Written Testimony before the New Mexico State Legislature
Investments and Pensions Oversight Committee

by Hank Kim, Esq.
Executive Director and Counsel
National Conference on Public Employee Retirement Systems (NCPERS)

August 29, 2016

Introduction

Good morning. My name is Hank Kim and I am the Executive Director and Counsel of the National Conference on Public Employee Retirement Systems (NCPERS). I want to thank Chairman George Munoz, Vice Chair Monica Youngblood, and the members of the Investments and Pensions Oversight Committee for this opportunity to testify on such an important issue.

NCPERS is the largest trade association for public sector pension funds representing 500 funds, including NM PERA, throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials, and investment, actuarial and legal professionals who collectively manage more than $3.7 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders. Further, NCPERS promotes retirement security for all workers through access to defined benefit pension plans.

In addition to serving as Executive Director and Counsel for NCPERS, I currently serve as Vice-Chair of the Fairfax County Uniform Retirement System, a $1.5 billion public employee retirement system providing pension coverage for the Fire & Rescue Department, Sheriff’s Department, and certain other sworn employees of Fairfax, Virginia. Additionally, I serve as Treasurer of the National Institute on Retirement Security, a Washington, D.C. based think tank focusing on retirement security.

I am also an Editorial Advisory Panel member of the Benefits Law Journal, a quarterly law journal that for over 20 years has featured the most respected and accomplished employee benefits professionals who have shared their expertise. Each quarterly issue offers in-depth analysis of new legislation, regulations, case law, and current trends governing employee benefits: pension plans, welfare benefits, executive compensation, and tax and ERISA issues.
America’s Retirement Crisis

The U.S. is facing a retirement crisis in the private sector. Today, there is a retirement savings deficit somewhere around $6.6 to $14.5 trillion. This retirement savings deficit is calculated by determining what 401(k) account holders should have in their accounts to maintain their standard of living in their retirement and comparing that with what they actually do have in their accounts. This is extremely troubling because as documented in our publication The Secure Choice Pension: A Way Forward for Retirement Security in the Private Sector, Social Security gets a typical retiree about one-third of the way towards a secure retirement. The remaining two-thirds must be made up from personal savings solely or in conjunction with an employer sponsored pension plan.

According to an analysis of New Mexico employer data that NCPERS has commissioned, New Mexico has more than 376,500 private sector workers who do not have access to an employer sponsored retirement savings program. An additional 62,000 New Mexico private sector workers do not participate in their employers’ retirement savings program. That puts the grand total of more than 438,500 New Mexico workers who are not saving adequately—if at all—for retirement.

The result is that there are generations of New Mexico workers moving through their working years with little or no retirement savings and will have only Social Security to rely on. This lack of retirement income will impact individuals and the communities in which they reside. Nearly 90% of retirees stay in their communities. Without adequate income, these individuals will not be able to contribute to the tax base to pay for public services and may require income-support assistance.

Appended to this written testimony are charts that delve further into New Mexico specific retirement security demographics.

Most acutely, the 78 million baby-boomers who are now at or nearing retirement may not have enough time left in the workforce to earn back what they have lost in retirement assets during the Great Recession. Our ability as a nation to sustain our economy at a time when a record number of workers are entering their retirement years should be an important part of our national debate. Retirement security for all Americans – whether they work in the public or private sector – must become a national priority.

The growing national debate over retirement security has forced many thought leaders and policymakers to take a fresh look at this growing crisis. At the state and local levels of government, elected officials are asking whether states can and should take a meaningful step towards addressing the impending crisis. For many the answer is YES.

As states begin their journey towards addressing the retirement crisis two topics uniformly arise. First is what is ERISA and how does it affect state initiatives on retirement security. The second is what retirement plan designs the state should consider. There is a lot of confusion and
misunderstanding regarding ERISA and effective plan design. In the hopes of providing clarity to these two areas, the balance of my testimony will seek to address these two topics.

ERISA

What is ERISA? ERISA is the acronym for the Employee Retirement Income Security Act, which Congress passed in 1974, and it protects the participants and beneficiaries in private sector employee benefit plans, including retirement plans (defined benefit and defined contribution). While this federal law is ubiquitous in the private sector, Federal, state or local governmental plans are exempt from ERISA.

