

New Mexico's Public Pension Crisis: A Case for Restoring COLAs

**Solutions for Upholding Employer
Commitments to Ensure Equity for Retirees**

Presentation to the New Mexico Public Employees Retirement Board
October 30, 2025

The Human Problem: Retirees Falling Behind

Since 2020, 72% of New Mexico public retiree pensions have fallen 24% under the rise in inflation.

Pensions for almost 30,000 public retirees have increased only 1.6% since 2019. The cost of living has risen 25.9%.

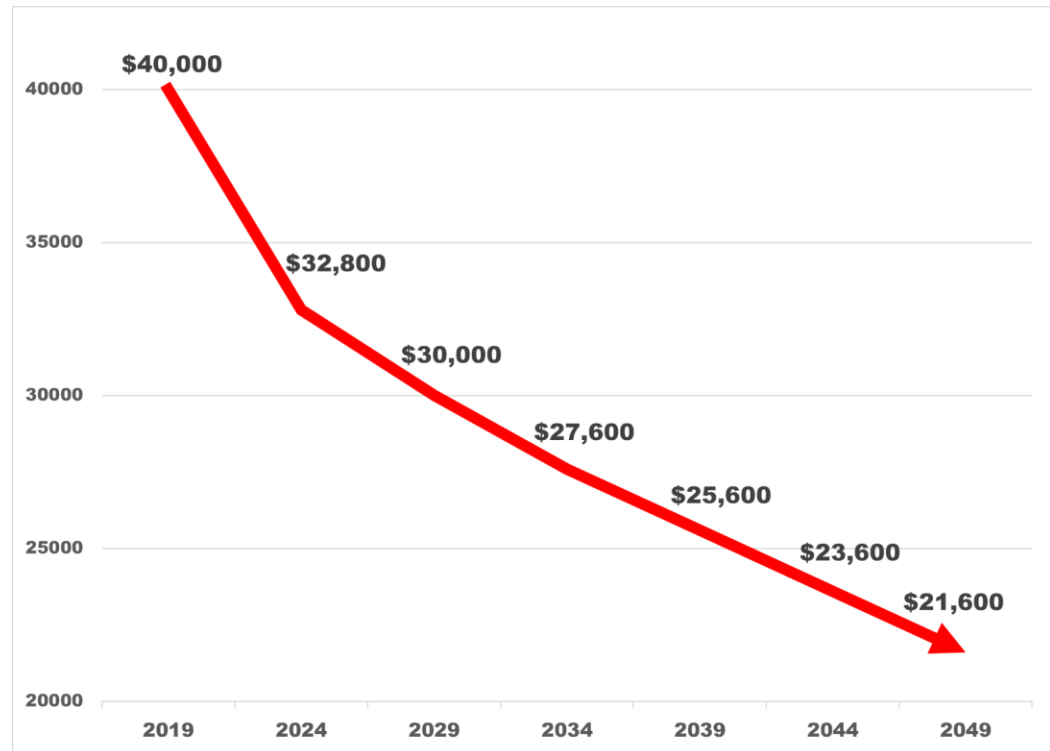
	U.S. Cost of Living Change per US CPI		Regular Members Actual COLA 2020-22 non-compounding 2%; thereafter variable COLA based on fund solvency and investment returns		"Exceptions" Members Actual COLA 2.5% Compounding	
2019 income		\$40,000		\$40,000		\$40,000
2020	1.2%	\$40,492	2% nc	\$40,800	2.5%	\$41,000
2021	4.7%	\$42,395	2% nc	\$40,800	2.5%	\$42,025
2022	8.0%	\$45,787	2% nc	\$40,800	2.5%	\$43,076
2023	4.1%	\$47,664	0.5%	\$40,200	2.5%	\$44,153
2024	2.9%	\$49,046	0.5%	\$40,401	2.5%	\$45,256
2025	2.7%	\$50,370	0.63%	\$40,656	2.5%	\$46,388
Aggregate Change from 2019 to 2025	25.9%	\$10,370	1.6%	\$656	16.0%	\$6,388
Change 2019-2025 Over/Under U.S. Cost-of-Living			-24.3%	-\$9,715	-10.0%	-\$3,983

Pension Value Adjusted for Inflation over 30 Years

Sample pension of \$40,000

With the current COLAs, the value of a public retiree pension will shrink to just over half of its 2019 value in 25 years.

