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

Objectives	Status Quo	Proposed PERA Reform
Keeping Promises *Ensure the ability to pay 100% of the benefits earned and accrued by active workers and retirees*	**UNCERTAIN** *—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.*	**IMPROVED** **But UNCERTAINY REMAINS** *—Immediately eliminates $700 million in unfunded liabilities.* *—Maintaining the existing assumptions and methods that contributed to the current challenges means PERA will still be vulnerable to volatile market conditions.*
Retirement Security *Provide retirement security for all current and future employees*	**UNCERTAIN** *—PERA is on a path of growing pension debt, meaning its members' retirement security faces long-term risk.* *—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.*	**IMPROVED** *—The reform would use increased contributions and a more sustainable cost-of-living-adjustment structure to steer PERA toward a path of long-term solvency,* *—But the success of the reform is dependent on achieving the investment returns that match the system's expectations, which Reason analysis indicates is overly optimistic.* *—The reform does not expand access to more portable retirement benefit design options for PERA members of shorter employment duration.*
Predictability *Stabilize contribution rates for the long-term*	**SOME** *—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.* *—Artificially low contribution rates have been shorting payments to PERA, contributing to unfunded liabilities.* *—The less invested into PERA today, the more will be required from taxpayers and employees tomorrow.*	**IMPROVED** **But RISK REMAINS** *—Additional contributions bring the total annual investment closer to what PERA needs to fully-fund promised pension benefits.* *—Relying too heavily on volatile markets to grow PERA assets is likely to eventually render the proposed contribution rates obsolete and require more rate increases in the future.*
Risk Reduction *Reduce pension system exposure to financial risk and market volatility*	**NO** *—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.*	**IMPROVED** **But RISK REMAINS** *—Increasing contributions and creating a resilient and sustainable COLA system are positive steps towards long-term solvency, but additional steps will be needed to address the plan's overall financial risk.* *—PERA will continue to face market volatility, a lower-yield near term investment climate, and an assumed rate of return that has just a 50% probability of success.* *—PERA should take steps to start lowering the assumed rate of return and pay off unfunded liabilities sooner to better regulate volatility.*

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Affordability *Reduce long-term costs for employers, employees*	**NO** *—PERA unfunded liabilities generate major long-term costs through interest on the pension debt.* *—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.*	**SOME** *—The reform will generate additional contributions, which will reduce PERA's unfunded liabilities and ultimately (if assumptions hold) the long-term costs of servicing that debt.* *—The reform falls short of correcting the problematic assumptions and funding policies that created the current unfunded liabilities.* *—Most notably, the reform misses an opportunity to anchor annual pension contributions to a floating amount determined by actuaries as necessary each year to keep the plan solvent*
Attractive Benefits *Ensure the ability to recruit 21st Century employees*	**FOR SOME** *—PERA's current design primarily supports those who stay for a full, unreduced retirement (30 years of service), which only 12% achieve.* *—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.*	**FOR SOME** *—The proposed reform maintains the current benefit formula while providing a more sustainable COLA benefit adjustment for retirees designed to improve long-term solvency.* *—The reform does not address the attraction and retention of younger workers by providing more plan options for a wider range of increasingly professionally-mobile employees.* *—Early and mid-career members will see contributions increase today without proof that further increases won't be needed in the future.*
Good Governance *Adopt best practices for board organization, investment management, and financial reporting*	**NO** *—Currently the PERA board lacks the financial and retirement planning expertise needed to most effectively operate a large public pension plan such as PERA.*	**N/A** *—Separate proposed legislation would reconfigure the PERA board in a way that improves financial literacy and fiduciary responsibly among the PERA board membership.*

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