There are those who like to take advantage of the lack of understanding of ERISA to paint ERISA as a boogeyman that will end the world as we know it. When in fact ERISA provides workable standards for running a retirement program; a sound set of participant protections; and a well-established system for resolving disputes over benefit claims that the private sector has abided by for over 40 years. Surely if a small mom & pop business can accept ERISA rules to ensure its employees are protected, then a large sophisticated actor like the State of New Mexico can too so that its citizens are secure.

What follows is a brief summary of the important ERISA rules that are designed to protect plan participants including rules on establishing and maintaining a plan; fiduciary duties; reporting requirements; and participant disclosure. This by no means is a comprehensive review of ERISA. For a comprehensive analysis, we encourage this committee to seek competent legal counsel should it seek to learn more about this area of the law.

1) Establishing and Running a Plan

An ERISA retirement plan generally is established by an employer or union (the “plan sponsor”) and operated under the terms of a written plan document. Besides setting how benefits are determined and when they vest and are paid, an ERISA plan must designate one or more individuals, committee, or entity as the “named fiduciary” - the point person responsible for the other fiduciaries. The document also describes who may amend the plan, and it may provide for the delegation of authority by the fiduciaries to others. All plan assets (employee and employer contributions and investment earnings) must be held in a trust or in an insurance company annuity. Plan assets are sacred and bulletproof - they may

---

1 Portions of the discussion of ERISA and tax rules is based on a December 2014 white paper by David Morse entitled State Initiatives to Expand the Availability and Effectiveness of Private Sector Retirement Plans, for the Georgetown University McCourt School of Public Policy Center for Retirement Initiatives.

2 This testimony follows the common usage that the term “ERISA” only refers to the fiduciary, participant safeguards, reporting and disclosure, and enforcement rules found in Title I of ERISA. Technically, the Internal Revenue Code (Tax Code) rules that govern the favorable income tax treatment afforded to qualified retirement plans also are found in ERISA, in Title II. With a few exceptions, the Department of Labor (DOL) regulates Title I and the Internal Revenue Service (IRS) regulates Title II.
only be used to pay benefits or to cover legitimate plan expenses. Each plan must maintain a fidelity bond.

2) **ERISA Fiduciaries and Their Duties.**

Besides the plan sponsor, named fiduciary, and trustee, anyone with control over plan assets is a fiduciary. This includes a money manager or anyone with responsibility to appoint or fire a money manager. Fiduciaries are expected to be experts and to act prudently for the exclusive benefit of participants. However, ERISA recognizes that not every fiduciary will be an expert, so a fiduciary may instead hire experts to advise them or delegate certain duties to an expert. Hiring or delegating to an expert is itself a fiduciary act. Neither perfection nor clairvoyance is expected of ERISA fiduciaries, just prudent and well thought-out, reasonable decision making. In the words of a famous judicial opinion, “prudence not prescience” is required.

The plan sponsor and named fiduciary sit at the top and are ultimately accountable for what goes wrong. In a state-sponsored program that is considered an ERISA plan, the sponsor and named fiduciary could be a state-created entity, such as a special purpose trust company and/or special board. Under the ERISA concept of prudence, if these fiduciaries are diligent in hiring and monitoring consultants, money managers, trustees, and the like, then they will not have violated their ERISA fiduciary duties even if one of their delegates acts imprudently.

Employers adopting a state-sponsored retirement plan will, in effect, have made the ERISA fiduciary decision in selecting the plan’s board, investment advisors, and other fiduciaries. The employers’ exposure to ERISA fiduciary liability should be minimal as long as the state plan is overseen by a knowledgeable board and advised by a team of experts, and the plan’s funds are in the hands of top-shelf investment managers, trustees/custodians and the like. As mentioned in the preceding paragraph, the state board itself would be an ERISA fiduciary; however, the board can fulfill its ERISA duties by establishing and following proper governance procedures and putting in place a team of professionals to operate the plan and invest its assets.

3) **Reporting and Disclosure Requirements**

Each plan must file an annual report (Form 5500, 5500-SF or 5500EZ) with the Internal Revenue Service (IRS) each year that includes a financial statement and other investment information; an actuarial report (for defined benefit pensions plans); and a representation that the plan did nothing illegal. Plans with fewer than 100 participants may file simplified annual reports and are not required to have an outside audit. For a state-sponsored retirement plan, the annual audit and annual report filing should be a manageable project.
The ERISA disclosure obligations include giving participants a readable “plain English” summary plan description (SPD), a notice of plan amendments (SMM), and information on plan fees, investments and payroll withholding (for 401(k) only). Participants also must be given a benefit statement (quarterly for 401(k) and other defined contribution plans, and annually for defined benefit plans). The good news is that most record keepers have fully automated the process, and it should not present an undue burden for state-sponsored plans. Many plans now add simple one or two-page readable information sheets to the ERISA disclosure so participants have accessible information.

