

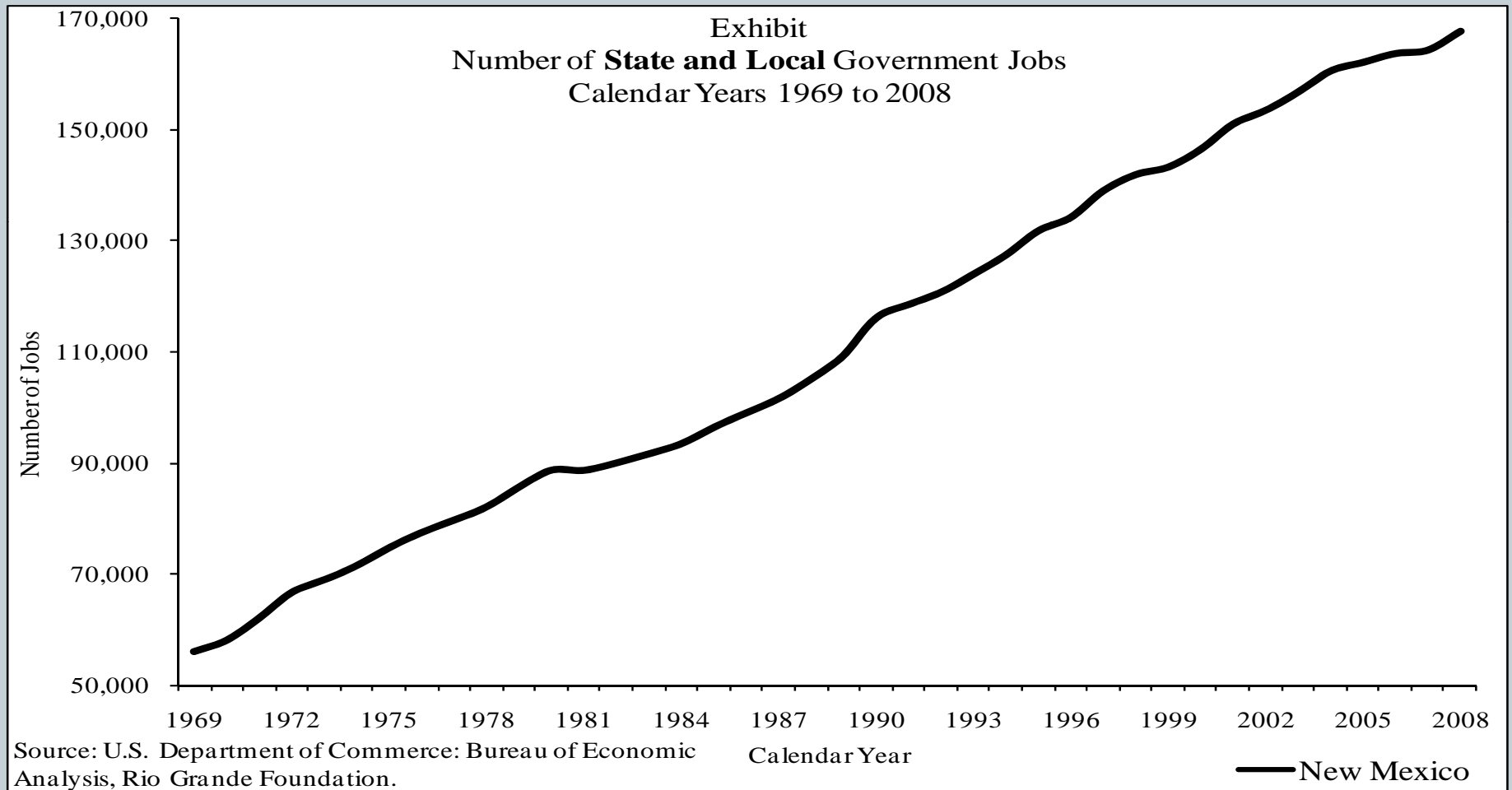
# New Mexico's Public Sector Workforce is Unsustainable



