Investments & Pensions Oversight Committee

Senator Roberto “Bobby” J. Gonzales, Chair

Representative Patricia Roybal Caballero, Vice Chair

History and Overview of Cost-of-Living Adjustments

July 30, 2024

David Archuleta, Executive Director

Discussion Items

- American Academy of Actuaries
- National Associaiton of State Retirement Administrators (NASRA)
- Common COLA Types and Features
- NMERB COLA Calculation
- NMERB COLA History
- Retirees and Benefits
- 2025 Legislative Proposal
- “What if” funding scenarios
- Recent Benefit and Contribution Reforms
- Laws 2021, Chapter 44 (Senate Bill 42)

American Academy of Actuaries

The 80% Pension Funding Myth – October 2021

- Using an 80% funded ratio as a benchmark for whether pension plans are healthy is inappropriate.
- No single level of funding defines a line between a “healthy” and “unhealthy” pension plan.
- Pension plans are generally better evaluated on the strategy in place to attain a funded ratio of 100% within a reasonable period of time.
- The financial health of a pension plan depends on many factors in addition to funded status – including the size of any shortfall compared with the resources of the plan sponsor.
- Projections under a range of scenarios can be particularly useful in evaluating the plan’s expected funding trajectory and assessing plan health.

Source: The 80% Pension Funding Myth HTML | American Academy of Actuaries (actuary.org)

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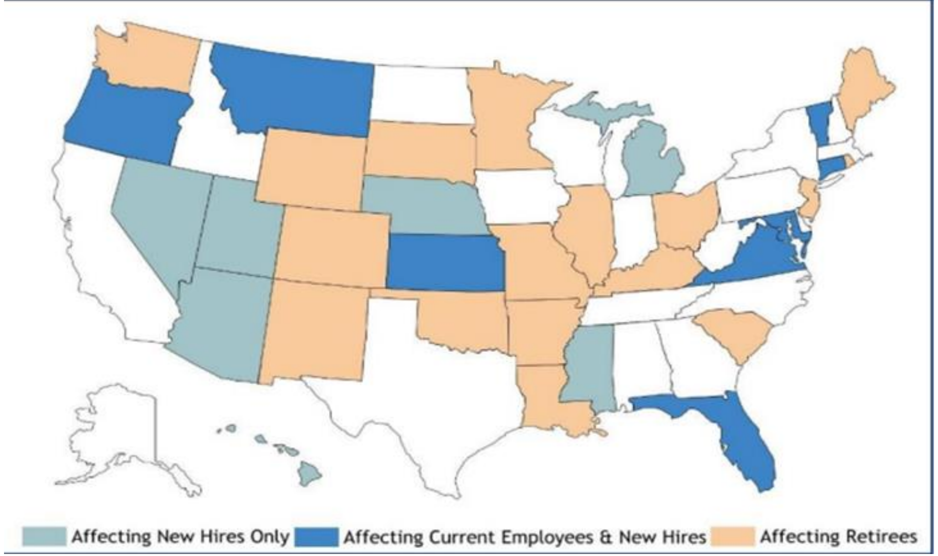
National Association of State Retirement Administrators

Since 2009

- 17 states have changed COLAs affecting current retirees
- 8 states have addressed current employee’s benefits
- 7 states have changed the COLA structure only for future employees
- The legality of these modifications in several states has been challenged in court
- Legal rulings upheld COLA reductions passed in New Jersey and fully or partially rejected COLA reductions approved in Illinois, Montana and Oregon

Figure 2: State retirement systems undergoing COLA legislative changes, 2009-2024



Common COLA Types and Features

- Automatic vs. Ad hoc
  - Automatic occurs without action and is typically predetermined by a set rate or formula
  - Ad hoc requires a governing body to actively approve a postretirement benefit increase
- Simple vs. Compoud
  - Simple arrangements base increases on original benefit at the time of retirement and produces a smaller benefit over time, at a lower cost
  - Compounding arrangments include the original benefit plus any prior benefit increases
  - Some COLAs contain both feature, i.e., they be "simple" until the retiree reaches a certain age or year retired, then benefits convert to a compounding arrangement
- Inflation-based
  - Based on consumer price index (CPI)
  - Most recognized measures are calculated and published by the U.S. Bureau of Labor Statistics
  - Most commonly used measures are CPI-U (based on all urban consumers) or the CPI-W (urban wage earners and clerical workers)
  - Some state use region specific numbers

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Source: NASRA Issue Brief

Common COLA Types and Features Cont.

