>	<u>Tier for New Hires</u>
<i>New Mexico ERB</i>	<i>Hired before 7/1/10: 65/5; 25/A; R-75 reduced before age 60</i>	<i>Hired between 7/1/10-7/1/13: 67/5; 30/A; R-80 reduced if age less than 65</i>	<i>Hired after 7/1/13: 67/5; 30/A reduced before age 55; R-80 reduced before age 65</i>
Arizona ASRS	Hired before 7/1/2011: 65/A; 62/10; R-80	N/A	Hired on or after 7/1/2011: 65/A; 60/25; 55/30
Colorado PERA	Hired before 7/1/2005: 65/5; 50/30; R-80	N/A	Hired on or after 1/1/2011: 65/5; 58/30; R-88
Oklahoma TRS	Hired before 7/1/92: 62/5, R-80	Hired between 7/1/92 and 10/31/11: 62/5, R-90	Hired after 10/31/11: 65/5, R-90 with minimum age 60
Texas TRS	Tiers 1&2: 65/5; R-80 (with 5 years)	Tiers 3&4: 65/5; R-80 (with 5 years and at least age 60)	Tiers 5&6: 65/5; R-80 (with 5 and at least 62)
Utah URS	Hired before 7/1/2011: A/30; 65/4	N/A	Hired on or after 7/1/2011: 65/A; A/35

### Contribution Rates

Of the plans in the surrounding states, only Arizona requires higher contributions from employees. In contrast, Utah requires no employee contributions for those in the earlier tier—and the new tier only requires employee contributions in the case where overall costs rise. Colorado, Oklahoma and Texas all require lower employee contributions.

This is another area where taking Social Security into account makes sense. For instance, in New Mexico members pay 10.7% - or 7.9% for those earning less than \$20,000 - to their pension and another 6.2% to Social Security—for a total of 16.9%. In contrast, while Colorado's plan requires employee's to pay 8% of pay, few of those workers are paying into social Security.

The following chart shows total contributions for pensions and Social Security:



### Conclusion

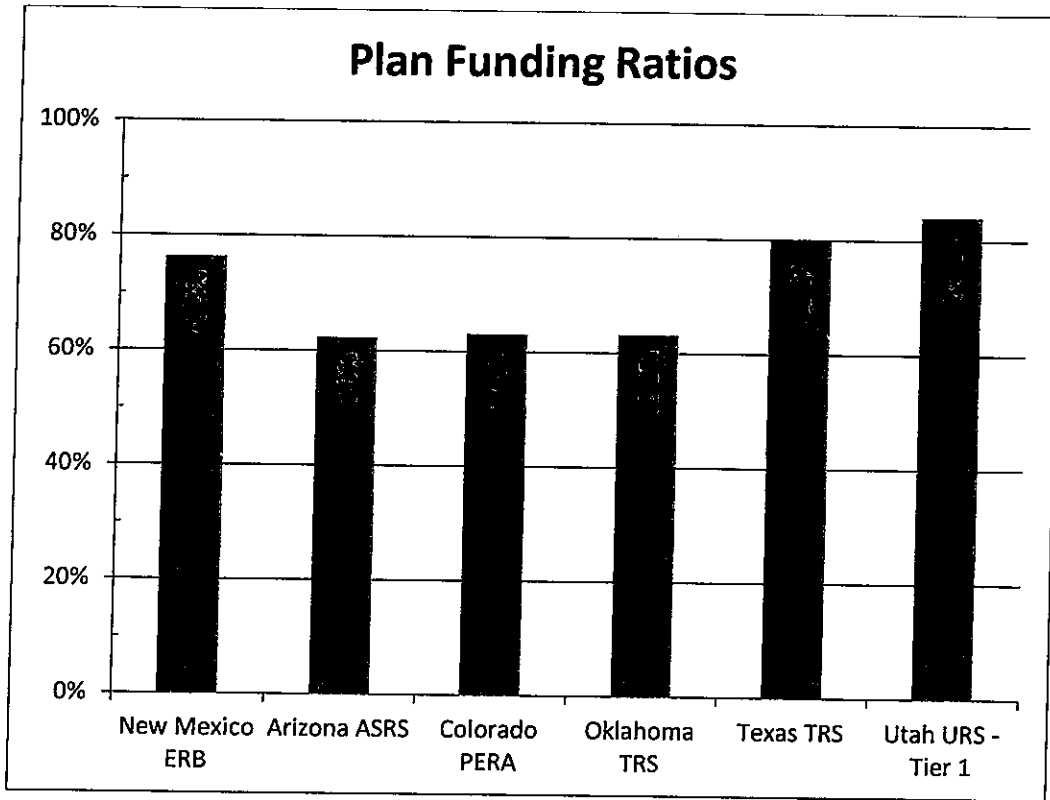
The benefits provided by the New Mexico ERB plan are competitive with the offerings in surrounding states, though employees tend to pay a higher share of their salary for the benefits.