In 2020, the Legislature eliminated the 2% COLA promised to retirees in statute, and replaced it with a new SB72 COLA, no longer tied to Cost-of-Living changes, but instead based on fund solvency.



Assumptions 2020-2025: Inflation rate based on US CPI. COLA rate is actual, including 13th checks. 2026 and later: Inflation 2.3%; COLA 0.6%

A Broken Promise: Trust in Government

For decades, public employees accepted salaries lower than private sector jobs in exchange for an opportunity to serve the people of the state and earn secure pensions that included **Cost-of-Living Adjustments** tied closely to inflation.

- Until 2020, COLAs set by statute were based on average changes in the cost-of-living:
 - 1982: CPI, max 3% compounded
 - 1992: 3% compounded
 - 2013: 2% compounded

Inflation has averaged 2.5% over the last 30 years, per US CPI. **As a result of changes made in 2020 SB72, COLAs for 30,000 retirees are now just 0.5%**

Real Dollars Lost: Impact to Retirees

As a result of SB72, retirees have lost income they were counting on, promised to them by their former employers in statutes governing their work agreements.

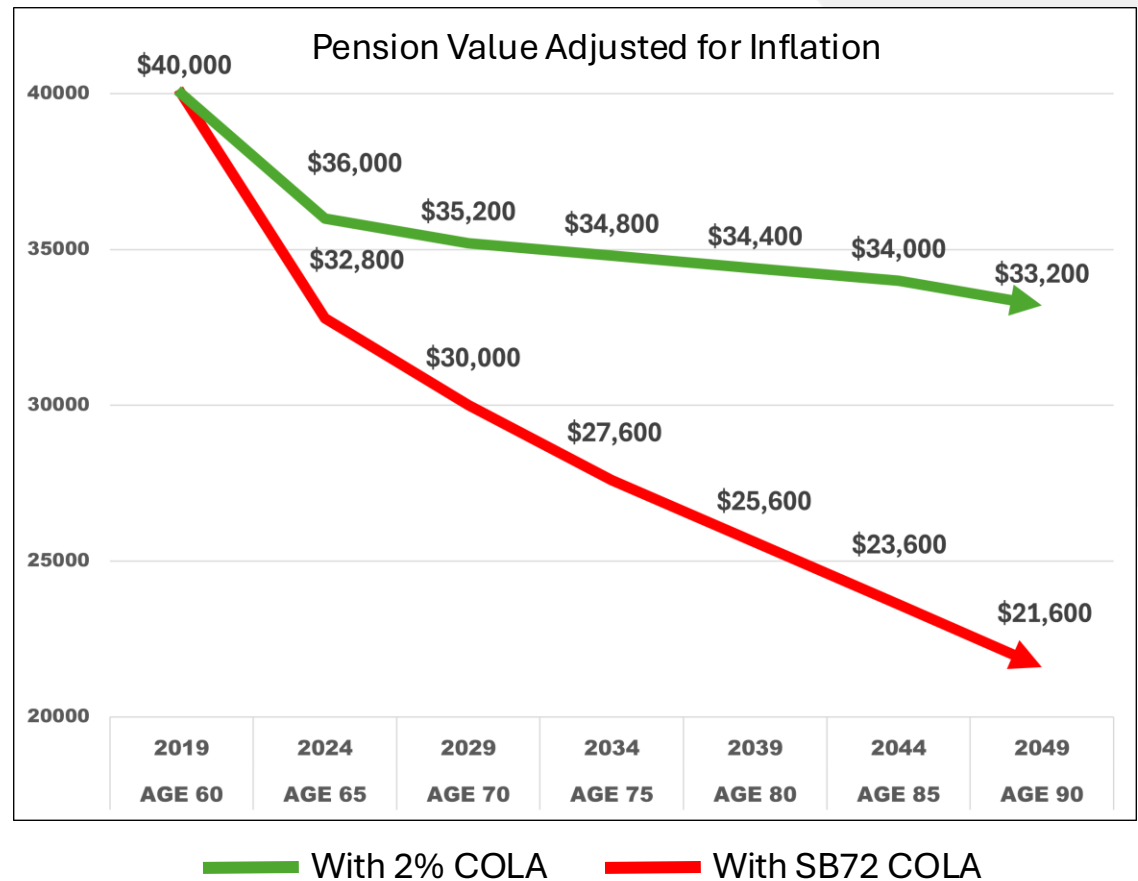
If retirees live to the age assumed by PERA Actuary (female 87/male 85), they will have lost hundreds of thousands of dollars in retirement income.

