

Does the Proposed New Mexico PERA Pension Board Legislation Meet the Objectives for Good Pension Reform?



Objectives	Status Quo	SB 201
<p>Keeping Promises <i>Ensure the ability to pay 100% of the benefits earned and accrued by active workers and retirees</i></p>	<p>UNCERTAIN <i>—Persistent unfunded liabilities threaten PERA’s solvency and the ability to pay out long-term benefits without crowding out funding for other important public services.</i></p>	<p>N/A</p>
<p>Retirement Security <i>Provide retirement security for all current and future employees</i></p>	<p>UNCERTAIN <i>—PERA is on a path of growing pension debt, meaning its members’ retirement security faces long-term risk.</i> <i>—The current system is not providing retirement security to all workers equally. 71% of new general PERA members leave before vesting and receive no employer retirement benefits, and only 12% work in public service long enough to earn a full pension.</i></p>	<p>N/A</p>
<p>Predictability <i>Stabilize contribution rates for the long-term</i></p>	<p>SOME <i>—Rates are predictable in the short-term, but for a problematic reason: contributions are set using rates fixed in law as opposed to the rates calculated by professional actuaries as being needed to keep PERA solvent.</i> <i>—Artificially low contribution rates have been shorting payments to PERA, contributing to unfunded liabilities.</i> <i>—The less invested into PERA today, the more will be required from taxpayers and employees tomorrow.</i></p>	<p>N/A</p>
<p>Risk Reduction <i>Reduce pension system exposure to financial risk and market volatility</i></p>	<p>NO <i>—The high rate of return used by PERA actuaries to guide contribution rate decisions has produced \$2.9 billion in unfunded liabilities since 2010 despite historic market highs and only has a 50% probability of success.</i></p>	<p>N/A</p>

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<p>Affordability Reduce long-term costs for employers, employees</p>	<p style="text-align: center;">NO</p> <p>—PERA unfunded liabilities generate major long-term costs through interest on the pension debt.</p> <p>—PERA’s actuarially determined employer contribution rate blended across all employee divisions recently surpassed 20% of payroll – a significant cost for any employer. In FY 2020 17% will go just to amortization payments.</p>	<p style="text-align: center;">N/A</p>
<p>Attractive Benefits Ensure the ability to recruit 21st Century employees</p>	<p style="text-align: center;">FOR SOME</p> <p>—PERA’s current design primarily supports those who stay for a full, unreduced retirement (30 years of service), which only 12% achieve.</p> <p>—High turnover rates among state employers make it unclear that the promise of a retirement plan is a significant factor in recruiting or retaining new PERA members.</p>	<p style="text-align: center;">N/A</p>
<p>Good Governance Adopt best practices for board organization, investment management, and financial reporting</p>	<p style="text-align: center;">SOME</p> <p>—Currently the PERA board is larger than academic research and industry best practices would recommend is most efficient. And also lacks requirements for members to hold the financial and retirement planning expertise needed to most effectively operate a large public pension plan such as PERA.</p>	<p style="text-align: center;">IMPROVED</p> <p>—The proposed change reduces the number of trustees to nine – aligning PERA with industry recommended 6-10.</p> <p>—The proposal would set the share of active and retired PERA Board members to 67%, instead of current 83%, expanding representation to other non-member stakeholders with investment experience, while still ensuring strong member representation.</p> <p>—The change would require all new appointed board trustees to “<u>have skill, knowledge and experience in financial matters.</u>”</p> <p>—The change adds two non-PERA members with “skill, knowledge and experience in retirement investment products.” These adjustments, along with adding the Secretary of Finance and Administration to the Board greatly improves the Board’s minimum qualifications and experience.</p>