While New Mexico's offerings are not the strongest in every category, there are also no areas of significant weakness (among these comparators). With a strong multiplier, reasonable final average pay, an automatic COLA policy (though it was recently reduced and delayed to age 67), and social security coverage, the available benefits are generally favorable.

While the normal retirement provisions are less favorable, if people decide to retire before age 67 (with a reduction), the practical implication could be early retirement reductions that basically offset/reduce the advantage created by having a higher multiplier.

The question of overall value is somewhat more complicated. A complete analysis also requires giving consideration to the amount of employee pension contributions and employee pay levels (which directly influence the size of a pension). The value of New Mexico's pension plan is diminished by high employee contributions. Moreover, New Mexico does not have the strongest competitive advantage when it comes to pay. For instance, New Mexico's average teacher salary is thousands of dollars less than the average salaries paid in Colorado, Utah and Texas.

## Funding Status for Comparator Plans

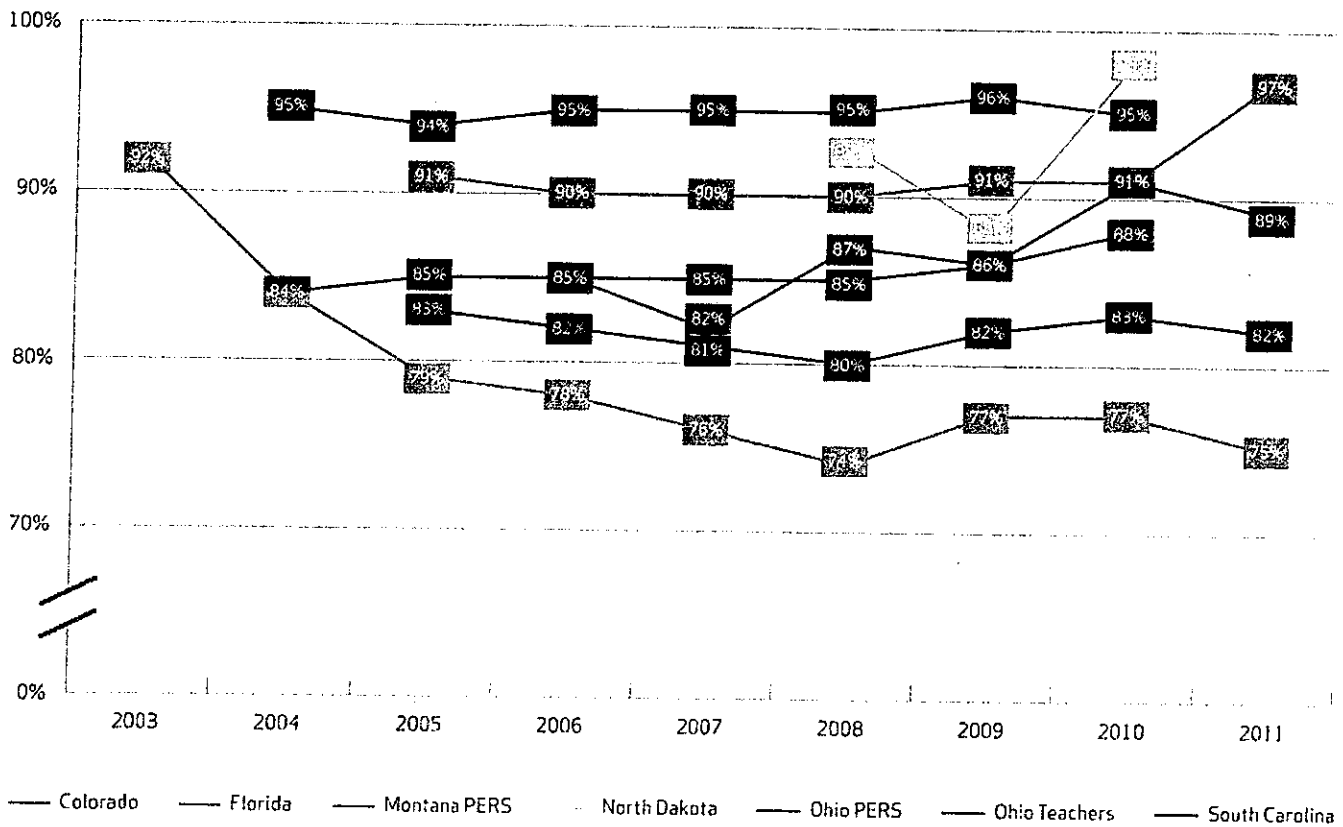


New Mexico's ERB is 76.3% funded, exceeding the average funding ratio of neighboring states which stood at 70.6%. The best funded state (among the 6 studied) was Utah's URS plan at 84.1%, while the lowest funding ratio was found in Arizona's ASRS (62.3%).