Real Dollars lost as a result of SB 72						
sample 60 year old retiree in 2019 with pension of \$40,000	65 yo	70 yo	75 yo	80 yo	85 yo	90 yo
2019	2024	2029	2034	2039	2044	2049
Real Dollars lost as a result of SB 72	-\$9,324	-\$37,893	-\$84,294	-\$150,857	-\$240,170	-\$355,106

Cost Assessment: An Uncertain Future

Without restoration of higher COLAs, public retiree pensions will not sustain them in old age, when they are needed most.

The lost income will be increasingly pronounced over time.



Causes and Concerns

Solvency and Unfunded Liability

Since the changes made in 2020, the unfunded liability has increased by \$2 billion in FY 22-24, from \$6.7 billion to \$8.7 billion, an increase of 30% in just three years.

According to the PERA Actuary, higher-than-expected salary increases (above 3.25%) for active employees are the primary driver of \$1.2B of the increase in unfunded liability.

Recent salary increases average 10%, according to LFC, and are expected to continue as a result of new merit and retention pay policies.

High salary increases for active employees without corresponding increases to the PERA fund effectively ensure that retiree COLAs will not rise above 0.5%.

The 2024 PERA actuary report advises “we recommend increasing the current contribution levels to improve the financial sustainability of the retirement system.” p.B-1

PERA Unexpected Unfunded Actuarial Accrued Liability (UAAL) Changes 2022-2024

Year	Unfunded Liability		Change	PERA Actuary Reports: Explanation of UAAL Increase p B1-B2	PERA Actuary Reports: Causes of Increase in Unfunded Liability Table 8, page C-10 (2022, 2023); Table 9 page C-11 (2024)				
	FY starting UAAL (\$M)	FY ending UAAL (\$M)	UAAL growth (\$M)	Actuary Reports	Asset Gain/Loss (Investment Returns) above/below assumptions (\$M)	Liability Experience and Assumption Changes (including Salary Increases) (\$M)	Liability experience gain/loss (\$M)	Contributions gain/loss (\$M)	Assumption change gain/loss (\$M)
2022	\$6,582.0	\$7,189.0	\$607.0	"The additional \$0.4 billion increase in the UAAL is primarily attributable to investment losses on the actuarial value of assets and salary increases larger than expected (especially with the municipal divisions). " (p. B-1)	-\$177.8	-\$238.6	-\$271.9	\$33.3	--
2023	\$7,200.0	\$8,100.0	\$900.0	"The additional \$0.7 billion increase in the UAAL is primarily attributable to salary increases larger than expected and investment losses on the actuarial value of assets" p.B-2	-\$213.2	-\$471.6	-\$562.3	\$90.7	--
2024	\$8,100.0	\$8,700.0	\$600.0	"The additional \$0.3 billion increase in the UAAL is primarily attributable to salary increases for active members that were larger than expected and assumption changes " p. B-2 "Assumption change" reflects new salary increases (merit/retention increases) p. F-3 "we recommend increasing the current contribution levels to improve the financial sustainability of the retirement system." B-1	\$147.5	-\$491.2	-\$301.9	\$81.0	-\$270.3
TOTAL			\$2,107.0	Summary: \$2.1 Billion increase in unfunded liability in last 3 years FY22-24. \$1.4 Billion of the \$2.1 B is "primarily attributable to salary increases larger than expected and investment losses" -\$243.5) Million is attributed to investment loss -\$1.2) Billion is "primarily attributable to salary increases larger than expected" (liability experience and assumption change)	-\$243.5	-\$1,201.4	-\$1,136.1	\$205.0	-\$270.3

