



THE STATE OF NEW MEXICO

The plans:

New Mexico has two large state-administered pension systems and three smaller state-administered systems. The state also maintains one retiree health plan. This analysis focuses primarily on the two large state-administered systems – the New Mexico Public Employees Retirement Association (PERA) and the New Mexico Educational Retirement Board System (ERB) – which make up 95 percent of active public plan membership in the state.

The impact of the crisis:

As a result of the economic crisis, the payments required to amortize unfunded liabilities increased for both PERA and ERB. For PERA, the payments jumped from 5 percent to 14 percent of payroll. Part of the reason for such a dramatic increase was the lowering of the discount rate from 8 percent to 7.75, as well as a drop in the payroll growth assumption. Over the crisis period, PERA continued to pay 100 percent of its annual required contribution (ARC). ERB experienced a much smaller jump, with amortization payments increasing from 8 percent to 10 percent of payroll. ERB also reduced its discount rate to 7.75 percent and only to paid 85 percent of its annual required contribution (ARC) over the crisis period. The reason for the smaller increase in amortization payments for ERB is that ERB is a less generous plan. From 2001 to 2011, ERB's liabilities grew at 6.6 percent annually, while PERA grew at 7.7 percent. For the state as a whole, the economic crisis increased the share of state and local budgets devoted to pensions from 2.3 percent to 3.1 percent.

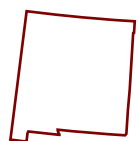
The impact of pension plan reforms:

In response to the financial crisis, PERA and ERB made changes to benefits, contributions, and actuarial assumptions. In terms of benefits, the age and tenure requirements for normal retirement benefits were lengthened for new hires. These changes will have minimal impact on costs and will not be fully felt for many years. In order to provide employers more immediate relief from increased costs, employee contributions for both systems were temporarily increased, but are due to return to pre-crisis levels in 2014. Actuarial assumptions play an important role in the projected costs for PERA and ERB. Both systems lowered their discount rate from 8 percent to 7.75 percent in 2011. PERA also lowered its assumption for future salary growth. For PERA, the reduction in new hire benefits and lower assumption for future salary levels reduces costs despite the lower discount rate. The projected employers' contribution to the normal cost drops from 10 percent today (once employee contributions return to pre-crisis levels) down to 9 percent of payroll by 2046. For ERB, the employer's contribution to the normal costs remain constant at 4 percent of payroll, as the impact of new hire benefit cuts alone is offset by the lower discount rate.

If both systems continue to pay the full ARC and assumed returns are realized, the payments required to amortize the unfunded liability will decline. Taking into account both the plan design changes and paying down the unfunded liabilities, the share of state and local budgets devoted to pension costs is projected to drop from 3.1 today to 2.3 percent by 2046.

Total state costs:

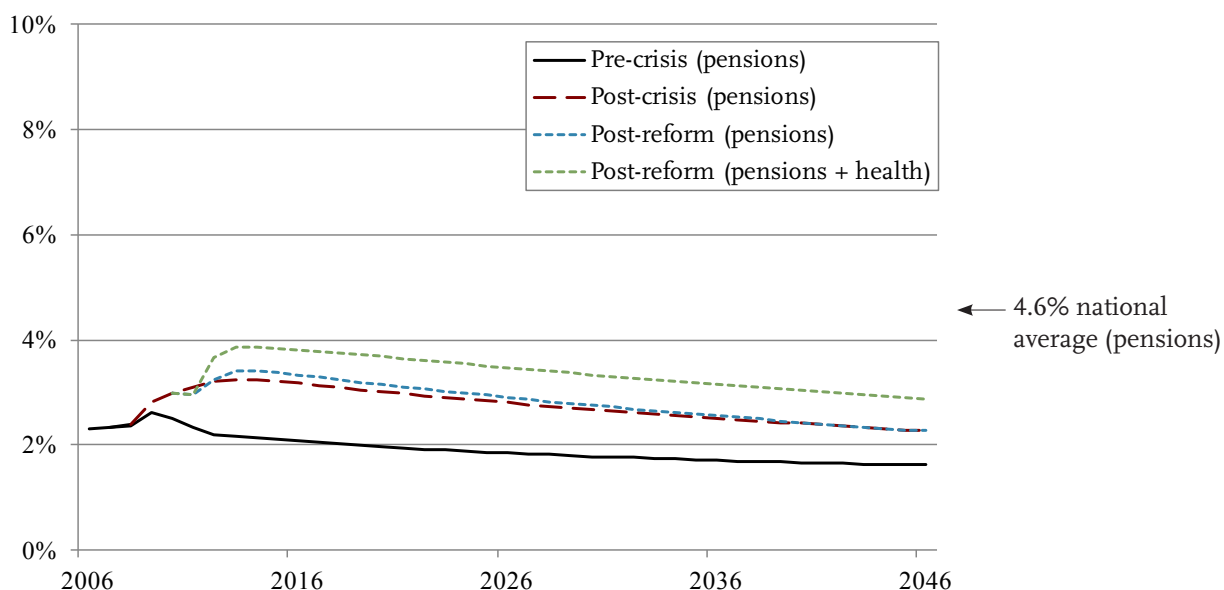
New Mexico also provides retiree health benefits, which amounted to about 0.4 percent of state and local budgets prior to the crisis, but are projected to grow to 0.6 percent by 2046. When retiree health and pension costs are combined, New Mexico's total retirement benefit costs as a percent of state and local budgets equaled 2.7 percent prior to the crisis, increased to 3.5 percent during the crisis, and are projected to drop to 2.9 percent in 2046 after pension reforms.