- Performance-based
    - Ties COLA to the plan's funding level or investment performance
- Delayed-onset or Minimum Age
    - Delay onset either by a specified timeframe or until attainment of a designated age
- Limited Benefits Basis
    - Calculated on a portion of a retiree's annual benefit, rather than the entire amount. Typically tied to an external indicator such as CPI or delayed onset of COLA. *Example:* Massachusetts SERS and TRS provide up to three percent to only the first $13,000 of annual benefit
- Self-funded Annuity Option
    - Example: Kansas and Louisiana offer self-funded post-retirement benefit increases. Member chooses to receive a lower monthly benefit in exchange for a fixed rate COLA to paid annually upon retirement
- Reserve Account
    - Tied to investment performance and funded with excess investment earnings. COLA supported by funds set aside in a reserve account. However, the account must reach a certain size for any COLA to be granted in a given year

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Source: NASRA Issue Brief

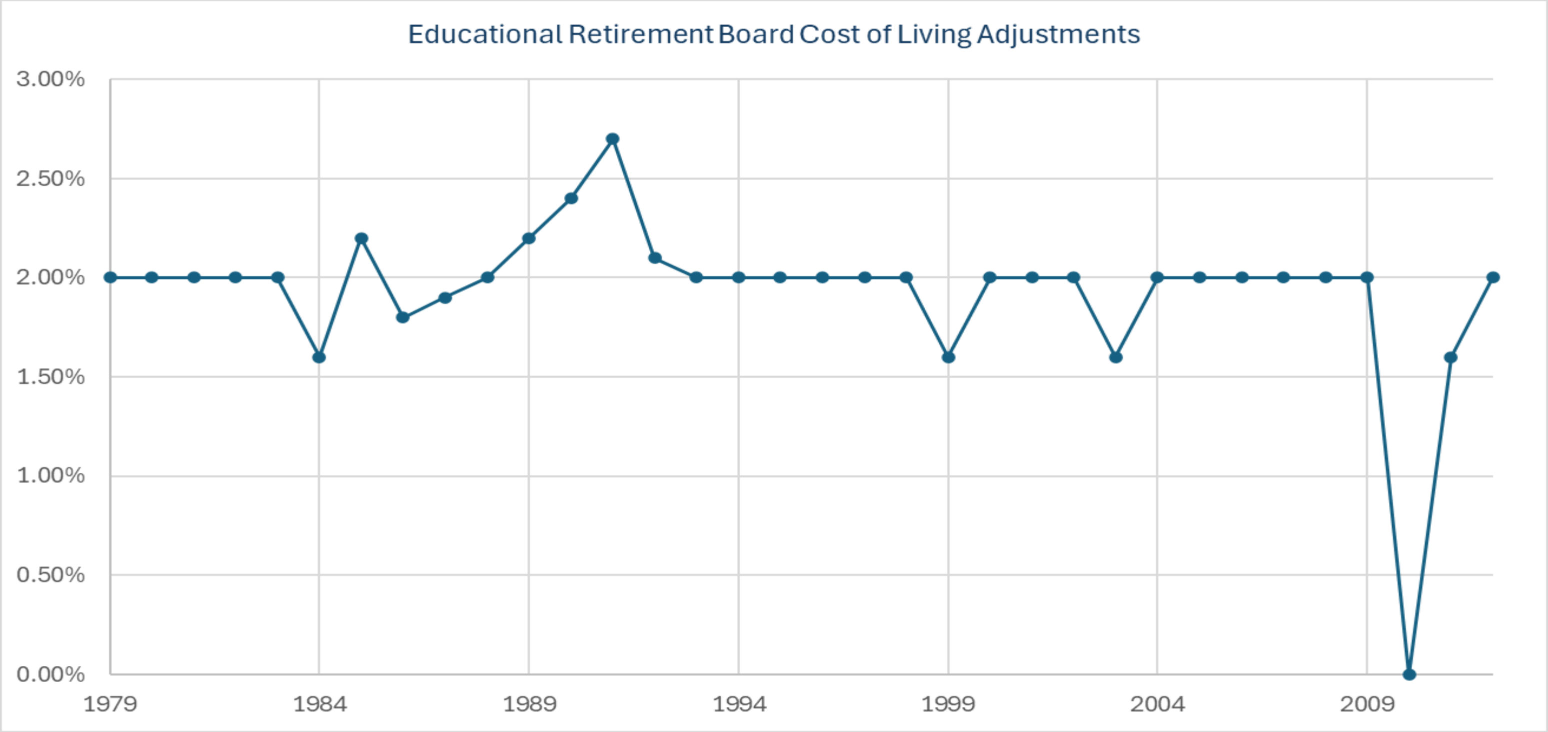
NMERB COLA Calculation

- Shares the burden of cost savings across generations and does not further increase the disparity in the value of the employer paid value of member benefits
- Current COLA policy CPI-related – limits range of possible outcomes and adjusts the amount granted downward in periods when the plan is less than 100% funded
  - Adjustment factor = ½ of the increase in the CPI
  - Cannot exceed 4% / be less than 2% - unless CPI is less than 2%, then adjustment factor equals CPI
  - Annuitants receive between 80 and 100% of the adjustment factor based on various parameters

Plan Funded Ratio	Retirees w/25 years of service and less than median annuity	All other annuitants eligible for an increase
>=100%	100%	100%
>90% and <100%	95%	90%
<=90%	90%	80%

- Cost-of-Living Adjustment (July 1, 2024)
  - 1.89% for retirees with 25 or more years of service credit and whose monthly benefit is less than or equal to the median benefit of $1,746.63 as of June 30, 2023
  - 1.68% for all other eligible retirees
  - 2.1% for all disability retirees who have been retired for at least 3 years

