

**Senator George K. Muñoz, Chair**

**Representative  
Patricia Roybal Caballero, Vice Chair**

**NEW MEXICO  
EDUCATIONAL  
RETIREMENT BOARD**

# **Investments & Pensions Oversight Committee**

**LEGISLATIVE PROPOSAL  
DECEMBER 10, 2020**



**Jan Goodwin, Executive Director  
Suzanne Roubidoux, General Counsel  
Steven Gluckstern, Board Chair  
H. Russell Goff, Vice Chair**

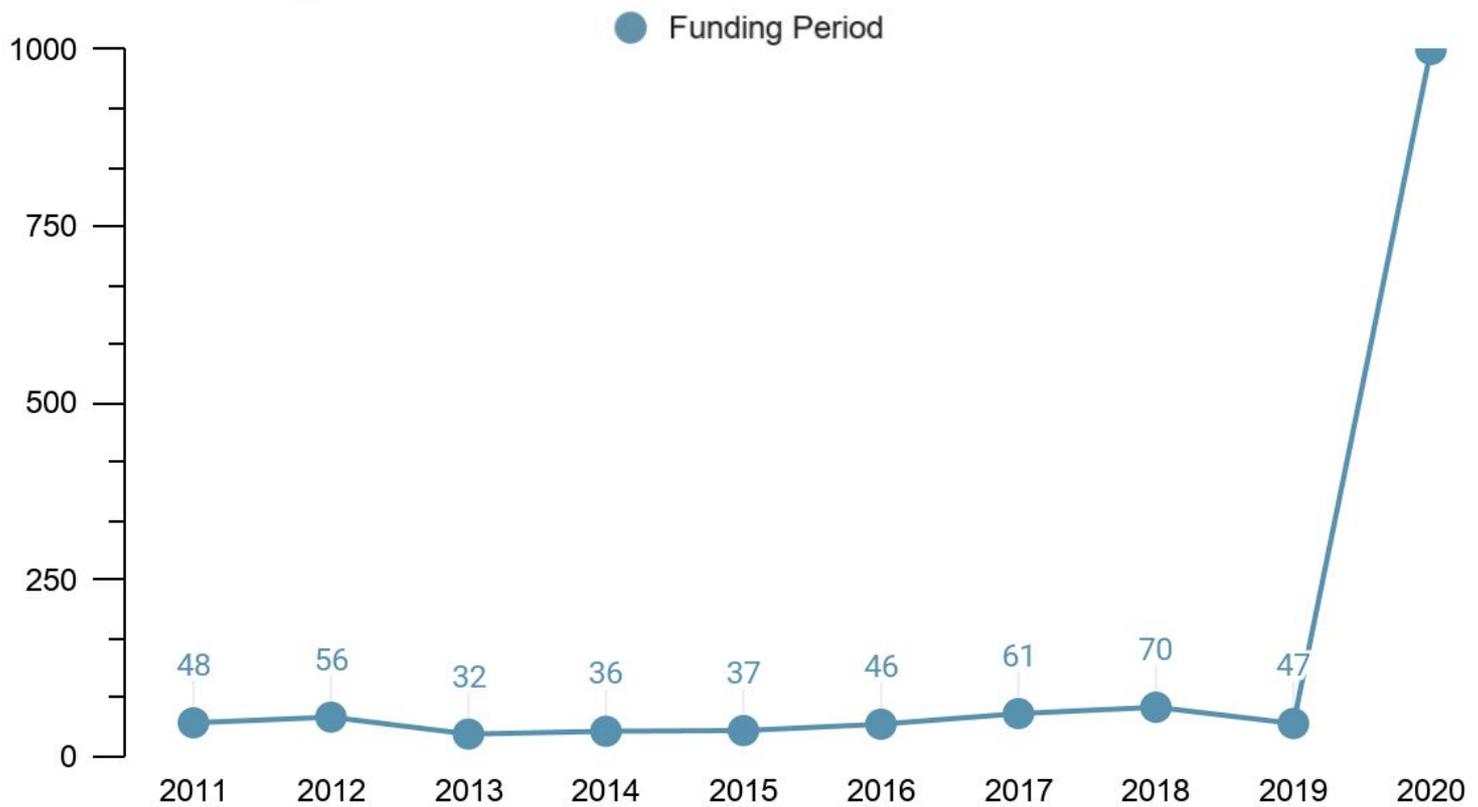
	<b>Valuation June 30, 2019</b>	<b>Experience Study as of June 30, 2019</b>	<b>Valuation June 30, 2020</b>
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<b>UAAL</b>	<b>\$7.9 billion</b>	<b>\$8.3 billion</b>	<b>\$9.0 billion</b>
<b>Funded ratio</b>	<b>62.9%</b>	<b>61.6%</b>	<b>60.4%</b>
<b>Funding period</b>	<b>47 years</b>	<b>70 years</b>	<b>Infinite</b>
<b>Ability to pay benefits</b>	<b>Forever</b>	<b>Forever</b>	<b>100 years</b>