**J. SCOTT MOODY  
ADJUNCT SCHOLAR  
RIO GRANDE FOUNDATION**



# How Big is NM's Public Sector?



# How Big is NM's Public Sector?



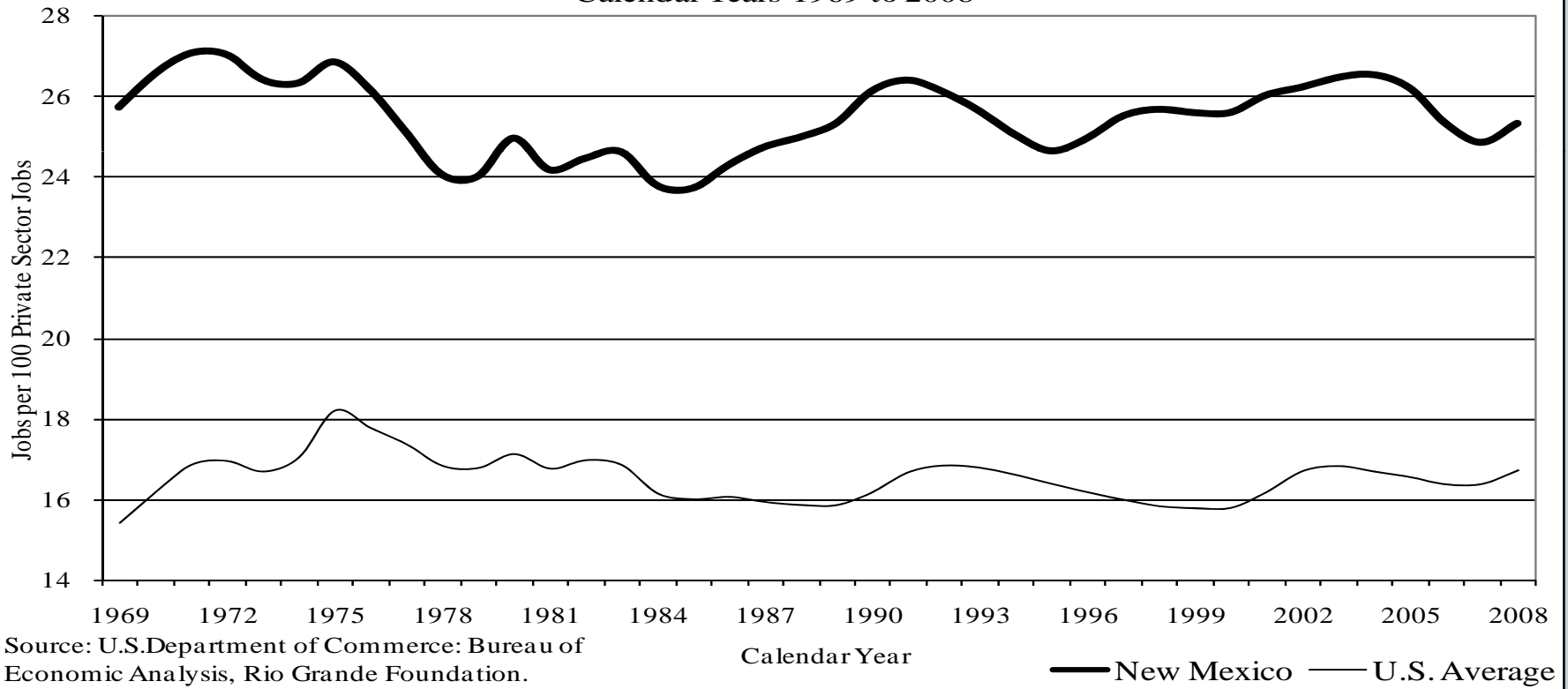
- In 2008, NM's state and local governments employed 167,671 people . . . In comparison:
- Wholesale and retail trade employed 149,242 people
- Health care and social assistance employed 115,883 people
- Accommodation and food services employed 84,138
- Manufacturing and mining employed 69,166 people.

**Government is NM's largest industry**

# How Big is NM's Public Sector?



Chart 1  
Number of **State and Local** Government Jobs per 100 Private Sector Jobs  
Calendar Years 1969 to 2008