## Where Choice Exists: Employees Choose DB Plans and Students Benefit

Those who advocate closing pension funds to the next generation or cut pension benefits often like to argue that DC plans (or cash balance plans) would be better for attracting and retaining educators. However, we have data on what new workers want—because some states actually offer a choice.

The chart below is from a study by the *National Institute on Retirement Security*, and it shows these strong preferences for our traditional DB plans. So, we know that when teachers and other public sector workers have an unbiased choice between a real defined benefit pension and a savings account-based plan, they overwhelmingly chose a real pension. Below are the DB election rates for public workers in states where a choice is offered:



While the chart above shows data for all public workers, the data is very consistent with the 86% of teachers in the study who took the DB-only option in Ohio between 2002 and

## **New Mexico Teacher Salaries**

An analysis of the salaries of New Mexico's public school teachers shows the state:

- Continues to rank among the bottom portion of states in teacher pay.
- Is generally competitive with neighboring states.
- Faces a significant pay gap across all experience levels between teachers and other professionals.

The state should continue to address teacher salaries as part of a comprehensive strategy to attract and retain qualified educators in its classrooms.

## **National Comparison**

New Mexico continues to rank among the bottom portion of the states in teacher pay.<sup>1</sup>

- At \$47,163, New Mexico's estimated 2015-2016 average teacher salary ranks 43<sup>rd</sup> in the nation.
- New Mexico's national ranking has changed little over time. In 2009-2010, New Mexico average teacher salary ranked 42<sup>nd</sup> in the US. In 2014-2015, it had fallen to 44<sup>th</sup>.
- For 2014-2015, the average starting salaries paid by New Mexico school districts was \$33,248, which ranked 40<sup>th</sup> in the country.
- In 2014-2015, about half of New Mexico school districts paid the \$32,000 state minimum starting salary.

## **Comparisons with Neighboring States**

Among neighboring states, only Utah paid a lower average teacher salary in 2009-2010. By 2014-2015, New Mexico's average teacher salary had also surpassed Arizona and Oklahoma. While, Colorado salaries remain approximately \$3,000 higher than New Mexico's, the gap with Texas has grown to \$4,600.

Through 2014-2015, New Mexico has maintained its position in the middle of the pack when it comes to starting pay.

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<sup>1</sup> Average teacher salary data come from NEA's Rankings and Estimates. Beginning salary data are collected by NEA CBMA.



<b>Average Teacher Salary: New Mexico and Neighboring States</b>			
<b>State</b>	<b>2009-2010</b>	<b>2014-2015</b>	<b>2015-2016 (estimate)</b>
New Mexico	46,258	46,625	47,163
Arizona	46,952	45,406	45,477
Colorado	49,202	49,828	50,039
Oklahoma	47,691	45,317	44,921
Texas	48,162	50,713	51,758
Utah	45,885	45,848	46,042

<b>Average Starting Teacher Salary: New Mexico and Neighboring States</b>		
<b>State</b>	<b>2013-2014</b>	<b>2014-2015</b>
New Mexico	31,961	33,248
Arizona	32,363	32,778
Colorado	32,127	32,121
Oklahoma	31,600	31,892
Texas	39,339	40,479
Utah	33,440	34,392

### **Private Sector Comparisons**

A soon to be released study by the Economic Policy Institute will show public school teachers suffer a significant pay disadvantage compared to comparable professionals.<sup>2</sup> In the mid-90s, the regression adjusted pay levels of teachers were only slightly lower than the pay of similar professionals. Since then, the pay gap has grown to 17%.

Non-regression adjusted comparisons show New Mexico teachers earning only 66 percent of the salaries paid to private sector professionals, representing a 10 percentage point surge since 2006 when the teachers earned 76 cents for every dollar paid to their private sector counterparts.

EPI's new study will also show that the erosion in teacher pay (i.e., the widening of the pay gap) has hit mid and late-career teachers harder than it has new educators.

<sup>2</sup> EPI's released its first study empirically demonstrating the teacher pay penalty in 2004. The new study will be EPI's third update of its original research.