PENSION AND RETIREE HEALTH COSTS: PRE- AND POST-CRISIS

NEW MEXICO: TOTAL PENSION AND RETIREE HEALTH COSTS

FIGURE I. EMPLOYER PENSION AND RETIREE HEALTH COSTS AS PERCENT OF BUDGET: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



Note: Budget = general own source revenues of all New Mexico state/local governments. Retiree health costs assumed pay-as-you-go.

TABLE I. EMPLOYER PENSION AND RETIREE HEALTH COSTS AS PERCENT OF BUDGET, BY PLAN

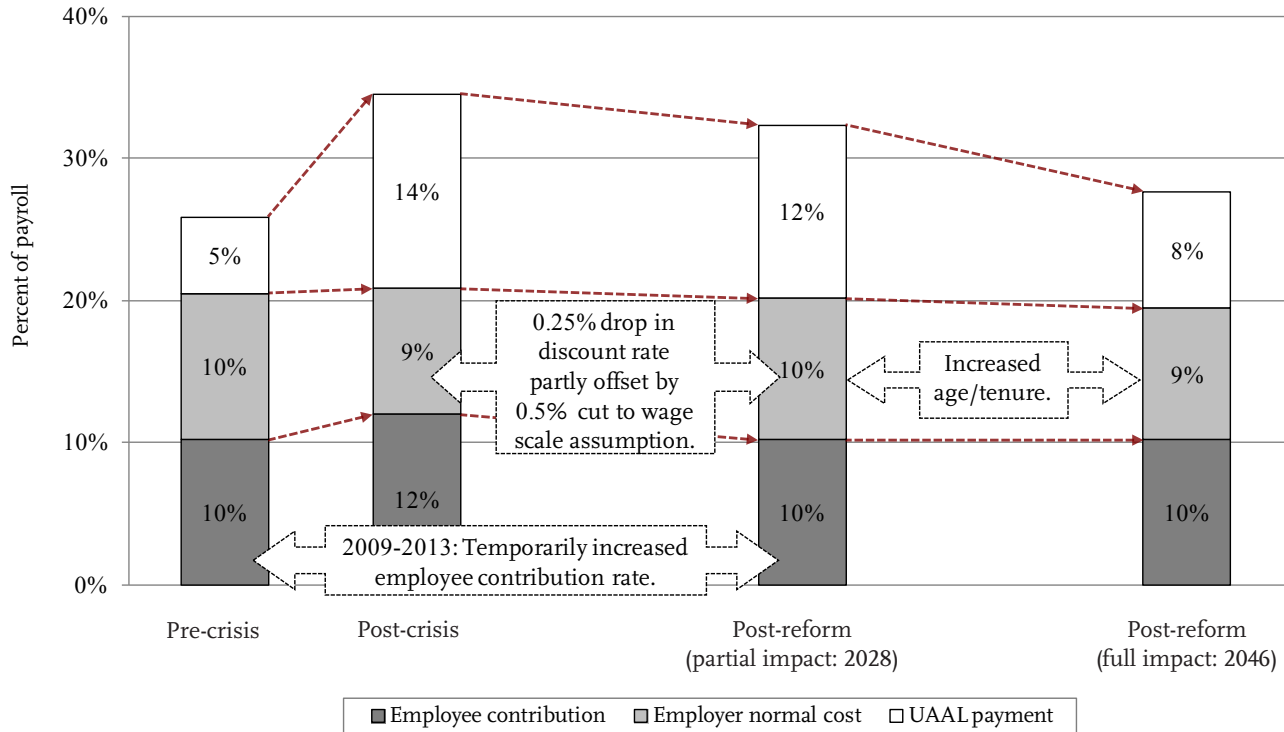
Plan	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Total pensions	2.3 %	3.1%	2.8%	2.3 %
New Mexico PERA	1.1	1.6	1.5	1.2
New Mexico ERB	1.2	1.5	1.3	1.1
Other pension plans ^a	0.0	0.0	0.0	0.0
Total retiree health	0.4	0.4	0.6	0.6
New Mexico retiree health	0.4	0.4	0.6	0.6
Total	2.7	3.5	3.4	2.9