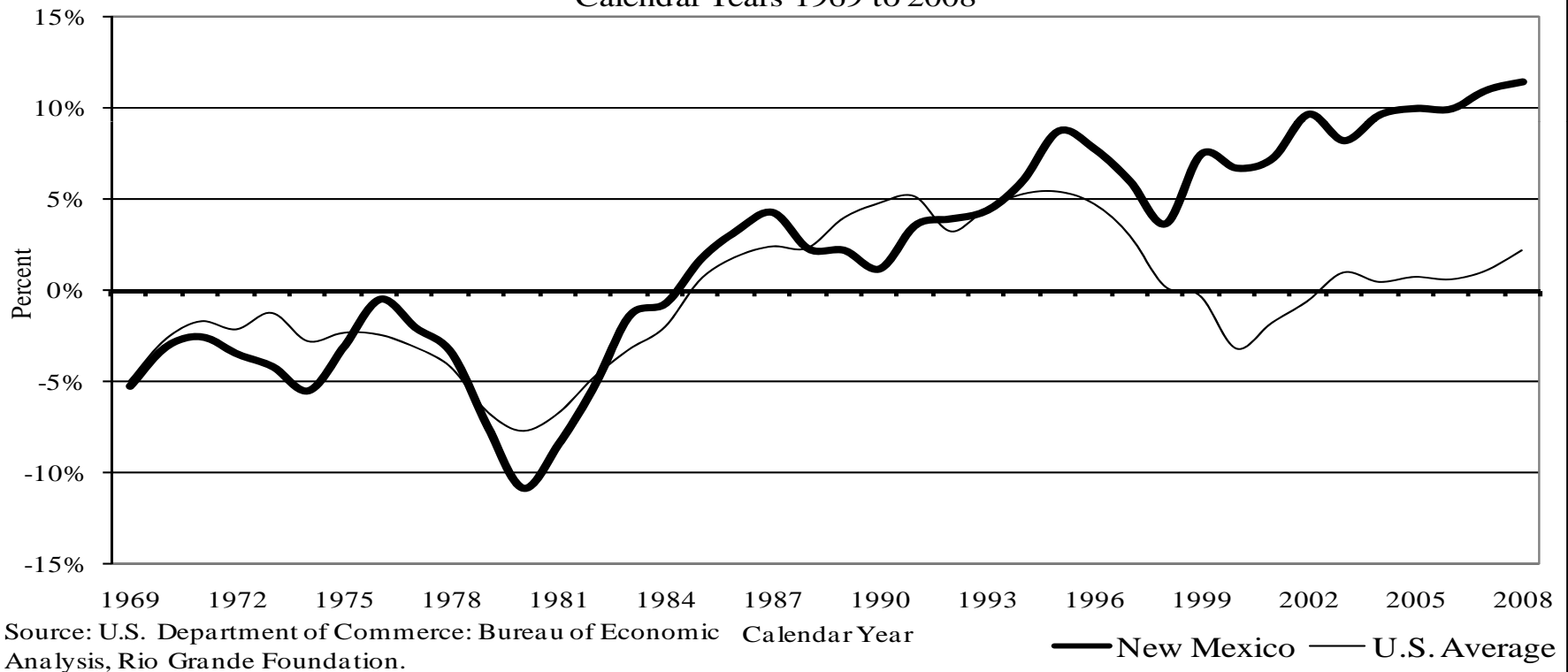


NM's State and Local Government Employment Ratio is **2<sup>nd</sup>** Highest in the Country!

# How Well-Paid is NM's Public Sector?



Chart 2  
State and Local Government **Compensation** as a Percent Above or Below Private  
Sector Compensation per Job  
Calendar Years 1969 to 2008