## New Mexico Health Care Premium Comparison

The attached chart represents the 2016 monthly health plan premium contribution rates of education employees and employers for Preferred Provider Organization (PPO) plans and High Deductible Health Plans (HDHP) offered in large school districts in the states of Arizona, Colorado, New Mexico, Oklahoma, Texas and Utah. Contribution rates are for full-time certified employees only. Please note that the benefit levels of the plans depicted vary and represent the highest and lowest cost plan available. The data, in general, show the following:

- For PPO plans, educators in Mesa, AZ had the lowest contribution rate for employee-only coverage at \$60 a month; Tulsa educators pay the most at \$279.60 a month for employee-only coverage.
- Albuquerque educators have the lowest monthly PPO contribution rate for family coverage at \$509.72 (with a biometric screening); Tulsa educators have the highest PPO monthly contribution rate for family coverage at \$1,494.54.
- Albuquerque educators do not have a HDHP option—only a PPO--while Denver educators are offered only a HDHP option and no PPO.
- Tulsa educators have the lowest contribution rate for employee-only coverage under the HDHP option with no contribution and \$181.02 added to their pay each month; Denver educators\* have the highest contribution rate at \$351.53 a month for employee-only coverage under the HDHP.
- Denver educators\* have the highest monthly contribution rate for HDHP family coverage at \$1,085.94; Salt Lake City educators have the lowest monthly contribution rate for HDHP family coverage at \$479.37.

\*Please note that Denver Public Schools contributes \$62.50 a month into an HSA for employees. Also, Denver educators have a flex account of \$422.17 available to them each month.

State Health Plan Comparison	PPO plan Highest cost option	PPO Plan Highest cost option	High Deductible Health Plan (HDHP)	High-Deductible Health Plan (HDHP)
Information is for full-time certified employees.	Employee-only Coverage	Family coverage	Employee-Only Coverage	Family Coverage
Employee EE Employer ER Monthly Contribution Levels				
Name of Health Plan. Data includes medical coverage only.				
<b>New Mexico</b>				
<b>Albuquerque Public Schools</b>	EE: \$179.50	EE: \$509.72	HDHP is not offered	HDHP is not offered
For those earning \$30,000 or more a year, employee pays 40% and employer pays 60%.	ER: \$269.02	ER: \$762.78		
Jan 1-December 31, 2016 plan year.	<i>Blue Cross Blue Shield NM with a biometric screening.</i>	<i>Blue Cross Blue Shield NM with a biometric screening.</i>		
<a href="http://www.aps.edu/staff/human-resources/benefits">http://www.aps.edu/staff/human-resources/benefits</a> .				
<b>Arizona</b>				
<b>Mesa Public Schools</b>	EE: \$60.00	EE: \$912.11	EE: \$10.00	EE: \$645.95
2015-2016 Plan Year.	ER:\$492.23	ER: \$492.23	ER: \$402.15	ER: \$402.15
	<i>OAP/EPO Medical</i>	<i>OAP/EPO Medical</i>	<i>HDHP 2500</i>	<i>HDHP 2500</i>
<a href="http://www.mpsaz.org/benefits/files/oe_rate_sheet.pdf">http://www.mpsaz.org/benefits/files/oe_rate_sheet.pdf</a> .				

<a href="http://www.episd.org/file_mgr/benefits/premium_rates/A.%202015-2016%20Plan%20Year/2015-16%2030%2040%20hour%20assignment%20rate%20sheet.pdf">http://www.episd.org/file_mgr/benefits/premium_rates/A.%202015-2016%20Plan%20Year/2015-16 30 40 hour assignment rate sheet.pdf.</a>				
<p><b>Utah</b></p> <p><b>Salt Lake City Certified</b> 2016-17 plan year</p> <p>Monthly contribution from employee and SLCS</p> <p><a href="http://www.slcschools.org/departments/human-resources/benefits/#.V3vwT036v9L">http://www.slcschools.org/departments/human-resources/benefits/#.V3vwT036v9L.</a></p>	<p>EE: \$255.91</p> <p>ER: \$279.97</p> <p><i>Traditional Med+ Plan</i></p>	<p>EE: \$997.48</p> <p>ER: 918.86</p> <p><i>Traditional Med+ Plan</i></p>	<p>EE: \$110.96</p> <p>ER: \$279.97</p> <p><i>QHDHP Med+ Health Savings Account</i></p>	<p>EE: \$479.37</p> <p>ER: \$918.86</p> <p><i>QHDHP Med+ Health Savings Account</i></p>