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FISCAL IMPACT REPORT

SPONSOR Gonzales/White **ORIGINAL DATE** 01/31/17
LAST UPDATED 02/17/17 **HB** 34/aHCPAC/aHSIVC

SHORT TITLE Payment of State Retirement Benefits **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

Educational Retirement Board (ERB)

Public Employees Retirement Association (PERA)

New Mexico Retiree Health Care Authority (NMRHCA)

SUMMARY

Synopsis of HSIVC Amendment

The House State Government, Indian & Veterans' Affairs Committee amendment to HB34/HCPAC makes a grammatical change that does not appear to be a substantive change.

Synopsis of HCPAC Amendment

The House Consumer and Public Affairs Committee Amendment to HB 34 clarifies that the bill primarily applies to reciprocal retirees who retire on or after July 1, 2017 unless the directors of PERA and ERB can certify to each other that the appropriate accounting infrastructure is in place.

Synopsis of Bill

House Bill 34 (HB 34) proposes to have each of the state's two retirement systems pay their portion of a retirement benefit directly to the retiree with eligible reciprocal service credit.

ERB reports that when an employee has eligible reciprocal service credit with PERA and ERB, the retirement system that the employee retires from pays the retiree both of the retirement

systems' benefits in a single payment. This requires the non-paying system to reimburse the paying system for the amount of monthly benefits paid directly to the retiree on its behalf.

This bill is endorsed by the Pensions and Investments Oversight Committee (IPOC).

FISCAL IMPLICATIONS

HB34 proposes to have each system pay its own portion directly to the reciprocal retiree, eliminating administrative issues surrounding reconciliation of payment amounts. However, creating disadvantages possibly for a retiree receiving two checks from two retirement systems.

HB 34 could create the scenario where either or both retirement systems are withholding taxes on benefits below the appropriate tax rate and thus withholding at a lower rate than if payments were combined. Only when the retiree reports the combined pension incomes to the IRS will the retiree discover that more taxes should have been withheld for the total pension income and additional taxes are owed. To solve this tax issue, ERB and PERA would need to continue communicating for purposes of accurate tax withholding. Another alternative is for ERB and PERA to correct issues surrounding the reconciliation of payments for reciprocity retirees.

SIGNIFICANT ISSUES

NMRHCA reports it would need to work with PERA and ERB to develop a process to determine which pension system to deduct retiree healthcare premiums from for the 2,952 impacted retirees. If either pension received is insufficient, a process will have to be developed. Otherwise, a retiree participating in NMRHCA could inadvertently be dropped from coverage. NMRHCA does not have the resources to bill each retiree separately for their monthly premium.

PERA provided the following graph to demonstrate how service credit under each of the two state retirement systems is calculated using the formula for that system, as follows:

	ERB	PERA	Total Pension
Service Credit	10 Years	15 Years	25 Years
Pension Calculation	ERB Pension: $10 \times 2.35\% = 23.5\%$ of FAS	PERA Pension: $15 \times 3.0\% = 45\%$ of FAS	Monthly Pension: $45\% + 23.5\% = 68.5\%$ FAS

Under reciprocity retirements, each retirement system notifies the other system of the amount of benefit the retiree earned, and continuously monitors to assure the correct amount of funds have been collected or sent to the other fund paying the retiree. This can take a significant amount of time and effort because once the initial retirement benefit amounts are determined in the retirement process they are subject to changes due to 1) adjustments due to the changes in salary reporting that occur at the end of an employee's career, 2) adjustment made due to cost of living adjustments, 3) the death of members who have named an annuitant beneficiary, 4) complications due to court orders in divorce proceedings that require a division of state retirement benefits, 5) complications due to the payment and beneficiary options chosen by the member, and 6) problems that may occur to errors or omissions in the retirement process.

ADMINISTRATIVE IMPLICATIONS

Since PERA and ERB use incompatible information systems, reciprocity payments must be accomplished by email, mail or telephone correspondence between PERA and ERB staff. ERB and PERA report that this is time consuming and errors happen. There are 1,290 ERB retirees who have service credit with PERA and 1,662 PERA retirees who have service credit with ERB.

AHO/jle/al