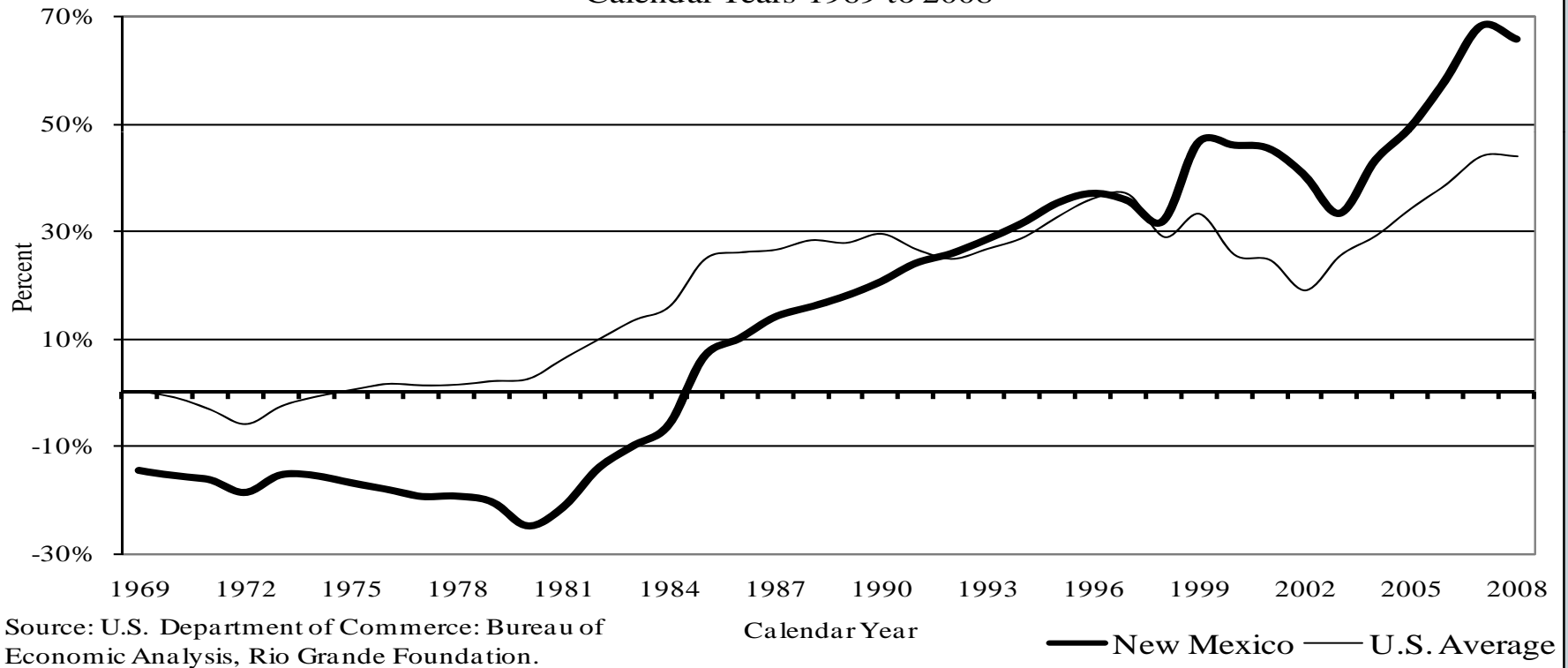


NM's State and Local Government Compensation Ratio is **10<sup>th</sup>** Highest in the Country!

# How Well-Paid is NM's Public Sector?



Chart 4  
State and Local Government **Benefits** as a Percent Above or Below Private Sector  
Supplemental per Job  
Calendar Years 1969 to 2008



NM's State and Local Government Benefit Ratio is **11<sup>th</sup>** Highest in the Country!

## Budget Savings



- In 2008, adjusting NM's state and local employment ratio to the national average would have saved **\$2.6 billion**.
- In 2008, adjusting NM's state and local compensation ratio to the national average would have saved **\$700 million**.

