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FISCAL IMPACT REPORT

SPONSOR Gonzales ORIGINAL DATE 01/24/17
 LAST UPDATED _____ HB 33

SHORT TITLE Deferred Compensation Changes SB _____

ANALYST Hanika-Ortiz

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		NFI				

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

House Bill 33 (HB 33) amends the Deferred Compensation Act administered by the Public Employees Retirement Association (PERA) to allow for use of electronic transactions to increase plan participation, improve online account management and enhance retirement savings. HB 33 also updates the plan's investment opportunities to comply with the current investment policy.

FISCAL IMPLICATIONS

Statutorily, all SmartSave expenses are charged to plan participants. Each participant pays the automatically deducted, annual fee of \$52.00. In addition, a net expense ratio of 0.41 percent applies to each account. Participant target-date investment options include four investment classes, each with a selection of portfolios that range from conservative to aggressive. Target-date funds are designed to perform optimally within a time period determined by participant age and projected retirement year. The program has \$500 million in assets and 20,000 participants employed by 289 public entities. PERA is working to enroll younger participants.

SIGNIFICANT ISSUES

PERA’s response to an analysis of HB 33 included the following:

Enacted in 1981, the Deferred Compensation Act authorized PERA to approve a deferred compensation plan for public employees. The PERA SmartSave deferred compensation plan (“SmartSave”), codified under 457b of the Internal Revenue Code, is a defined contribution plan with 20,000 participants. SmartSave is designed to provide participants with a tax-deferred savings vehicle for retirement. Entities, through formal action of their governing body, may offer the SmartSave Plan to their employees. Contributions are made through written salary reductions. SmartSave is 100 percent participant directed, based on participant risk tolerance.

SmartSave is distinguished from other deferred compensation plans in that the PERA board provides oversight as a fiduciary of the plan. The PERA board utilizes a third-party administrator to provide administrative, recordkeeping and custody services for SmartSave. Additionally, the PERA board utilizes an investment consultant to provide investment-related services.

HB 33 adds language to the Deferred Compensation Act to enable the PERA board to utilize technology, such as online enrollment and enhanced account management. HB 33 also conforms the Deferred Compensation Act to the SmartSave investment policy’s existing investment options. For example, life insurance or annuity contracts are no longer offered under the plan.

PERFORMANCE IMPLICATIONS

PERA anticipates increased participation and individual retirement savings for members.

ADMINISTRATIVE IMPLICATIONS

The bill also makes routine legislative clean-up to reflect current administrative operations.

DUPLICATION

Senate Bill 75

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Certain transactions such as plan enrollment will continue to require written agreements.

QUESTIONS

Are any other states using their taxpayer-funded public pension systems to help create and administer a retirement savings program for private sector employers and their employees?

AHO/sb/al