



Public Pension Cost-of-Living Adjustments

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**Presented to the
New Mexico Investments & Pensions
Oversight Committee
October 2024**

Comparing Retirement Plan Designs

- ▲ Public employees in New Mexico participate in what is considered the model retirement arrangement: the three-legged stool
 - ▲ Social Security
 - ▲ Employer pension
 - ▲ Access to individual savings

New Mexico Retirement Benefit

- ▶ PERA retirement multipliers--2.5% and 3.0% for general members, depending on the tier--are the highest in the nation for state pension plans whose members also participate in Social Security
- ▶ At 3.0% and 3.5%, PERA multipliers for public safety workers also are among the highest in the nation
- ▶ The starting benefit for New Mexico PERA retirees replaces a higher portion of final average salary compared to their counterparts in other states

Overview of New Mexico PERA COLA

- ▲ Automatic, with a minimum of 0.5%
- ▲ Eligibility begins two years after retirement
- ▲ Maximum annual COLA is 3.0% if the plan's funding level is below 100%
- ▲ Maximum could rise to 5.0% if the plan's funding level is 100% or higher and investment performance is strong
- ▲ The PERA actuary makes the following assumptions about future COLA levels:
 - ▲ 1.25% until 2039
 - ▲ 1.60% from 2040 to 2054
 - ▲ 2.0% after 2054

Overview of New Mexico ERB COLA

- COLA is based on the change in CPI.
- Members become eligible at age 65 or 67, depending on tier
- If the change in CPI is less than 2.0%, COLA is equal to the change in CPI.
- If the change in CPI is greater than 2.0%, COLA is equal to one-half the change in CPI, but at least 2.0% and not more than 4.0%.
- When the ERB funded ratio is 90% or less, the COLA for retirees whose annuity is at or below the median retirement benefit and who have 25 or more years of service credit at retirement is reduced by 10%. For all other retirees, the reduction is 20%.
- When the funded ratio exceeds 90% but is less than 100%, the COLA for retirees who have 25 or more years of service credit at retirement and whose annuity is at or below the median retirement benefit will be reduced by 5%. For all other retirees, the reduction is 10%.

Core Objectives for Providing a COLA

- Protect annuitants against the effects of inflation
- Maintain stability in the cost of the plan
- Preserve the integrity of the plan's funding policy
- Promote intergenerational equity by funding the cost of the COLA in advance, during the working lives of plan participants
















Comparing New Mexico PERA's COLA

- ⚡ The NM PERA COLA is variable and dependent on the plan's funding level and investment performance
- ⚡ COLAs for many other plans also are variable and dependent on other factors
- ⚡ Simple comparisons are difficult to make, as variables and experiences differ from plan to plan
- ⚡ NM PERA's COLA balances core COLA objectives

COLAs are Not Universal

- ▲ Roughly one-third of state pension plans do not provide an automatic COLA. For example:
 - ▲ Non-public safety employees in Arizona hired since 2013
 - ▲ All teachers and state employees in Texas
- ▲ Corporate pension plans do not provide COLAs

COLA Costs

COLA Scenario	Notes	Cost Factor	Cost Factor Bar Chart
No COLA		1.00	
1% COLA	Compound	1.07	
2% COLA	Compound	1.16	
3% COLA	Compound	1.26	
3% Simple COLA	3% of original benefit with fixed-dollar increases	1.21	
Full Consumer Price Index (CPI)	Assumes 3% compound increase	1.26	
50% of CPI	Assumes 1.5% compound increase	1.11	
CPI capped at 3%	Assumes 2.5% per year to approximate cap	1.21	
CPI deferred to age 65	Assumes later of 2 year deferral or age 65	1.17	
CPI deferred for 3 years	Deferred 3 years instead of 2 years	1.23	
CPI only on first \$12,000	Maximum annual COLA = \$360	1.12	
CPI only on first \$12,000 - indexed	Index \$12,000 cap at 3% assumed COLA	1.15	
CPI only on first \$24,000	Maximum annual COLA = \$720	1.17	
CPI only on first \$24,000 - indexed	Index \$24,000 cap at 3% assumed COLA	1.20	
CPI prorated on service less than 30 years	Maximum 3% COLA with 30 years of service	1.16	
CPI capped at 50% of original benefit	Maximum benefit = 150% of original benefit	1.19	

GRS Consulting, Post-Employment Cost-of-Living
Adjustments: Concepts and Recent Trends, April 2011

Types of COLAs used among states

- ▲ Automatic, tied to the rate of inflation
 - ▲ This is the most common arrangement
 - ▲ Nearly all of these provisions are capped, such as CPI-U up to 2.0% or 3.0%
- ▲ Automatic, fixed rate
 - ▲ This is the second most common arrangement
 - ▲ For example, automatic 1.5% or 2.0%

Types of COLAs in Use Among States

Delayed Onset/Minimum Age of Eligibility

- ▲ Colorado PERA:* Annuitants must wait three years to begin receiving a COLA
- ▲ New York State and Local ERS and STRS: Annuitants must be age 62 and retired for 5 years, or 55 and retired for 10 years, to receive a COLA
- ▲ Ohio Police & Fire* – Except for survivors and disabilitants, COLA begins at age 55 and one year after retirement
- ▲ Rhode Island ERS - Latter of Social Security normal retirement age or 3rd anniversary of retirement

* *Non-Social Security plans*

Types of COLAs in Use Among States

- ▲ Simple, not compounded
 - ▲ California STRS*
 - ▲ Hawaii ERS
 - ▲ Illinois Municipal, SERS*, SURS*, TRS*
 - ▲ Michigan Public Schools and State ERS
 - ▲ Mississippi PERS
 - ▲ Ohio PERS*, Police & Fire*, School ERS*
 - ▲ Utah RS

** Non-Social Security plans*

Types of COLAs in Use Among States

Applied to only a portion of benefit

- ▲ Massachusetts SERS* and TRS* COLAs are effectively automatic but subject to legislative approval, tied to CPI up to 3.0%, applied only to the first \$13,000 of benefit
- ▲ New York State and Local Government ERS and Teachers Retirement System:
 - Based on one-half of the increase in CPI, applied to first \$18,000 of annual pension
 - COLA is a minimum of 1% and a maximum of 3%.

** Non-Social Security plans*

Types of COLAs in Use Among States

Based on individual employer election

- ▲ Colorado Fire & Police,* Maine Local,* Texas Municipal, Texas County & District

Participant-optional and self-funded

- ▲ Kansas PERS
- ▲ Louisiana SERS* and TRS*

Self-funded via actuarial adjustment

- ▲ Nebraska State and County retirees may elect a reduced benefit that provides an automatic COLA

* *Non-Social Security plans*

Thank you.

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