ERISA can affect a state’s retirement initiative in one of two ways. First, a retirement program that is considered an ERISA “pension plan” must comply with ERISA, including its framework for establishing and running the plan; fiduciary duties of prudence and acting in the best interest of participants and beneficiaries; participant disclosure and government reporting requirements; dispute resolution; and prohibited transactions rules. Second, ERISA preempts any state law that relates to an “employee benefit plan.”

Plan Design and ERISA

There are a range of options available to states interested in expanding the availability and effectiveness of retirement plans for their private sector employers and employees. These design options fall into three major categories:

1. Individual Retirement Accounts (IRAs)
2. 401(k)/Defined Contribution Plans
3. Defined Benefit Plans

Each of these programs can be designed to define the role of employers, employees, plan administration and asset management, but every choice raises questions related to how federal law applies:

- Is the plan covered by ERISA?
- Will ERISA preempt any portion of a state enabling law?; and
- What are the basic federal income tax and securities laws with which any program (ERISA-regulated or not) must comply?

These are among the key issues for states to consider in determining what type of retirement savings plan could help expand the availability and effectiveness of options for the private sector. Although much of the policy discussion to date has been focused on state options designed to be exempt from ERISA coverage, there also are plan design options covered by ERISA. Policymakers can and should determine what option is most suitable to achieve their desired policy goals.
State-Sponsored Payroll Deduction Individual Retirement Accounts (IRAs)
The plan design option that ordinarily would not be subject to ERISA would be IRAs (Individual Retirement Accounts and Annuities). Any employee or self-employed person can set up an IRA by signing on with a bank, insurance company, or custodian and depositing money. IRAs are typically set up, controlled, and funded by an individual, not his or her employer. The individual account holder typically makes the decision about how to invest funds. The individual controls the account and may invest in just about anything, including mutual funds, stocks, bonds and annuities, but not art, jewelry and other “collectables.”

For most individuals the contributions are tax-deductible. Tax penalties apply to “early” withdrawals. Besides traditional IRAs, most earners can contribute to a Roth IRA - contributions are not deductible, but withdrawals can be 100% tax-free. Special limits on tax deductions and eligibility to make Roth contributions apply to high-income individuals.

The DOL has ruled that an employer IRA payroll deduction program is not an ERISA plan if:

- It is employee-pay-all (the employer doesn’t make any contributions);
- Employee participation is completely voluntary;
- Employer involvement is limited to making the program known to employees, without endorsement, processing payroll withholding elections, and answering questions; and
- The employer is not paid for offering the program.

IRAs can be a simple, low-cost alternative for retirement savings. Employers can offer IRAs to their employees, process employee contribution elections, and transmit the contributions to the IRA vendor without triggering ERISA regulation if the level of employer involvement is kept to a minimum. However, if an employer sponsors, maintains, or contributes to an IRA for its employees, the IRA becomes an ERISA plan.

Many states are considering requiring an auto-enroll feature in a state-sponsored IRA plan design. There is considerable research that suggests that individuals are much more likely to save if they are automatically enrolled in their employer’s retirement savings plan and would have to make a decision to opt out of the savings. Such auto-enrollment features have been spectacularly successful in encouraging private sector employees - who tend not to act - into saving for retirement.

3 See ERISA Sec. 4(a) (requiring that a plan be established or maintained by an employer or union (or both) to be covered by ERISA).
On November 16, 2015, the DOL issued proposed regulations which would create a new ERISA safe harbor for certain state-initiated payroll deduction IRA programs. A state’s IRA payroll deduction program would be exempt from ERISA under the proposed regulations if it met the following 10 requirements:

1) Established by a state, under state law.
2) Administered by state/instrumentality “responsible for investing employee contributions or for selecting investment alternatives.”
3) State “assumes responsibility for security of payroll deductions and employee savings.”
4) State “creates mechanism for enforcement” of employees’ rights under program.
5) Voluntary for employees.
6) No restrictions on withdrawals or costs or penalties on rollovers and transfers.
7) Participant rights enforceable by only participant/representative or state.
8) State can outsource administration if retains “full responsibility for operation and administration”.
9) Auto-enrollment and escalation are allowed only if it is required by state law. The employer must be required to join program and auto-enrollment/escalation only may apply to employees affected by mandate.
10) Adequate notice to employees and an opportunity to opt-out of auto-enrollement.

