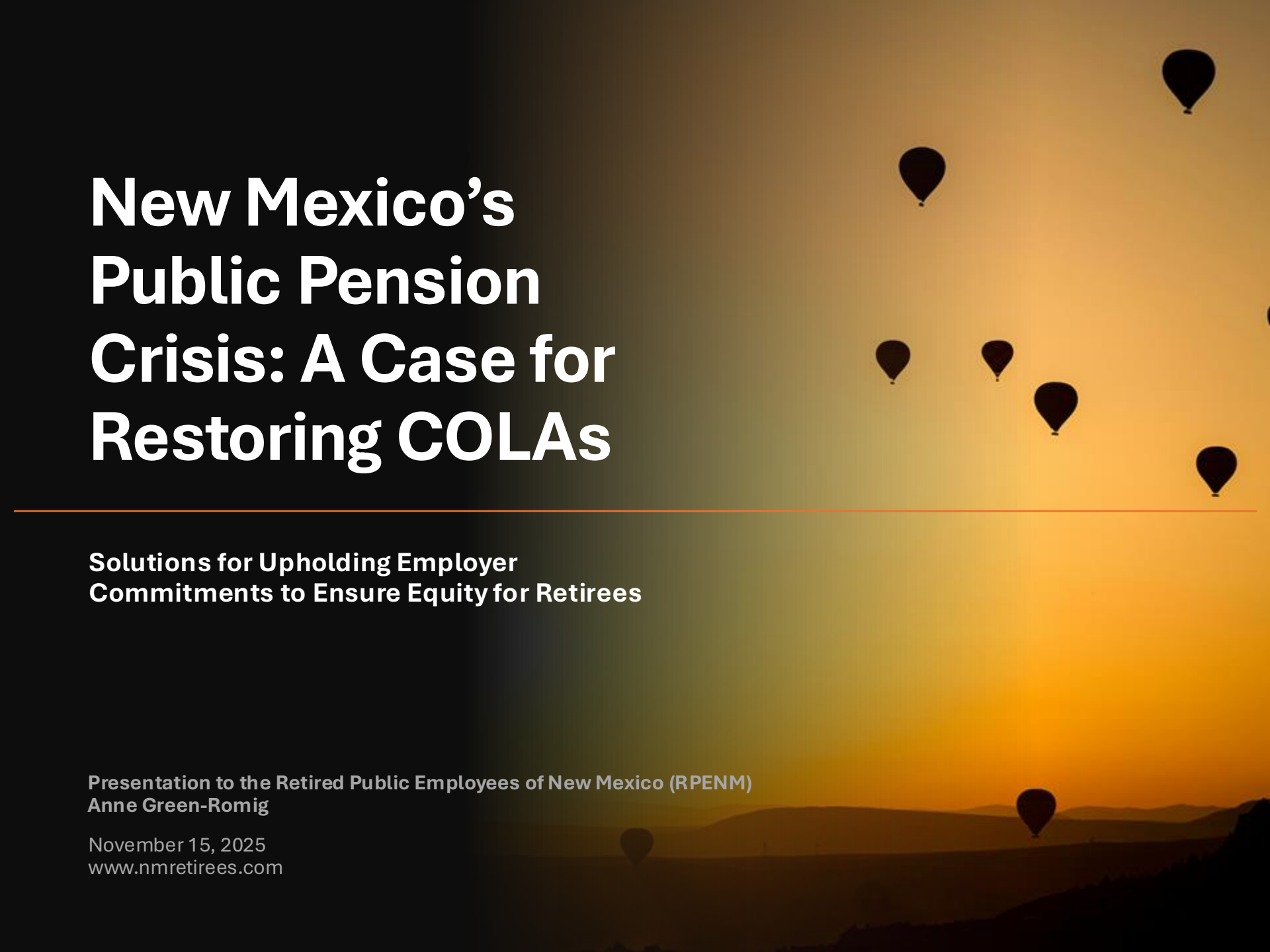


New Mexico's Public Pension Crisis: A Case for Restoring COLAs

Solutions for Upholding Employer Commitments to Ensure Equity for Retirees

Presentation to the Retired Public Employees of New Mexico (RPENM)
Anne Green-Romig

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www.nmretirees.com

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%.

