Guest Columns

Legislature, governor have to act now to save state pensions

By Bradley Day / Former Trustee, Educational Retirement Board

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There are three major revisions the current Legislature and governor must make if they are going to save the ERB and PERA retirement plans from running completely out of assets. Without those assets, currently over $20 billion, the plans will only have contributions to pay their benefits, and retirees will take a 50-60 percent haircut, i.e. reduction.

Sound scary? If you want to really be scared, read the latest Comprehensive Annual Financial Report on page 43 for the ERB plan on their website. It states the plan’s assets will only last until 2053. But that’s using assumptions that have no relation to reality or what has actually occurred with investment returns, salary increases, etc. Based on actual history over the last 20 years, the assets will be gone in less than 15 years. Billions of dollars in NEW taxes will be required to fulfill these retirement obligations unless revisions are made NOW!

Here they are:

1) The Cost of Living Adjustment must be suspended until the plans are 120 percent funded. Payouts after 120 percent can be made as long as the plan stays 120 percent funded. Why 120 percent? The plans are only 60-65 percent funded now. The unfunded portion must be eliminated, and a cushion established for bad years vis a vis the investment return.

2) The Annual Required Contribution for these plans as calculated by the plan’s actuaries MUST be made every year. Both PERA and ERB have failed to make their ARC for many years – would a mortgage ever be paid off if you only made 80 percent of the monthly payment? Of course not. You can’t pay your retirement obligations either! Your plan will go bankrupt or have to be bailed out by raising taxes.

3) The average annual investment return for the past 20 years is 6.4 percent for the ERB plan. Yet the trustees have used rates as high as 8 percent. They have come down some, but going forward the Trustees cannot be allowed to use rates and assumptions that cause the plan’s financial condition to be misrepresented. Payroll growth, wage increases and investment return assumptions must be limited to what has actually occurred over the past 20 years. Using 30 years is not valid because the plan assets were invested totally differently beyond the 20-year mark. If the Annual Required Contribution cannot be met with realistic assumptions described above, then benefit changes for new employees must be made.

Finally, the ERB and PERA retirement plans have to be revised to be secure for the retirees – current and future. If the Legislature and governor fail to act NOW, you can thank them for the billions of dollars in new taxes we will all have to pay for their negligence.

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https://www.abqjournal.com/1270711/legislature-governor-have-to-act-now-to-save-state-... 1/20/2019
Notes to the Financial Statements

Note 3  Net Pension Liability

Governmental employers participating in the Plan are required to report their proportionate share of the Plan’s net pension liability, pension expense, and deferred outflows and inflows of resources within their financial statements, as well as to disclose financial information about the Plan.

The net pension liability is measured as the total pension liability, less the amount of the Plan’s fiduciary net position. In actuarial terms, this is analogous to the accrued liability less the market value of assets (not the smoothed actuarial value of assets used in actuarial valuations based on the Board’s adopted assumptions and methods).

A single discount rate of 5.69 percent was used to measure the total pension liability as of June 30, 2018. This single discount rate was based on an expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.62 percent. Based on the stated assumptions and the projection of cash flows, the pension plan’s fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2050. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2050 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

The source of the municipal bond rate as of June 30, 2018 is the rate for Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-Year Municipal GO AA Index.” In describing this index, Fidelity notes that the municipal curves are constructed using option adjusted analytics of a diverse population of over 10,000 tax exempt securities. The rate shown is as of the last date available on or before the measurement date.

The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels. Additionally, contributions received through Alternative Retirement Plan (ARP) and the Return to Work Program are included in the projection of cash flows. These contributions are assumed to remain a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five-year contribution history.