# Where is the Over-Employment?



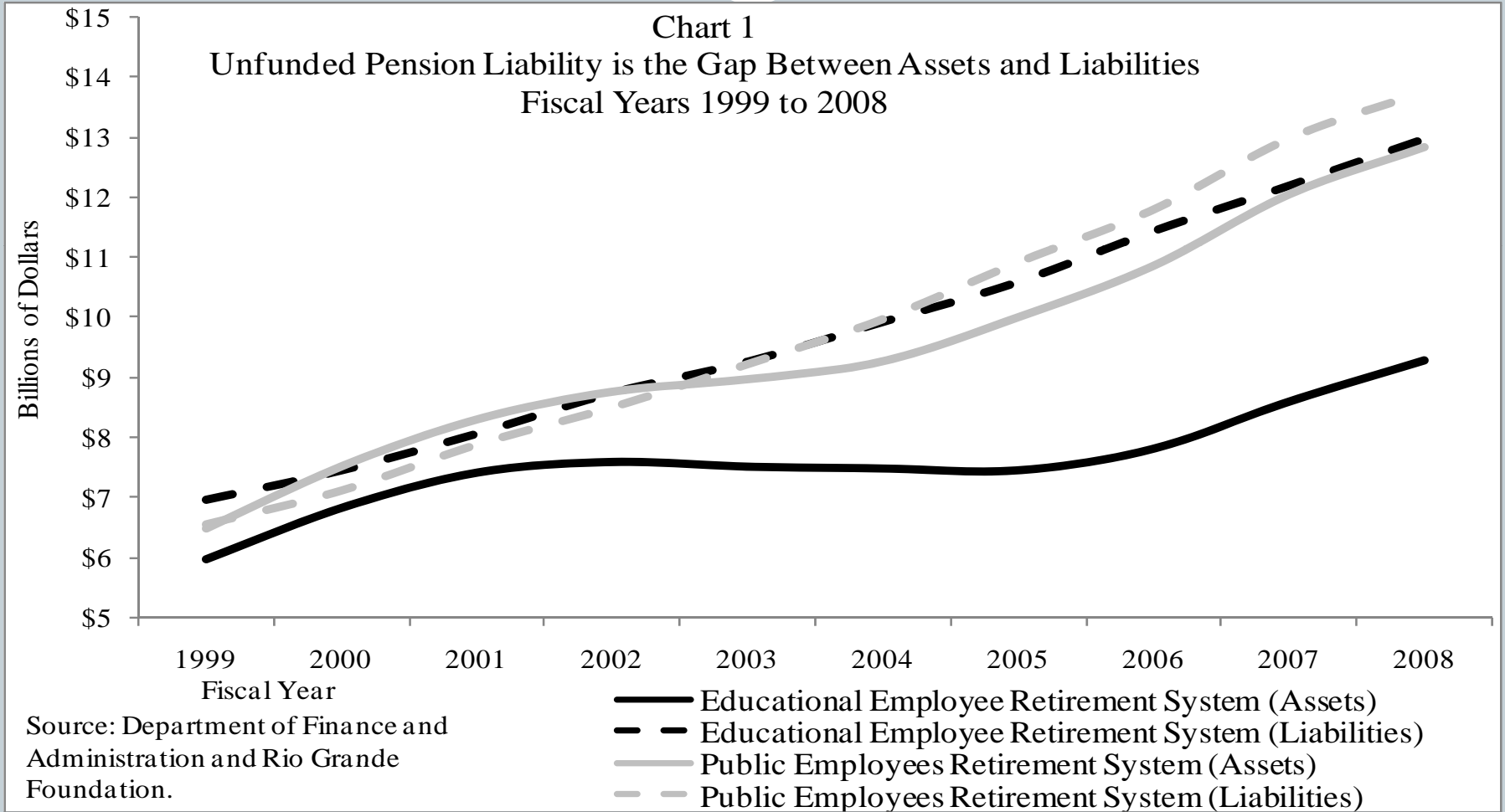
Table 1  
Employment Ratios by Function  
Fiscal Year 2007

Employment Function	National Average	New Mexico			Employment Function	National Average	New Mexico		
		Employment Ratio	Difference	Rank			Employment Ratio	Difference	Rank
<b>Total</b>	<b>16.18</b>	<b>22.31</b>	<b>6.12</b>	<b>4</b>	<b>Solid Waste Management</b>	<b>0.10</b>	<b>0.18</b>	<b>0.08</b>	<b>6</b>
					Sewerage	0.11	0.08	-0.03	42
<b>Financial Administration</b>	<b>0.36</b>	<b>0.54</b>	<b>0.18</b>	<b>9</b>	<b>Parks and Recreation</b>	<b>0.34</b>	<b>0.52</b>	<b>0.18</b>	<b>8</b>
Other Government Administration	0.35	0.43	0.07	19	Housing & Community Development	0.10	0.08	-0.02	24
<b>Judicial and Legal</b>	<b>0.37</b>	<b>0.54</b>	<b>0.17</b>	<b>4</b>	Natural Resources	0.17	0.26	0.09	13
<b>Police Protection - Officers</b>	<b>0.60</b>	<b>0.68</b>	<b>0.08</b>	<b>7</b>	<b>Water Supply</b>	<b>0.15</b>	<b>0.19</b>	<b>0.04</b>	<b>9</b>
<b>Police - Other</b>	<b>0.24</b>	<b>0.29</b>	<b>0.06</b>	<b>7</b>	Electric Power	0.07	0.04	-0.03	26
Firefighters Only	0.32	0.35	0.03	17	<b>Gas Supply</b>	<b>0.01</b>	<b>0.02</b>	<b>0.01</b>	<b>8</b>
Other Fire Employees	0.03	0.02	-0.01	28	Transit	0.20	0.13	-0.08	19
<b>Correction</b>	<b>0.62</b>	<b>0.97</b>	<b>0.35</b>	<b>1</b>	<b>Elem &amp; Sec Instructional</b>	<b>4.43</b>	<b>5.66</b>	<b>1.23</b>	<b>5</b>
Highways	0.47	0.67	0.21	15	Elem & Secondary - Other	2.14	2.24	0.10	19
Air Transportation	0.04	0.05	0.01	12	<b>Higher Ed Instructional</b>	<b>0.87</b>	<b>1.35</b>	<b>0.48</b>	<b>3</b>
Water Transport & Terminals	0.01	--	--	--	<b>Higher Ed - Other</b>	<b>1.58</b>	<b>3.36</b>	<b>1.78</b>	<b>1</b>
Public Welfare	0.45	0.48	0.03	19	<b>Other Education</b>	<b>0.08</b>	<b>0.18</b>	<b>0.10</b>	<b>7</b>
Health	0.39	0.44	0.05	20	Libraries	0.16	0.12	-0.04	36
<b>Hospitals</b>	<b>0.90</b>	<b>1.77</b>	<b>0.87</b>	<b>6</b>	Liquor Stores	0.01	--	--	--
Social Insurance Administration	0.07	0.04	-0.03	42	Other and Unallocable	0.43	0.62	0.19	8