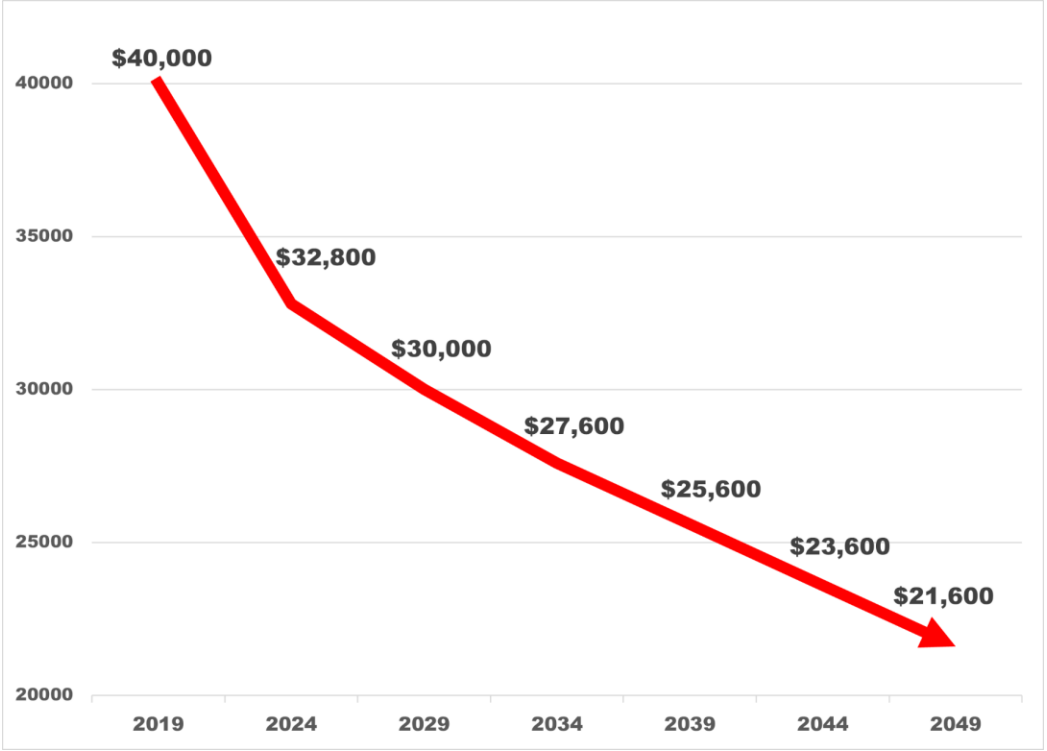
	U.S. Cost of Living Change per US CPI		Regular Members Actual COLA 2020-22 non-compounding 2%; thereafter variable COLA based on fund solvency and investment returns		"Exceptions" Members Actual COLA 2.5% Compounding	
2019 income		**$40,000**		**$40,000**		**$40,000**
2020	**1.2%**	$40,492	**2% nc**	$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.

