RPE

Retired Public Employees of New Mexico

Serving New Mexico's Retired Public Employees Since 1962

PO Box 20607
Albuquerque NM 87154-0607

September 19, 2019

The Honorable Michelle Lujan Grisham
Governor, State of New Mexico
New Mexico State Capitol
Santa Fe, NM 87501

Dear Governor Lujan Grisham:

On behalf of the Retired Public Employees of New Mexico (RPENM), I want to sincerely thank you for your interest, concern and attention to the Public Employees Retirement Association of New Mexico (PERA), especially regarding the solvency and sustainability of PERA's $15-16 billion fund. As you are aware, this fund represents the financial security, upon retirement, for almost 100,000 New Mexicans, including approximately 40,000 current retirees. Obviously, current retirees are the individuals most affected by PERA as they have already completed their public service and they are greatly or entirely dependent on their pension for their livelihood and daily existence. You made it extremely clear on multiple occasions during your 2018 gubernatorial campaign that you would not negatively impact current retirees' COLA benefits, which we are grateful for and I'm sure was instrumental in your election.

Retirees from every village, town and city throughout New Mexico relied upon your campaign promise to protect our COLA benefits. We are especially grateful for your intervention during the last legislative session when PERA's top administrators and some legislators supported various proposals to suspend, reduce or eliminate retirees' COLA benefits. We know we can count on you to keep your promise!

As I just alluded to, we are deeply concerned that senior PERA administrators, their highly paid consultants, some legislators and others continue to attempt to address PERA solvency issues through risky, outdated and ideologically motivated concepts. Even the appearance that senior PERA administrators and/or financial consultants could personally benefit from certain proposals are serious and problematic. I urge you to be very careful when considering any proposal championed by any individual that, even potentially, could benefit financially or otherwise from its adoption. I also urge you to use extreme caution when assessing proposals largely pursued for ideological reasons or other suspect motives.

For many years, even decades, there has been a strong ideological push to fully fund or prefund government pension funds around the country. At least part of this effort has been part of a larger endeavor to reduce or eliminate public pensions and/or convert public pensions into private retirement systems, such as 401(k)-type plans. These efforts have also been part of greater attempts to weaken and/or attack public workers in general. Perhaps the epicenter of this movement over the past decade or longer has been in Wisconsin, under the leadership of former Governor Scott Walker and his allies, including the Koch brothers and other similarly aligned individuals and groups.

The Koch brothers and their political arm, Americans for Prosperity (AFP) have been forceful sponsors of fully prefunding public pension funds. In 2017, AFP-Colorado began a political and media campaign using the same scare tactics and language used by our PERA staff and their consultants. In fact, you have already received a proposal from the task force you created that is essentially the same proposal commonly referred to as the Wisconsin Plan when PERA staff first proposed it more than a year ago. Most of the elements of the task force proposal borrow extensively from the Wisconsin model. It is basically the same proposal introduced during the last legislative session rejected by roughly half of the PERA board and by the Democratic majority on the House State Government, Elections and Indian Affairs Committee.

Although RPENM fully participated on your task force in good faith, we were alarmed from the beginning by the make-up of the task force. I hope you will recall the letter I wrote you at that time regarding some of our concerns. We are deeply troubled that the task force was almost entirely men. This is something that simply should not occur and I am sure, given your strong record, you were not aware of during the task force process. We are also concerned that the task force was greatly overrepresented by members from public safety fields. It is also alarming that retirees were underrepresented to such an extraordinary degree. As you may know, retirees compromise approximately 45% of all PERA members, yet retirees only had one true representative on the task force. Given that retirees and women were underrepresented to such a vast degree, the recommendations and work of the task force must be immediately discarded. Another disturbing element regarding the process of the task force was the degree to which senior PERA administrators and their consultants shaped and directed the work of the task force.

Of course, perhaps the most serious flaw with the task force was self-inflicted. With all due respect, your instructions or guidelines that the task force could only consider proposals or concepts that assured full prefunding of the PERA fund within 25 years was a fatal flaw. We raised this issue on multiple occasion with your representative, Mr. Arencon, only to be told that those were your instructions and the task force could not go beyond those limits. Naturally, we were surprised and disappointed that you seemed to buy into the assumptions supported by the Koch Brothers, Scott Walker and others with a similar ideology.

I think it is helpful to more fully explore why this issue is so problematic. Again, the task force was only allowed to consider ideas and options that assured the PERA fund would be fully (100%) funded within 25 years. This means cobbling together an additional $6 billion over just 25 years. Never mind that only a tiny fraction of government pension funds from across the nation have ever operated at 100% funding. To put this in context, there are thousands of government pension funds around the country and there may only be a handful of funds that are currently fully (100%) funded. Moreover, in aggregate, these funds have ALWAYS operated far short of full prefunding. Not only is it not necessary for these funds to achieve 100% funding, there are serious risks and concerns in attempting to achieve full prefunding. For instance, funds attempting to reach full funding also generally take more risks in their investment portfolios. Most importantly, trying to achieve full prefunding, especially over a relatively short period, such as 25 years, requires significant sacrifices and financial pain for everyone. This includes cuts to retirees' COLA benefits, increases in contribution rates from current employees and employers and significant subsidies from State government. These are all elements of the task force's recommendations.