^a Includes three small state-administered plans to cover judges, magistrates, and firefighters.

Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances* and *State and Local Public-Employee Retirement Systems*.

NEW MEXICO PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

FIGURE 2. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



KEY FACTS

Structure of retirement system

- Social Security coverage
- Defined benefit
- Defined contribution/hybrid

Funding method and history

- Set by statute
- Actuarially determined

Pre-crisis, contributions averaged 100 percent of GASB-required ARC. Post-crisis, the rate has averaged 98 percent.

Plan design changes

- Cut COLA
- Increased employee contribution
- Increased age/tenure eligibility: new hires only
- Increased average salary period
- Reduced benefit factor
- None

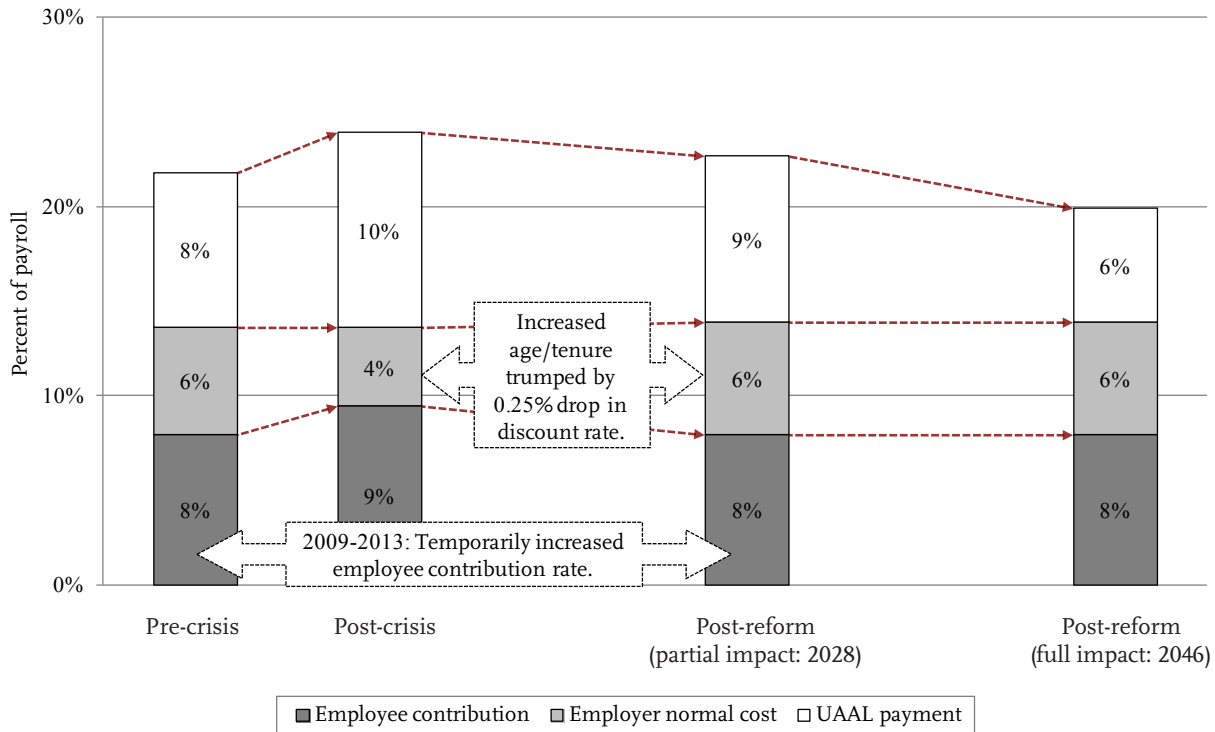
TABLE 2. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Plan finances				
Funded ratio	93.3 %	70.5 %	-	-
Employer ARC rate	15.7	22.5	22.1	17.5
Percent of ARC paid	100.0	100.0	100	100
Assumptions				
Discount rate	8.00	7.75	7.75	7.75
Payroll growth	4.5	4.0	4.0	4.0
Amortization period	13 yrs.	30 yrs.	30 yrs.	30 yrs.