Source: U.S. Department of Commerce: Bureau of Economic Analysis and Census Bureau, Rio Grande Foundation.



# NM's Pension Problem



# NM's Pension Problem Gets Bigger



## **Official Pension Liabilities are Dramatically Underestimated**

- Official actuarial analysis assumes an 8.5 percent discount rate which is unrealistically high.
  - Two economists recalculate pension liabilities using a lower, more realistic discount rates.
  - NM's pension liability climbs to between \$29.6 to \$45 billion—or a \$7.3 billion to \$22.9 billion unfunded liability.
- If \$45 billion is the right liability estimate, that amounts to 59.8 percent of GDP—3<sup>rd</sup> highest in the country.

# NM's Retiree Health Care Problems

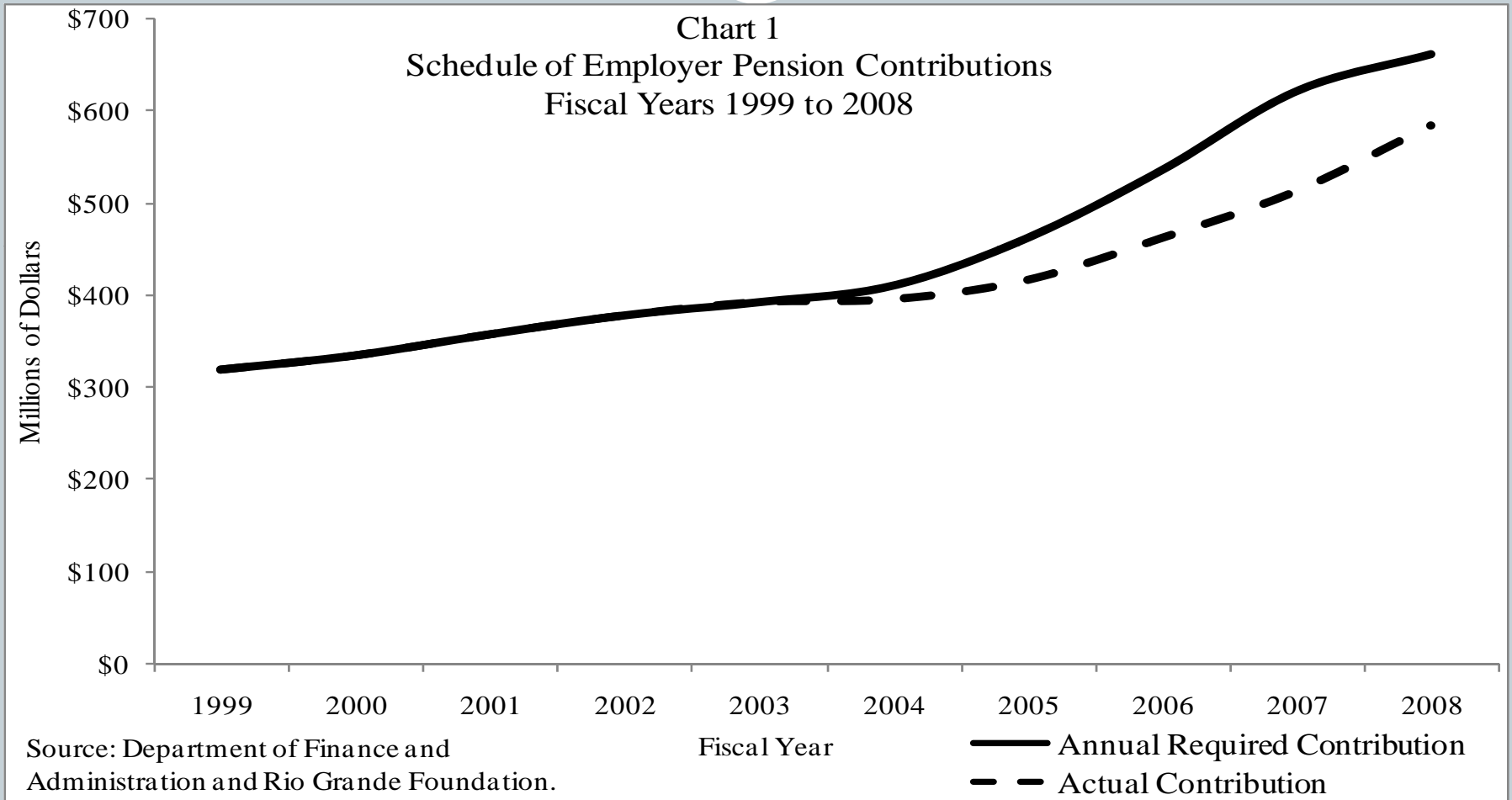


