

Redesigning Cost of Living Adjustments Would Improve PERA Sustainability



Pension Debt Presents a Growing Challenge

- ❖ The Governor's Public Employees Retirement Association (PERA) Pension Solvency Task Force projects PERA currently has only a 38% chance of reaching full funding by 2043.
- ❖ Moody's Investors Service cited New Mexico's pension liabilities when it downgraded the state's bond rating in 2018, the second downgrade in two years.

Current PERA COLA Policy is Flawed

- ❖ A COLA is meant to protect the purchasing power of retirees' pension payouts, but PERA's current 2% compounded COLA is flawed.
- ❖ By being locked to a fixed rate instead of floating with inflation, it effectively acts as an automatic, upward shift in benefits untethered to any actual change in consumer prices in the economy.
- ❖ For several years consumer price increases have fallen below 2%, driving pension liabilities—including unfunded liabilities—artificially higher through the current "autopilot COLA" mechanism.
- ❖ The proposed non-compounding, profit-sharing COLA structure, along with other COLA changes, offers PERA a more sustainable approach and would help increase the likelihood of achieving full funding by 2043 from a projected 38% to 63%, according to the task force.

Cost of Living Adjustments are designed to protect retirees against inflation. When the PERA COLA is untied from inflation it serves more as an annual pay raise for retirees at the expense of active and future employees.

The Pension Solvency Task Force Solution

- ❖ The Governor's Pension Solvency Task Force recommends a temporary shift to a non-compounding COLA that acts like a bonus and then transitions to a profit-sharing approach.
- ❖ Under the proposal, COLA rates are projected to average out to 1.64% annually through 2049, by which year PERA is assumed to reach full funding.
- ❖ Overall, the proposed COLA structure is a more sustainable approach. The projected 1.64% average COLAs—compared to the current fixed 2% COLA—would slow actuarial liability accrual and improve PERA's funded status.

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