Under this approach, the employer’s responsibilities are only related to the processing and transmitting of the contributions to the state-sponsored IRA plan. Also, while ERISA participant protections would not apply, it is very likely that the state will have to draft and enact participant protection rules similar to ERISA (effectively recreating the wheel, i.e., a state version of ERISA).

State-Sponsored ERISA Plans

Rather than establishing a retirement plan with the explicit objective of avoiding ERISA, the next generation of states seeking to address retirement security can fully embrace ERISA and the participant protections that it affords. ERISA retirement plans include defined contribution (DC) plans or defined benefit (DB) plans. A traditional 401(k) plan is a well-recognized example of the DC plan. In a 401(k) plan, employees may make tax-deductible contributions from their wages. Contributions are typically invested by the employees from a menu of investments selected by the employer. Employers also may match a portion of each employee’s contributions. The employee contribution limits are much higher for a 401(k) than an IRA. If the plan permits, participants may make Roth 401(k) contributions.

A traditional DB pension plan is the most effective vehicle for helping workers prepare for retirement. Benefits are typically paid as a lifetime annuity (or joint and survivor annuity), reducing the possibility of someone depleting his or her nest egg too quickly, perhaps even before retiring. The plan sponsor or its delegate is responsible for investing the plan’s funds, keeping this critical activity out of the hands of employees, some of whom may be woefully unprepared for the task.
Benefits are funded by employer and, sometimes, employee contributions. (Employee contributions are after-tax; so-called Section 414(h)(2) “pick-ups,” in which governmental employees can make pre-tax contributions to a defined benefit plan, are not allowed in private sector plans.) Defined benefit plans are the quintessential retirement plan for employees because the sponsor/employer is responsible for funding and investments and there is less possibility of leakage (an employee’s withdrawing the benefit before retirement).

An important legal uncertainty facing any state-sponsored program open to establishing an ERISA-covered 401(k) or DB model is whether the plan will be regulated as a single plan maintained by a group of unrelated employers (called a MEP or multiple employer plan) or a collection of separate employer plans.

Today, small businesses tend to avoid offering retirement benefits because they are too expensive and too time-consuming to manage, and they expose the company to liability if something goes wrong. On the other hand, the economies of scale generated by numerous businesses joining in a single plan should make a state-sponsored program less expensive and its selected cadre of fiduciaries and service-providers would do most of the administrative heavy lifting, making the plan more attractive to employers.

There are several regulatory and cost advantages to being treated as a MEP. As a MEP, one IRS Form 5500 Annual Report is filed; one ERISA fidelity bond purchased; and a single annual audit by an independent accountant conducted, for the entire plan. In a non-MEP, as a collection of separate plans, each employer would need its own Annual Report, bond and audit, depending on whether the particular employer had reached the 100-participant threshold.

Participating employers in a state-sponsored program that is a MEP also should have minimal ERISA fiduciary responsibility (basically whether to join, remain in, or leave the plan) and thus, minimal liability exposure. In a non-MEP collection of single plans, each employer may be viewed as having greater fiduciary responsibility for plan functions and thus, greater potential liability.

In either a MEP or collection of single plans approach, each employer would be tested separately for compliance with the Tax Code coverage and nondiscrimination tests. One risk for a MEP is the so-called “bad apple” rule: if one participating employer violates one of the tax qualification rules, the mistake can infect the entire plan. However, it should be possible to significantly mitigate this risk in plan design by using the IRS correction procedures to limit the expense of correction to the offending employer. Importantly, extensive criticism of the bad apple rule by pundits and officials have generated a growing bipartisan momentum in Congress for outright repeal of the rule.

The IRS and DOL appear to have different views on what it takes to be a MEP. The IRS has ruled that the combined plan of many unrelated employers is a single plan as long as the program’s
assets are combined in one pool, without any employer-by-employer segregation. These programs are called “open-MEPs” because any employer may join.

The DOL, however, has an extra requirement: According to the Department, unrelated employers can maintain a MEP only if they “are tied together” by “a genuine economic or representational interests.” Whether a group of employers is sufficiently tied in an “affinity group” is not mentioned in ERISA as a MEP requirement.