Sources: Actuarial valuation; and CRR calculations.

NEW MEXICO EDUCATIONAL RETIREMENT BOARD (ERB)

FIGURE 3. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



KEY FACTS

Structure of retirement system

- Social Security coverage
- Defined benefit
- Defined contribution/hybrid

Funding method and history

- Set by statute
- Actuarially determined

Pre-crisis, contributions averaged 87 percent of GASB-required ARC. Post-crisis, the rate averaged 85 percent, even with employees contributing greater percent of pay.

Plan design changes

- Cut COLA
- Increased employee contribution
- Increased age/tenure eligibility: new hires only
- Increased average salary period
- Reduced benefit factor
- None

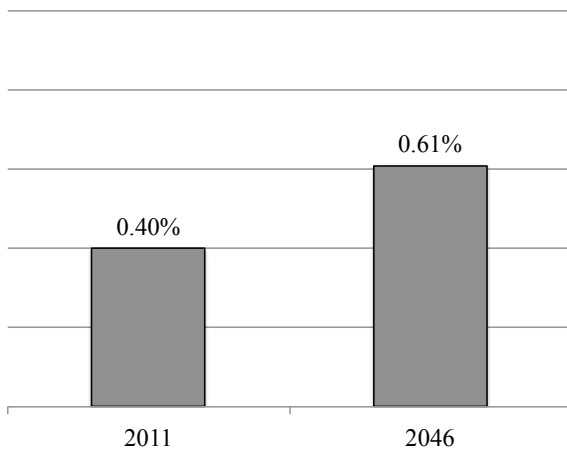
TABLE 3. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Plan finances				
Funded ratio	71.5 %	63.0 %	-	-
Employer ARC rate	13.5	14.5	14.7	12.0
Percent of ARC paid	79.0	81.6	100	100
Assumptions				
Discount rate	8.00	7.75	7.75	7.75
Payroll growth	3.75	3.75	3.75	3.75
Amortization period	30 yrs.	30 yrs.	30 yrs.	30 yrs.

Sources: Actuarial valuations; and CRR calculations.

NEW MEXICO RETIREE HEALTH CARE AUTHORITY (NMRHCA)

RETIREE HEALTH AS PERCENT OF BUDGET

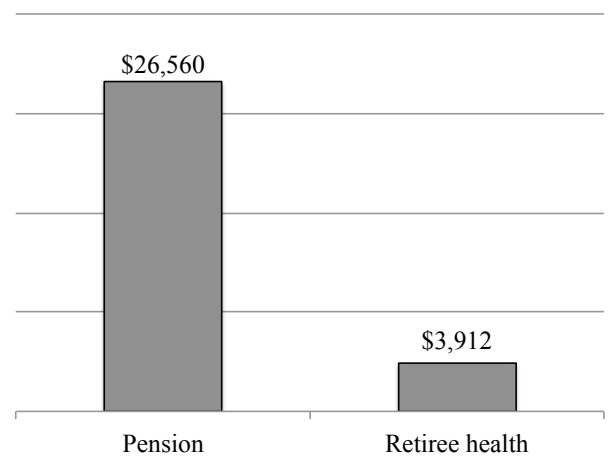


Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances*.

Retiree health funding and costs

- Funding method: Pay-as-you-go.
- Medical inflation rate: 8 percent, drops to 5 percent by 2025.
- Employer contribution: Automatically contributes 1.7 percent of pay, and active employees contribute 0.8 percent to fund employer subsidy of retiree premiums. The NMRHCA subsidizes 6.25 percent of the premium for each year of service earned by the retiree, beginning with 6.25 percent for 5 years of service to full subsidization for 20 years of service.

AVERAGE ANNUAL BENEFIT



Source: CRR calculations from plan actuarial valuations.

Benefits and membership

- Benefit eligibility: Retirees who were employees of either the PERA group or a participating ERB employer and are eligible to receive a pension.
- Benefits for Medicare-eligible retirees: Secondary coverage provided by the plan.
- Active employees: 95,513
- Beneficiaries: 39,792
- Most recent actuarial valuation: 6/30/10