The New Mexico legislature established the New Mexico Public Employees Retirement Association (PERA) in 1947 as a core benefit for local and state employers to use in attracting and retaining employees needed to fulfill critical government duties. Today 695 governmental employers participate in the system, which covers over 61,366 working members, and provides retirement benefits to 26,590 retirees and beneficiaries. PERA members work for a wide range of employers, such as state agencies, police and fire departments, municipal and county governments and local housing authorities. The average annual pay for a member of the system was $38,902 for FY 2009 (Fiscal Year (FY) 2009 Comprehensive Annual Financial Report (CAFR), p. 136).

PERA Efficiently Provides Career Employees with Modest, but Meaningful, Benefits

PERA provides pension benefits to 26,590 retired state and local employees and their beneficiaries. The average annual pension for a regular PERA member was $23,879 in FY 2009 (FY 2009 CAFR, p. 129).

The vesting period is five years. This means that, after five years of service, a plan participant will have the right to ultimately receive a pension benefit regardless of whether the employee remains a member of the pension plan. According to the Wisconsin Legislative Council’s 2008 Comprehensive Study of Major Public Employee Retirement Systems, nearly three-quarters of the public plans surveyed require five or fewer years of service to vest; private sector plans also provide vesting after five years.
There are now three tiers for benefits in the state and municipal plans. Tier 1 members are those hired before October 1, 1987. Tier 2 members were hired between November 1, 1987 and December 1, 1996. Anyone hired on or after December 1, 1996 is in tier 3.

New members to PERA are eligible for full retirement benefits after 30 years of service, while the requirement was 25 years of service for those hired before July 1, 2010. A member can also reach normal retirement based on an age-based sliding scale, where eligibility is reached by attaining the age of 65 and 5 years of service through age 60 with 20 years of service. These requirements are roughly in-line with other public sector plans, and are sound policy because many public employees hold physically or emotionally demanding positions in which they are directly responsible for safety and health in the communities they serve.

As part of the formula used in calculating benefits, pension plans use a service credit multiplier. For employees covered by PERA, pension benefits are based on a service credit multiplier of:

- Tier 1: 1.5 percent per year of service,
- Tier 2: 2.0 percent per year of service, and
- Tier 3: 3.0 percent per year of service.

The national average for public plans is 1.95 percent. To illustrate, the benefit for a hypothetical 20-year employee with a final average salary of $40,000 would be calculated in the following manner:

- Tier 1: $40,000 \times 20 \text{ years} \times \text{service credit multiplier of 1.5\%} = $12,000
- Tier 2: $40,000 \times 20 \text{ years} \times \text{service credit multiplier of 2.0\%} = $16,000
- Tier 3: $40,000 \times 20 \text{ years} \times \text{service credit multiplier of 3.0\%} = $24,000

Because participating employers can calculate each employee’s benefit, employers can efficiently manage the workforce. On the other hand, 401(k) plan participants may invest too little, or their investments may provide insufficient returns, thus preventing employees from retiring. A recent calculation done by the Center for Retirement Research for Retirement USA shows that the real retirement crisis in our country is the $6.6 trillion gap between current
savings and what Americans should have today to maintain their standards of living in retirement (The Retirement Income Deficit, Retirement USA, October 2010). As a result, millions of U.S. workers have already delayed, or are likely to delay, their retirement dates. This can complicate the employer’s role, forcing decisions with unpleasant consequences for everyone. Even for those employees who have accrued what they believe may be sufficient savings, there is often little incentive to retire.

Defined benefit plans have access to professional investment managers who are trained in developing ongoing, long-term investment strategies that include an optimum mix of growth potential and risk. Participants and taxpayers benefit from the favorable investment performance of pooled pension fund assets, as well as fees and expenses that are significantly lower than those of defined contribution savings plans. The wide range of investment options open to large pension plans, such as foreign and domestic stocks and bonds and venture capital, also improve investment returns. Furthermore, PERA investments are not affected by the retirement timing of a particular employee, so the investment horizon never has to be shortened.

Plan investments not only help keep costs down for plan sponsors, but are also a critical part of the economic fabric of the state. According to the National Institute on Retirement Security, each dollar in taxpayer contributions to New Mexico’s state and local pension plans supports $5.88 in long-term economic activity in the state. Retiree expenditures stemming from state and local pension plan benefits support nearly 9,312 jobs in New Mexico. These figures reflect the fact that taxpayer contributions are, in the long run, a highly efficient source of financing for retirement benefits that ultimately provide income and jobs for others (Pensionomics: Measuring the Economic Impact of State and Local Pension Plans, National Institute on Retirement Security, February 2009).

PERA is Financially Sound

There have been some recent claims that retirement systems covering public employees are facing a financial crisis. These claims are rarely true, and they are not true of PERA. As of
June 30, 2009, the Public Employees Retirement Fund (by far the largest of the funds), held assets with an actuarial value of $12.6 billion and had accrued liabilities of $14.9 billion. In other words, the fund had 84.2 percent of the money it will need to pay accrued benefits in upcoming years – even following a devastating year in the markets. The fund has been at least 91 percent funded throughout the previous six years. (Recent surveys show that the average funding level for large public sector plans is in the range of 70 to 75 percent). This ratio of assets to liabilities is simply a snapshot that captures a plan sponsor’s ongoing effort at one point in time to fund its pension obligation; any unfunded liabilities can be made up over many years. If the plan sponsor is consistently making its annual required contribution, its pension plan can have a funded ratio below 100 percent yet still be on track toward full actuarial funding. State and local government employer pension costs for all public pension plans in New Mexico amounted to just over three percent of all state and local government spending in 2008 (Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, National Association of State Retirement Administrators, January 2011).

It should come as no surprise that the 2008 market downturn adversely impacted all investors. What is surprising is that some individuals fail to account for the fact that defined benefit plan funding is structured to be carried out indefinitely. PERA is designed for the long haul and does not have an investment horizon like defined contribution plans that cover individual employees. Meanwhile, the plan stayed the course and enjoyed returns well in excess of projected levels over the past year and a quarter, with PERA assets earning 27.7 percent over 6/30/09-9/30/10 as markets rebounded from the financial crisis.

Plan actuaries project that over the long term PERA will earn an average of 8.0 percent each year on its investments. In some years returns will be below that rate and in others returns will exceed it. When returns are strong and above the actuarial assumed rate, the employer’s level of contributions will generally be lower than when investment returns lag the actuarially assumed rate. When returns are less than projected, those actuarial losses are amortized through increased employer contributions. This is one reason why contributions needed are higher than levels needed earlier in the decade. Despite the recent market performance:
PERA investments have returned an average annual rate of 7.56 percent over the 15-year period ending on September 30, 2010 (PERA Investment Performance Analysis FY 2011, p. 17).

PERA investments have provided 39 percent of pension fund revenues since 2000. Meanwhile, taxpayers provided only 37 percent of the plan’s revenues and members paid the remaining 25 percent.

AFSCME believes in a society of opportunity where all workers not only earn a living wage, but can afford to see a doctor when they are sick. AFSCME believes we all should have the opportunity to reach our full potential in our chosen careers and to retire with dignity when our work is done. For decades, PERA has provided workers and their beneficiaries with secure retirement benefits. There is no reason to believe it will not continue to be able to do so.