**Table 3**  
New Mexico's Unfunded Retiree Healthcare Liability  
Fiscal Years 2006, 2007 and 2008  
in Billions of Dollars

Actuarial Valuation Date as of June 30	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (AVA/AAL)
2006	\$0.155	\$4.264	-\$4.110	3.6%
2007	N.A.	N.A.	N.A.	N.A.
2008	\$0.171	\$3.117	-\$2.946	5.5%

Source: Department of Finance and Administration and Rio Grande Foundation.

# NM's Pension Bill Grows



# NM's Retiree Health Care Bill



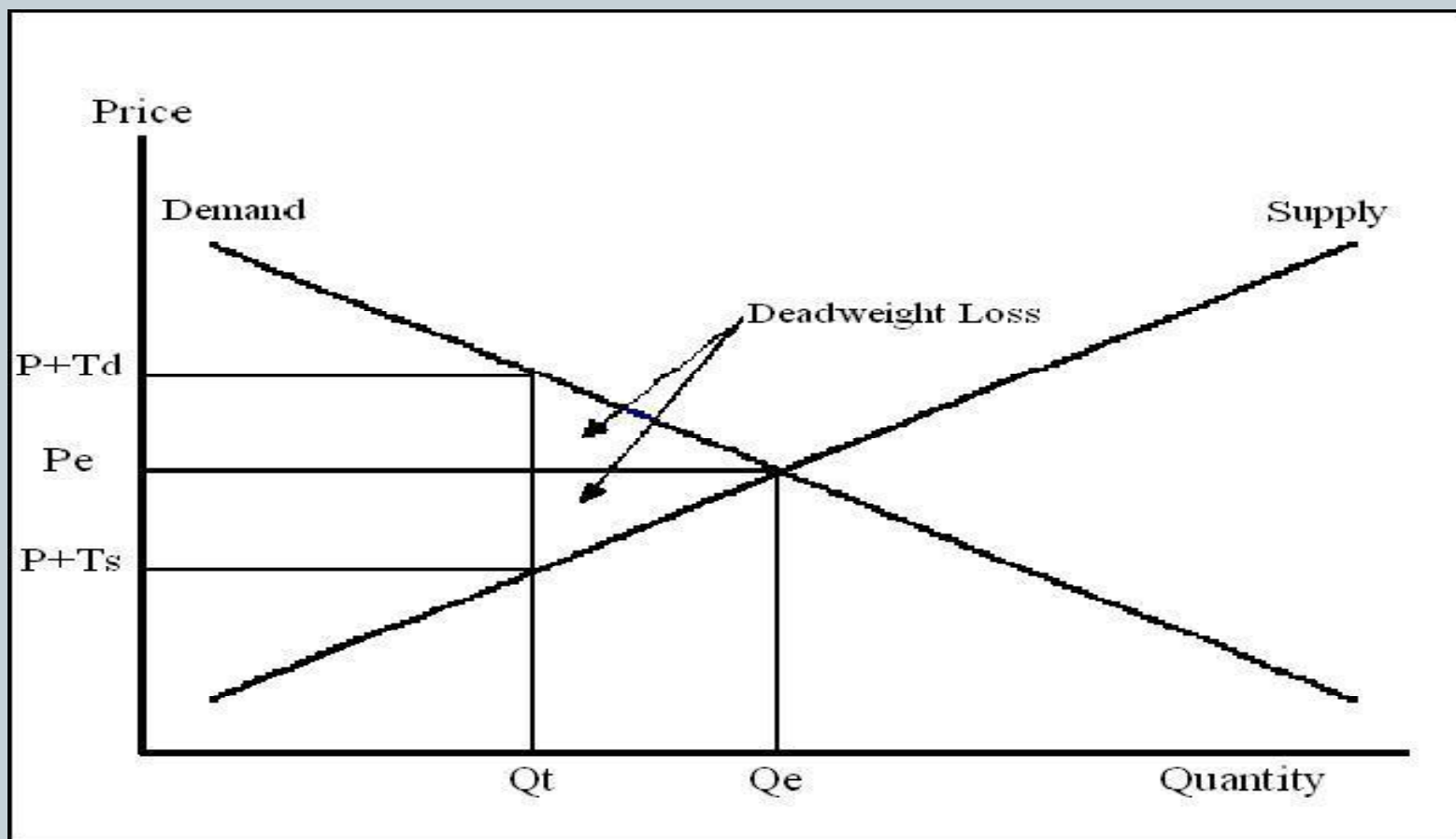
Actuarial Valuation Date as of June 30	Annual Required Contribution	Actual Contribution (Employer and Employees)	Difference
2006	\$383.2	\$70.2	-\$313.0
2007	\$275.5	\$71.2	-\$204.3
2008	\$286.5	\$78.4	-\$208.1