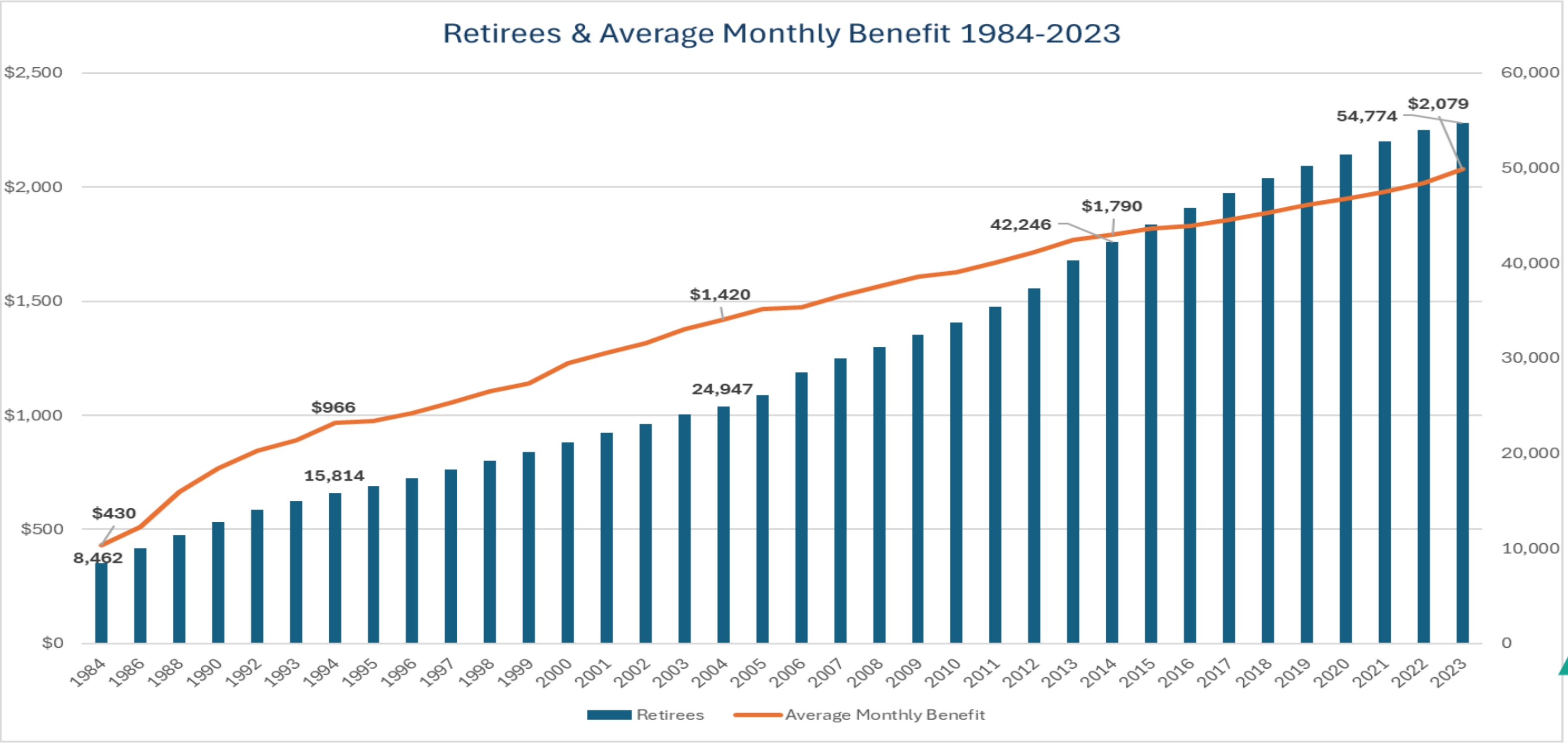
NMERB COLA History 1979-2012



NMERB COLA History 2013-2024

Year	COLA for disability retirements eligible for adjustment	COLA for members with 25 years of service at retirement and receiving less than median adjusted annuity	COLA for all remaining members eligible for adjustment	Monthly Median Adjusted Annuity
2013	2.00%	1.80%	1.60%	$ 1,504.20
2014	1.50%	1.35%	1.20%	$ 1,543.06
2015	1.60%	1.44%	1.28%	$ 1,566.22
2016	0.10%	0.09%	0.08%	$ 1,586.22
2017	1.30%	1.17%	1.04%	$ 1,605.46
2018	2.00%	1.80%	1.60%	$ 1,611.45
2019	2.00%	1.80%	1.60%	$ 1,627.76
2020	1.80%	1.62%	1.44%	$ 1,653.20
2021	1.20%	1.08%	96.00%	$ 1,677.19
2022	2.30%	2.07%	1.84%	$ 1,703.84
2023	4.00%	3.60%	3.20%	$ 1,720.56
2024	2.10%	1.89%	1.68%	$ 1,746.63

Retirees and Benefits



2025 Legislative Proposals

- Restrictions on receipts of gifts: 22-11-5.1
- Educational retirement fund; suspense fund: 22-11-11
- Retirement benefits; minimum contributory employment: 22-11-24
- Cost-of-living adjustment; eligibility; based on funded ratio; additional contributions: 22-11-31
- Allowed service credit: 22-11-34
- Disclosure of member or retired member information; penalty: 22-11-55
- New Section: Unclaimed Property

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“What if” funding scenarios?

	UAAL ($ in billions)	Funded Ratio
Baseline Results Projected as of June 30, 2025	$ 9.05	66%
$0.25 billion lump sum as of June 30, 2025	$ 8.80	67%
$1.01 billion lump sum as of June 30, 2025	$ 8.04	70%
$3.69 billion lump sum as of June 30, 2025	$ 5.36	80%
$6.37 billion lump sum as of June 30, 2025	$ 2.68	90%