DOL Open MEP Relief. The DOL stated in ERISA Interpretative Bulletin 2015-02 (11/18/15) that a state may sponsor an open MEP. The IB stated that the state would either serve as named fiduciary and administrator of the MEP, or delegate such authority to a third party. Because the state has an “interest in the welfare of its citizens,” the DOL feels that the affinity group limitation it imposes on private sector open MEPs is unnecessary. However, the IB did not indicate whether, and to what extent, a state would be required to have a relationship with adopting employers, such as being domiciled or having employees in the state. This question will need to be resolved by a DOL Advisory Opinion or, perhaps, unofficial pronouncements.

A New Approach: NCPERS Secure Choice Pension Model

At NCPERS, this examination began in late 2010. We knew that not only was there a need for revitalization of pensions in the private sector, but there was a keen desire by working Americans for the type of retirement security that public sector employees have earned and enjoy. So for a year we embarked upon a journey to study what the next evolution of pensions for the private sector might be. We dubbed this exercise “pensions 2.0”. We asked ourselves what a private sector pension would look like if it reflected the realities of the 21st Century. Namely the pension plan had to be flexible to reflect economic conditions, portable so that participants can carry it from job to job, simple to administer, and most importantly sustainable for not just the next 20 years but for the next 200 years.

Our answer is the Secure Choice Pension (SCP). The SCP is envisioned as a public-private partnership to provide retirement security for American workers, particularly those who work for small businesses, and who don’t currently have a defined benefit pension. The plan draws on the documented performance and efficiencies of public sector pension management, and extends it to those in the private sector who face what is becoming a national retirement crisis. The concept is that the states – individually, or possibly in groups – would enact legislation to establish a state or regional SCP plan. SCPs would be multiple-employer hybrid defined benefit pension plans. Each SCP would have a board of trustees composed of state, private employer and private employee/retiree representatives. The board would hire a chief executive officer and administrative staff to administer the SCP. The board and staff would have fiduciary duty to the SCP plan and its participants.
Participation in the SCP would be voluntary. Contributions to the SCP would come ideally from both employers and employees. In our model plan the combined contribution is set at 6% of pay and would replace approximately one-third of average career salary at retirement. For participating employers, administrative and fiduciary duties would be largely removed and placed upon the board of trustees and administrator of the plan. The only real obligations and administrative tasks for employers would be to make their portion of the contribution and supply the recordkeeper basic employee census data – thus making participation in the SCP affordable and simple for private sector employers, in terms of both time and financial cost. While each SCP participant would have a participant account, all contributions to the SCP would be pooled and professionally invested to achieve economies of scale and to negotiate lower fees from investment firms hired by the SCP board.

The participant accounts would grow at an interest rate that the SCP board would set annually, but the SCP plan guarantees a minimum of three percent return. At retirement, employees participating in a SCP would be guaranteed an income for life – an income immune to stock market fluctuations and sudden economic downturns.

Once we had the SCP plan design and actuarial determined funding approach we developed rigorous modeling and stress tested the SCP concept to assess its performance. We believe that the SCP is the most detailed and tested public-private partnership pension concept available. It is in part for this reason that NCPERS has been asked to assist in developing and drafting state-based private sector retirement savings legislation.

### SCP Estimated Income Replacement

<table>
<thead>
<tr>
<th>Average Life Time Income</th>
<th>Expected Social Security Replacement Ratio</th>
<th>Replacement Ratio from Expected Personal Savings including 401(k)</th>
<th>Expected SCP Replacement Ratio</th>
<th>Total Replacement Ratio with Social Security and Personal Savings Only</th>
<th>Total Replacement Ratio with SCP</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20,000</td>
<td>60%</td>
<td>0%</td>
<td>29%</td>
<td>60%</td>
<td>89%</td>
</tr>
<tr>
<td>$50,000</td>
<td>43%</td>
<td>12%</td>
<td>28%</td>
<td>55%</td>
<td>84%</td>
</tr>
<tr>
<td>$100,000</td>
<td>32%</td>
<td>25%</td>
<td>29%</td>
<td>57%</td>
<td>86%</td>
</tr>
</tbody>
</table>

2. Calculated using assumed salary increases based on age, an average return of 5% per year, a contribution rate of 3% per year at $30,000 and 6% per year at $100,000, retirement at age 65, and annuity conversion based on IRSCA actuarial assumptions.
3. Calculated using assumed salary increases based on age, and expected credited interest rate of 5% per year.