This scenario is particularly alarming and galling because these steps are unnecessary. It has become the mantra among some pension fund administrators, their consultants and ideological zealots that government pension funds must be 100% funded ASAP, including among the top administrators at PERA. We believe these individuals are wrong from a historical perspective as well as from the most recent and comprehensive analysis on this subject. A recent report, *The Sustainability of State and Local Government Pensions: A Public Finance Approach*, by experts from the Bank of England, the US Federal Reserve Board of Governors and the highly respected Brookings Institution, exhaustively debunks this false narrative. For your information, the University of Pennsylvania has named Brookings "Think Tank of the Year" and "Top Think Tank in the World" every year since 2008. *The Economist* describes Brookings as "perhaps America's most prestigious think-tank." The authors of this report demonstrate that there is not a crisis for most pension plans, including PERA's fund, which they calculate has a funding ratio of 74.9%, better than more than half of the 40 pension funds they analyzed.

These experts argue for sustainability and a pay-as-you-go (PAYGO) model, rather than full prefunding. They provide a compelling case not to fully prefund pension funds, especially in today's low-interest rate environment. In addition, they state that there is almost no advantage to starting the stabilization process now as opposed to a decade in the future. Most notably, they argue, "unfunded liabilities should be addressed over an extremely long period so as not to overly burden a particular generation of taxpayers."

Your task force, largely led by the top administrators at PERA and their consultants, is essentially proposing to do the exact opposite of the analysis outlined in this new report. It is hard to understand the motives of senior PERA administrators, but it is worth noting that PERA has not met their performance benchmarks for the past several years, during a time when the stock market has seen record highs. This contrasts with many pension funds throughout the country, including the New Mexico Educational Retirement Board fund.

The Retired Public Employees of New Mexico strongly urge you to reconsider your options and start a new process to address the sustainability of the PERA fund. We envision a process where completely independent and neutral expert consultants provide multiple models and seek extensive public input in a very transparent and collaborative manner, all components that did not occur with this task force. The Office of the Governor should issue an RFP for independent experts to prepare multiple models (20-30) that run the full gamut of options. At a minimum, the expert(s) must be completely independent from the PERA staff and all other stakeholders. They should consider scenarios over a very significant period (50 years) and some over a shorter period (30 years). The expert(s) should consider significant increases to the employee and employer contribution rates (2-3%) as well as less significant increases (.5%). They should consider no adjustment to the current COLA benefit and some minor adjustments. The consultants should also consider ideas and options not even discussed by the task force, such as raising the retirement age or reducing the annual multiplier. They should probably also look carefully at the individual funds or divisions contained within the larger PERA system as, at least one fund is overfunded and two or more are seriously underfunded. Every plan should be available on a public website where the public can review the plans and submit comments. There could and should be town hall style meetings held throughout the state to explain the various models. The consultants would then gather and summarize the public comments and prepare a final report.

As was noted in the Brookings report, cited earlier, there is plenty of time to complete this work. There is no immediate crisis! In fact, there is a strong case that fully prefunding pension funds is a bad idea and a waste of money. Tom Sgouros discusses some of these issues in detail in his seminal 2017 report for the Haas Institute at the University of California, Berkeley. In the private sector, pensions should probably be 100% funded to protect workers in case of bankruptcy. Governments, on the other hand, may encounter periodic difficulties due to economic cycles and fluctuating revenues, but they are generally not going to declare bankruptcy and go away. Current employees help pay the benefits of current retirees and this cycle continues indefinitely, much like the social security system.

Full prefunding of a public pension amounts to covering the total future benefits of ALL current retirees and workers, even young workers that have just started their careers and will not be retiring for several decades. The Hass Institute analysis describes this as a waste of money because it equates to insuring against the disappearance of, in our case, the State of New Mexico, the City of Albuquerque, the City of Las Cruces, etc., etc. According to the report, the real question of a plan's fiscal viability is whether it can continue to pay its obligations each year, not whether it can cover all future obligations immediately. We likely only need to reach a funding ratio of 70-80 percent to achieve complete stability and sustainability, which would also satisfy the bond rating agencies if we make a few modifications and show some improvement.

We believe it is much more important to have a plan that attempts to reach sustainability over a long period rather than have a quick fix that may be overly burdensome to one generation or group. The current proposal will create lasting divisions and resentment and embarks New Mexico on a path most commonly advocated by ideological zealots rather than our traditional path of consensus and working together as one community.

Let me be perfectly clear, RPENM is not opposed to all reforms or efforts to improve and strengthen PERA. We simply want to move cautiously and methodically without causing unnecessary pain and suffering to current retirees or workers. The prudent course is to constantly review the PERA fund and make regular and gradual corrections when needed. There is absolutely no need to fully prefund PERA and such a move is a huge mistake that only serves the interests of a small number of top administrators at PERA and their financial consultants; not PERA retirees, current workers, the various government agencies throughout our state or the tax payers of New Mexico.

Thank you in advance for your attention to this most serious matter. We would love the opportunity to meet with you in person to discuss these issues in detail and we have informed Mr. Arencon of our desire to meet at your convenience. We are counting on you to keep your promise to retirees and protect our COLA benefits while also strengthening PERA.

Sincerely,

Joel W Pafford

Joel Pafford
President