Solutions

Restoring COLAs Responsibly for Current Retirees

Immediate Options for COLA Reform

Legislative action can stop the loss for current retirees without hurting the PERA Fund.

- Restore COLAs equitable to ERB COLA of 1.68% for all current retirees when they reach age 65.
Cost (est): \$637M or increased contribution of 1.3%
- Restore COLAs for current retirees at 2% levels
Costs provided by PERA Actuary.
 - Current retirees when they reach age 65
\$759M or increased contribution of 1.53%
 - Current retirees when they reach age 75
\$357M or increased contribution of .72%
- Provide incremental COLAs based on age.
Example: 0% until age 55; 0.5% at 55; 1.0% at 60; 1.5% at 65; 2% at age 75
- Expand current statutory exemption, Section 10-11-118 (H) NMSA 1978, so all retirees receive full 2.5% COLAs when they reach age 75. Cost: 753M or 1.61% increase

Funding Options to Support COLAs Without Hurting the PERA Fund

Appropriate funding directly to PERA Fund earmarked for COLAs or to a new COLA Trust Fund.

- This eliminates the need to reach 100% fund solvency of the PERA Fund.
- **Possible fund sources include:**
 - Employee and employer contributions
 - One-time or phased non-recurring General Fund appropriations
 - Recurring General Fund support
 - Dedicated revenue stream, modeled after Retiree Health Care Fund (RHCF)
 - Share the RHCF earmark to direct a portion to PERA Fund for COLAs for retirees.
 - Direct a portion of Oil & Gas Withholding Tax to PERA Fund designated for retiree COLAs

Financial Reforms to Improve Fund Solvency

- Implement 2024 Actuary recommendation to increase employer/employee contributions.
- Make appropriations to PERA when salary increases exceed actuary assumptions.
- Consider tiered contribution levels based on income.
- Implement SSA retirement age-based incremental pension amounts for new hires.
- Expand years of service required for determining final average salary to offset the shortfall in contributions resulting from salary increases above 3.25%.
- Fund PERA operating budget from General Fund, not the PERA Fund, thereby increasing PERA Fund solvency by \$40M/year .

Statutory and Policy Reforms

- Contract with additional professional actuarial expertise in pension funds for outside opinion about investment practices and solvency issues.
- Consider moving PERA investment responsibilities to State Investment Council, to allow for more aggressive investments with higher yield returns.
- Strengthen investment policies to yield higher returns.
- Consider changes to align PERA retirement statutes with Social Security program policies.



Restoring COLAs for current retirees isn't just about fairness - it's about honoring promises, protecting retirees as they age, compensating retirees what they earned and ensuring the economic health of New Mexico.

- Current retirees paid into the PERA Fund with every paycheck, expecting a pension that could withstand inflation.
- Current retirees made irreversible life decisions based on NM laws, which promised COLAs of 2-3%.
- SB72 broke that promise.
- Current retirees did not think it necessary to start private retirement funds to replace COLAs taken away retroactively from their retirement plan.
- Reinstitute the promise by restoring the 2% COLA for current retirees.