Retirement income Replacement Gap: Surveys report individuals estimate 60% as adequate—when 80% to 90% is needed.
SCP Stress Test 1

The projection below models an investment market assuming the valuation assumptions as described earlier are exactly met.

<table>
<thead>
<tr>
<th>Year</th>
<th>Valuation Assumptions</th>
<th>Projected Revenue</th>
<th>proj. 1</th>
<th>proj. 2</th>
<th>proj. 3</th>
<th>proj. 4</th>
<th>proj. 5</th>
<th>proj. 6</th>
<th>proj. 7</th>
<th>proj. 8</th>
<th>proj. 9</th>
<th>proj. 10</th>
<th>proj. 11</th>
<th>proj. 12</th>
<th>proj. 13</th>
<th>proj. 14</th>
<th>proj. 15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(5.01%)</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100.00%</td>
<td>113.77%</td>
<td>118.12%</td>
<td>118.42%</td>
<td>118.69%</td>
<td>118.91%</td>
<td>118.91%</td>
<td>118.91%</td>
<td>118.91%</td>
<td>118.91%</td>
<td>118.91%</td>
<td>118.91%</td>
<td>118.91%</td>
<td>118.91%</td>
<td>118.91%</td>
<td>118.91%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0</td>
<td>(18.737)</td>
<td>(30.844)</td>
<td>(61.865)</td>
<td>(86.463)</td>
<td>(118.031)</td>
<td>(140.552)</td>
<td>(178.038)</td>
<td>(214.429)</td>
<td>(255.008)</td>
<td>(285.453)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,000,000</td>
<td>1,035,181</td>
<td>1,071,391</td>
<td>1,107,591</td>
<td>1,144,091</td>
<td>1,181,091</td>
<td>1,218,191</td>
<td>1,255,291</td>
<td>1,292,391</td>
<td>1,329,491</td>
<td>1,366,591</td>
<td>1,403,691</td>
<td>1,440,791</td>
<td>1,477,891</td>
<td>1,514,991</td>
<td>1,552,091</td>
</tr>
</tbody>
</table>

SCP Stress Test 2

The projection below models an investment market using actual returns for the 1990 to 2000 period.

<table>
<thead>
<tr>
<th>Year</th>
<th>Valuation Assumptions</th>
<th>Projected Revenue</th>
<th>proj. 1</th>
<th>proj. 2</th>
<th>proj. 3</th>
<th>proj. 4</th>
<th>proj. 5</th>
<th>proj. 6</th>
<th>proj. 7</th>
<th>proj. 8</th>
<th>proj. 9</th>
<th>proj. 10</th>
<th>proj. 11</th>
<th>proj. 12</th>
<th>proj. 13</th>
<th>proj. 14</th>
<th>proj. 15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(5.01%)</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
<td>0.04%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100.00%</td>
<td>135.80%</td>
<td>140.31%</td>
<td>144.82%</td>
<td>149.33%</td>
<td>153.84%</td>
<td>158.36%</td>
<td>162.87%</td>
<td>167.38%</td>
<td>171.89%</td>
<td>176.40%</td>
<td>180.91%</td>
<td>185.42%</td>
<td>189.93%</td>
<td>194.44%</td>
<td>198.95%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,000,000</td>
<td>1,018,181</td>
<td>1,071,491</td>
<td>1,124,801</td>
<td>1,178,111</td>
<td>1,231,421</td>
<td>1,284,731</td>
<td>1,338,041</td>
<td>1,391,351</td>
<td>1,444,661</td>
<td>1,497,971</td>
<td>1,551,281</td>
<td>1,604,591</td>
<td>1,657,901</td>
<td>1,711,211</td>
<td>1,764,521</td>
</tr>
</tbody>
</table>

National Conference on Public Employee Retirement Systems
Conclusion

NCPERS wishes to thank Chairman George Munoz, Vice Chair Monica Youngblood, and the Committee for this opportunity to express our views on retirement security for all workers. We believe that through this hearing, New Mexico is taking an important step towards addressing the retirement crisis that it faces. NCPERS stands ready to assist you with facts, research, and expertise as New Mexico delves into policy discussions on retirement security. We invite this body to contact us should you need additional information. Thank you.
Access to a Retirement Plan