Source: Department of Finance and Administration  
and Rio Grande Foundation.

# Fixing the Pension Problem—Don't Raise Taxes



## Higher Taxes = Higher Deadweight Losses



# Fixing the Pension Problem—Don't Raise Taxes



Top marginal tax rate increase to 6.05 percent from 4.9 percent.

Table 5 Deadweight Loss Estimate of Higher Personal Income Tax to Fully Fund Pension and OPEB	
	FY 2008 (in Millions of Dollars)
Higher Personal Income Tax to Fully Fund Pension and OPEB	\$285
Deadweight Loss:	
Annual:	\$25
Present Value:	\$849
Source: Rio Grande Foundation.	

## But Don't Just Take My Word For It . . .



According to a recent study by UC Berkeley economist David Romer and Christina Romer (now Chair of the Council of Economic Advisors to President Obama):

***"The resulting estimates indicate that tax increases are highly contractionary. The effects are strongly significant, highly robust, and much larger than those obtained using broader measures of tax changes. The large effect stems in considerable part from a powerful negative effect of tax increase on investment."***



# Solutions



## First:

**Get to the bottom of the state and local government over-employment problem.**

- **For every one position eliminated, the immediate budget savings will average nearly \$50,000.**
- **For every one position eliminated, the pension and retiree health care savings are approximately \$287,000 in today's dollars—though savings will actually accrue over time via lower annual required contributions.**

# Solutions



## Second:

**Move all new employees to a Defined Contribution system, such as 401(k)s.**

**Michigan, Alaska and the District of Columbia have Defined Contribution system and many others have dual Defined Benefit/Defined Contribution systems.**

# Solutions



**Finally:**

**Continue recent efforts aimed at having retirees pick up more of the cost of their health care benefits.**

**Recently, West Virginia became the first state to eliminate their OPEB system.**

# Ramifications for Doing Nothing



Consider Illinois which has an \$83 billion unfunded pension liability and another \$24 billion unfunded OPEB liability:

- In April 2009, Moody's Investors Service dropped Illinois' bond rating from Aa3—the bottom tier of high grade, high quality bonds—to A1—the top tier of upper medium grade bonds.
- In December 2009, Moody's lowered Illinois' bond rating again to A2 from A1.
- Additionally, both Standard and Poor's and Fitch IBCA, Inc. have recently downgraded Illinois's general obligation bond rating from AA to AA-.
- Overall, Illinois now has the second lowest bond ratings from the three credit rating agencies—only California has lower ratings.
- These downgrades in Illinois' bond ratings will mean higher future borrowing costs.