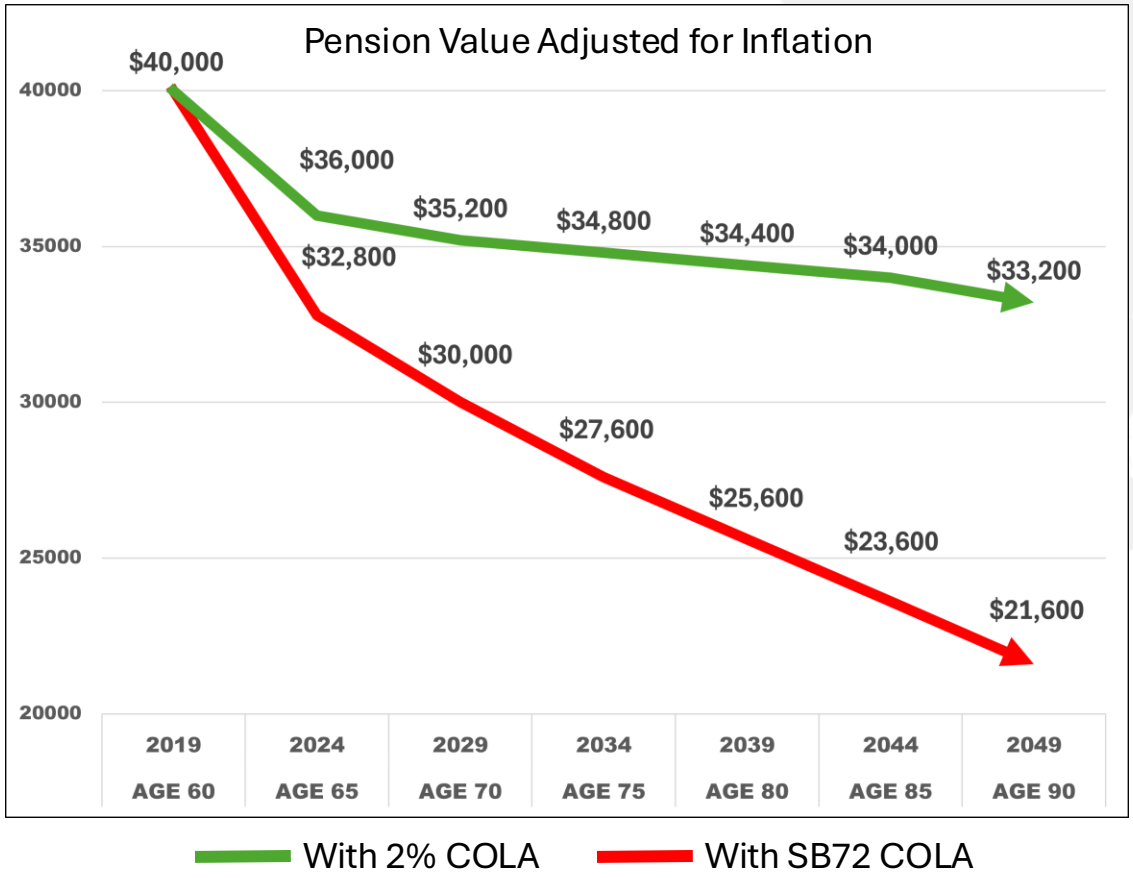
If retirees live to the age assumed by PERA Actuary (female 87/male 85), they will have lost hundreds of thousands of dollars in retirement income.

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's pensions will not sustain them in old age when those benefits are needed most.

The lost income will be increasingly pronounced over time.



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%

Pension Reform: Retiree COLAs linked to Unfunded Liability

In 2020, SB72 was passed to improve fund solvency and implement pension reform.

- The burden of pension reform was shared across stakeholder groups.
- 2% contribution increases were assessed to each Stakeholder Group
  - Employee contributions increased by 2%
  - Employer contributions increased by 2%
  - Retiree COLAs of 2% were eliminated
- Retiree COLAs tied to inflation were replaced by COLAs tied to unfunded liability and investment returns.

Unfunded Liability and Pension Reform

The pension fund is currently on track to become 100% solvent by 2065, according to the PERA Actuary.

- The unfunded liability has continued to rise since 2020 reforms, a trend expected to continue another two decades until rounding the bend and curving back downward, returning to today's level in 2055, thirty years.

- **The high unfunded liability effectively ensures that retiree COLAs will remain approximately 0.5% for the next thirty years, until at least 2055**.

Impact of SB72 Across Stakeholder Groups

The "shared burden" of pension reform in 2020 was not shared equally.

The burden for employees and employers was temporary; while the burden for retirees will last their lifetimes.

Active Employees

- The 2% contribution increase in 2020 was offset immediately by a salary increase of 4% the same year, followed by additional annual increases reaching a cumulative average salary increase of 46% by 2025—well above the increase in inflation.

Employers

- State and local revenues have risen sharply since 2020, in many cases soaring, easily absorbing the 2% contribution.

Retirees

- The elimination of 2% COLAs for 30,000 retirees will have life-long impact, replaced by a formula that is now projected to keep COLAs at close to 0.5% for decades.
- Retiree pensions are on track to lose 50% of their 2019 purchasing power over the next 25 years.

Immediate Options for Pension 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



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.