$9.05 billion lump sum as of June 30, 2025		100%

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Recent Benefit & Contribution Reforms

Legislation

- 2013 – Senate Bill 115 established a schedule to increase member contributions from 7.90% to 10.70%, modified benefits payable to members hired after 2013, and reduced COLAs for most retirees until ERB attains 100% funded status
- 2019 – House Bill 360 increased employer contributions from 13.90% to 14.15% and modified benefits payable to members hired after 2019
- 2021 – Senate Bill 42 established a schedule to increase employer contributions from 14.15% to 16.15%
- 2022 – Senate Bill 36 established a schedule to increase employer contributions from 16.15 % to 18.15%

<u>All key stakeholders i.e., retirees, members and employers have contributed to the improved long-term solvency of the plan</u>

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Laws 2021, Chapter 44 (Senate Bill 42)

- Required ERB to present ways to improve pension solvency without additional employer-paid increases to DFA, LFC, LESC and any other appropriate interim committee
- Summary of possible changes to improve solvency without additional employer contributions:
  - Further reduce COLA adjustments tied to funded ratio
  - Swap COLA for non-compounding 13th check
  - Increase employee contribution
    - 10.7% - $24K or greater
    - 7.9% - $24K or less
    - Lump sum contribution (“one-time dollars”)
  - Reduce service multipliers
- <u>Current projections indicate program stability in the majority of outcomes</u>

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