WORKERS IN NEW MEXICO 2015
Does your employer offer a pension or retirement plan?
By Sector

- **Private Sector (includes self-employed incorporated)**
  - **62%** 376,542 workers
  - **38%** 226,309 workers

- **Public Sector (Federal, State, & Local)**
  - **31%** 82,943 workers
  - **69%** 139,037 workers

**Over 376,000 private sector workers in New Mexico do not have access to an employer-sponsored retirement plan. About 264,000 of those individuals (70%) work full-time.**


Participation in a Retirement Plan

WORKERS IN NEW MEXICO 2015
Do you participate in the retirement plan?
By Sector

- **Private Sector (includes self-employed incorporated)**
  - **27%** 62,190 workers
  - **73%** 164,119 workers

- **Public Sector (Federal, State, & Local)**
  - **10%** 17,997 workers
  - **90%** 125,530 workers

**Another 62,000 private sector workers in New Mexico do not participate in their employer's retirement plan.**

Access to a Retirement Plan by Household Income

PRIVATE SECTOR WORKERS IN NEW MEXICO
Does your employer offer a pension or retirement plan?
By Household Annual Income

<table>
<thead>
<tr>
<th>Income Range</th>
<th>No (%)</th>
<th>Yes (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $30k</td>
<td>22%</td>
<td>78%</td>
</tr>
<tr>
<td>$30k to $60k</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>$60k to $90k</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>$90k or more</td>
<td>47%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Higher income New Mexico workers are more likely to have an employer-sponsored retirement plan, but over half of those with a household income of $90,000 or more do not have access.


Access to a Retirement Plan by Household Income

NUMBER OF PRIVATE SECTOR WORKERS IN NEW MEXICO
Whose employer does not offer a pension or retirement plan
By Household Income

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $30k</td>
<td>73,852</td>
</tr>
<tr>
<td>$30k to $60k</td>
<td>114,823</td>
</tr>
<tr>
<td>$60k to $90k</td>
<td>76,702</td>
</tr>
<tr>
<td>$90k or more</td>
<td>111,166</td>
</tr>
</tbody>
</table>

Over 100,000 workers in New Mexico without access to an employer-sponsored retirement plan have a household annual income of $90,000 or more.

Access to a Retirement Plan by Employer Size

PRIVATE SECTOR WORKERS IN NEW MEXICO
Do you employer offer a pension or retirement plan?
By Size of Employer

<table>
<thead>
<tr>
<th>Size of Employer</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 10 employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 to 49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50 to 99</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 to 499</td>
<td></td>
<td></td>
</tr>
<tr>
<td>500 to 999</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,000+</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Over two-thirds of employees working for smaller businesses (<100 employees) say their employer does not offer a pension or retirement plan.


Segal Consulting

Access to a Retirement Plan by Employer Size

NUMBER OF PRIVATE SECTOR WORKERS IN NEW MEXICO
Whoa employer does not offer a pension or retirement plan
By Size of Employer

<table>
<thead>
<tr>
<th>Size of Employer</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 10 employees</td>
<td>117,208</td>
</tr>
<tr>
<td>10 to 49</td>
<td>89,510</td>
</tr>
<tr>
<td>50 to 99</td>
<td>30,541</td>
</tr>
<tr>
<td>100 to 499</td>
<td>41,788</td>
</tr>
<tr>
<td>500 to 999</td>
<td>11,554</td>
</tr>
<tr>
<td>1,000+</td>
<td>85,651</td>
</tr>
</tbody>
</table>


Segal Consulting
Access to a Retirement Plan by Industry

PRIVATE SECTOR WORKERS IN NEW MEXICO
Does your employer offer a pension or retirement plan?
By Industry

Access to a Retirement Plan by Industry

NUMBER OF PRIVATE SECTOR WORKERS IN NEW MEXICO
Whose employer does not offer a pension or retirement plan
By Industry

Access to Other Savings Vehicles

PRIVATE SECTOR WORKERS IN NEW MEXICO 2015
Does anyone in your household own any interest earning accounts, funds, savings bonds, T-notes, IRAs, CDs, or other investments which pay interest?

- 30% No
- 54% Yes

70% 46%

Workers MTH Access to an Employer-Sponsored Retirement Plan
Workers WITHOUT Access to an Employer-Sponsored Retirement Plan

Workers without access to an employer sponsored retirement plan are less likely to own other interest earning accounts.


Segal Consulting