**Assumptions:**

<b>Inflation</b>	<b>2.5%</b>	<b>2.3%</b>	<b>2.3%</b>
<b>Investment earnings</b>	<b>7.25%</b>	<b>7.00%</b>	<b>7.00%</b>

## ERB Funding Period over Time



## Prior efforts to improve sustainability

- **2009, HB631:** Changed retirement eligibility for new hires after June 30, 2010:
  - 30 years (any age);
  - Age + Service = 80 (reduced if member is younger than 65);
  - Age 67 with 5 years.
- **2013, SB115:** Product of ERB Stakeholder Group retirement eligibility for new hires: 30 years, actuarially reduced benefit if member is younger than 55; Age + Service = 80, actuarially reduced if member is younger than 65; Age 67 with 5 years.
- **COLA:**

COLA reduced for all retirees, with the exception of disability retirees, until ERB is 100% funded:

Until ERB is 90% funded, retirees with benefits at or below the median AND with 25 years of service have a 10% COLA reduction from statutory COLA formula. All others have a 20% COLA reduction. Average COLA is expected to be 1.6%.

When ERB is more than 90% funded and less than 100% funded, retirees with benefits at or below the median AND with 25 years of service have a 5% COLA reduction from statutory COLA formula. All others have a 10% COLA reduction. Average COLA is expected to be 1.8%.

Member contribution rate: increases to 10.1% in FY14 and 10.7% in FY15 and future years, for members with salary greater than \$20,000.

## Prior efforts to improve sustainability

CONTINUED

- **2019, HB360:** A product of the ERB Stakeholder Group, introduced a tiered multiplier and raised the minimum retirement age for new members; expanded scope of those who pay contributions; and ensured that all working retirees complied with Internal revenue Service guidelines.
- ~~All substitutes and their employers to pay contributions, if substitute works more than 0.25 FTE, the threshold for ERB membership.~~  
**Eliminated by SB111 in 2020**
- ~~All working retirees and their employers to pay contributions, not only those working more than 0.25 FTE~~  
**Eliminated by SB111 in 2020**
- ~~All PERA retirees, except retired public safety working in a similar capacity, to pay member contributions.~~  
**Eliminated by SB111 in 2020**  
Employers have paid contributions for PERA retirees since 2003.

# Prior efforts to improve sustainability

CONTINUED

## 2019, HB360 (continued):

→ Adopted anti-spiking provisions for salaries earned on or after July 1, 2019 for all members.

## For new members:

Retirement eligibility,

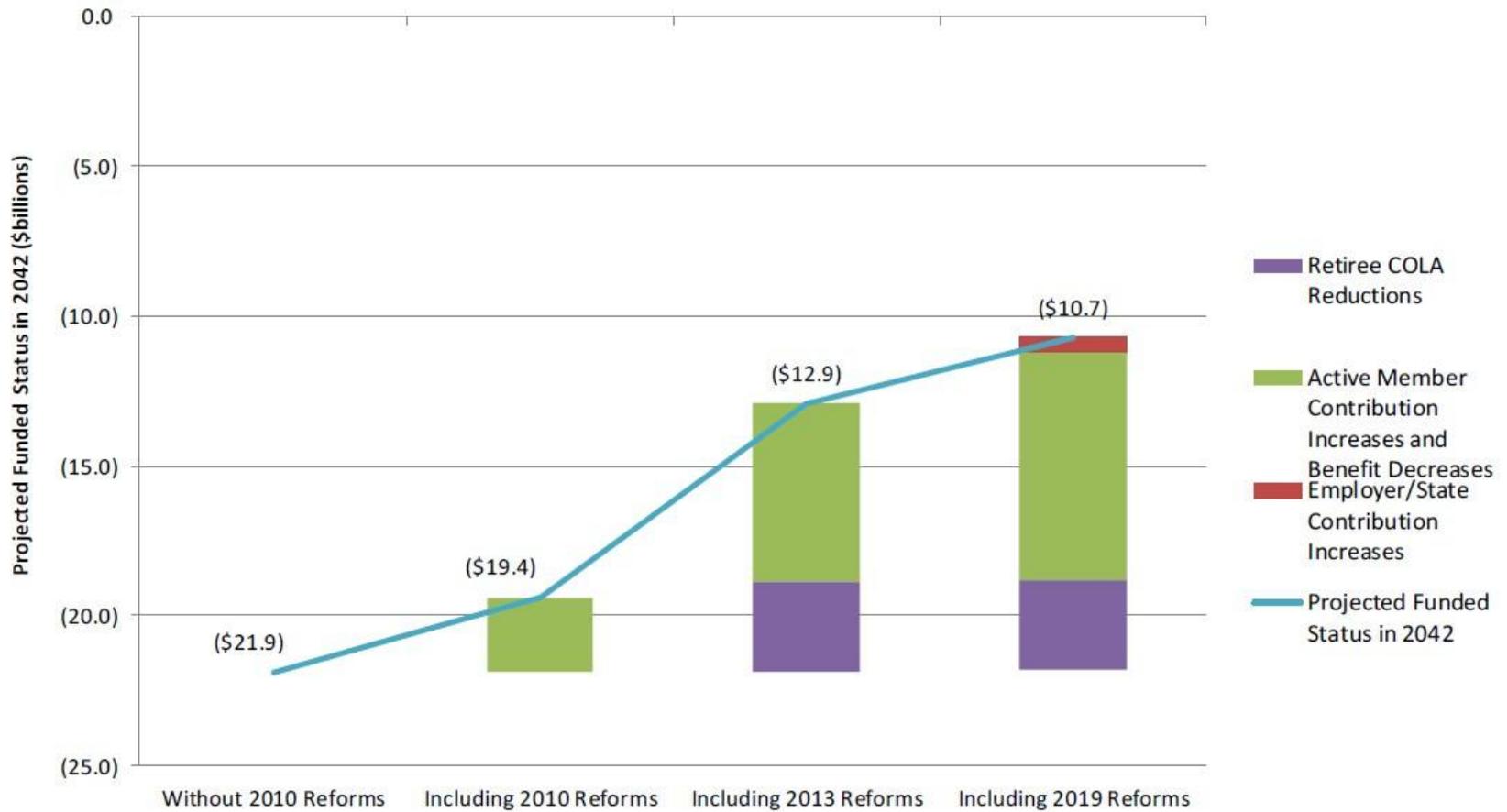
- 30 years, actuarially reduced if member is younger than 58.
- Age + Service = 80, actuarially reduced if member is younger than 65.
- Age 67 with 5 years.

Graduated multiplier introduced to reduce harm to fund by short career members, approximately 65% of retirees:

- 1.35% for first 10 years;
- 2.35% for next 10 years;
- 3.35% for next 10 years;
- 2.4% for years in excess of 30

→ **HB 501 2019:** increased the employer contribution for ERB and PERA by 0.25%

# Who has paid for changes?



## Quantification of the disparity in retirement benefits among educational employees and state employees over time.

Employees compared:

- Average ERB member/Average state employee.
- Average classroom teacher, with 4-year degree/average state employee with same educational requirements.
- Average classroom teacher, with Masters degree/average state employee with same educational requirements.

By employee job classification	1958	1978	1998	2018
Average employee	\$ (69,487)	\$ 318,346	\$ 414,723	\$ 368,623
Average teacher (BA)/Education Administrator Operational	\$ (247,704)	\$ 193,077	\$ 191,343	\$ 131,033
Average teacher (MA)/Education Administrator Advanced	\$ 78,332	\$ 608,234	\$ 603,284	\$ 536,415

- PERA has consistently paid higher retirement benefits relative to salaries. This is true for all four cohorts, although the variance is expected to narrow in the 2018 cohort.
- COLA payments account for much of the difference – PERA kicks in after 2 years (52 y/o, now 57 y/o) vs. ERB at 65 y/o (now 67 y/o);  
The 1958 and 1978 cohorts received COLAs of 3% for much of their retirements, including during periods when inflation averaged 2%.
- PERA multiplier was reduced (3.0% to 2.5%).
- COLA and the higher multiplier still explain most of the variance for this cohort.
- PERA employer contribution rates have consistently been higher than ERB's since the early 1980's.
- The largest disparities occurred in the 1978 and 1998 cohorts when PERA increased its multiplier to 3% (compared to 2.35% for ERB) while maintaining a higher COLA and shorter waiting period to receive a COLA.
- Benefit differential for newest cohort (2018-2048) is much lower (8%)  
PERA multiplier was reduced (3.0% to 2.5%)  
Time collecting COLA and the higher multiplier still explain most of the variance for this cohort.

## First, a bit of context...

2020 solvency improvement changes enacted for state employees participating in PERA with SB72.

### PERA

Reduce COLA delay from 7 years (enacted in 2013) to 2 years; 13th check- GF

Increase member contribution from 8.92% to 10.92% over 4 years

Increase employer contribution from 17.24% to 19.24% over 4 years

### ERB

COLA begins at age 65 (since 1984) or 67 (members starting after 2013)

Member contribution has been 10.7% since 2015

Employer contribution rate is 14.15%

# 2021 Legislative Proposal

## **Year 1:**

Increase employer contribution by 1% to 15.15%

## **Year 2:**

Increase employer contribution by 1% to 16.15%

## **Year 3:**

Increase employer contribution by 1% to 17.15%

**Year 4:** Increase employer contribution by 1% to 18.15%

**All increases in employer contributions for ARP participants go to the ERB fund and not to the ARP participant.**

**Each 1% increase will add \$30 million in employer contributions to ERB trust fund.**

**Unanimously endorsed by ERB Board of Trustees on December 4.**

# Projected Impact of Bill

- Funded ratio by 2051 73.6%
- Funding period by 2024 42 years.

Questions?

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**Jan Goodwin, Executive Director  
Direct: 505.476.6118  
Email: [jan.goodwin@state.nm.us](mailto:jan.goodwin@state.nm.us)**