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## FISCAL IMPACT REPORT

**SPONSOR** Adkins **ORIGINAL DATE** 01/24/17  
**LAST UPDATED** 02/02/17 **HB** 97/aHBIC

**SHORT TITLE** Municipal Life Insurance Benefits Trust **SB** \_\_\_\_\_

**ANALYST** Hanika-Ortiz

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		See fiscal impact				Local governments

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Finance and Administration (DFA)  
 New Mexico Attorney General’s Office (NMAG)  
 New Mexico Municipal League (NMML)

### SUMMARY

#### Synopsis of Amendment

The House Business and Industry Committee amendment to HB 97 removes the reference to Section 115 of the Internal Revenue Code as it relates to municipal life insurance trust funds. The amendment also replaces the term “post retirement” with “post-employment” for clarity.

#### Synopsis of Bill

House Bill 97 (HB 97) allows a municipality to establish an irrevocable post-employment life insurance benefits trust. The bill makes the municipal treasurer trustee of the funds and allows a trust company to invest the funds. Contributions to the trust may only be used for funding post-retirement life insurance benefits, and invested pursuant to the Uniform Prudent Investor Act.

### FISCAL IMPLICATIONS

While the bill references a municipality’s contributions, it does not mention when, how or even if public employees, current or retired, are expected to make contributions or by what amounts.

## **SIGNIFICANT ISSUES**

In addition to retiree healthcare, post-employment benefit trusts may also cover costs associated with other public employee benefits, such as life insurance, disability, legal and other services when those benefits are provided separately from a pension plan. The trusts serve as a reserve to account for the difference between projected life insurance costs for retirees and actual costs.

The New Mexico Municipal League supports this legislation.

## **PERFORMANCE IMPLICATIONS**

NMAG notes that subsection A states that a municipal treasurer may establish, use, and maintain a trust with the “advice and consent” of the municipal board of finance. It may be helpful to more clearly define the scope of influence and power of the municipal board of finance with regard to a trust. The bill identifies the treasurer as trustee but does not identify its beneficiaries.

DFA commented that the bill places full control over the determination of the provisions of such a trust with the municipal treasurer and provides no explicit external oversight.

## **ADMINISTRATIVE IMPLICATIONS**

DFA notes that the Government Finance Officers Association (GFOA) has produced best practices for the establishment and governance of post-employment benefit trusts. Included among the GFOA recommendations are: prefund obligations if there are long-term liabilities, provide a well-documented governance structure, and ensure that benefit designs are sustainable.

GASB 45 requires public employers offering other post-employment benefits to reflect costs in financial statements and disclose amounts of unfunded liability. Employers should be accruing funds throughout an employee’s career in sufficient amounts to fund those benefits at retirement.

## **DUPLICATION**

Duplicates Senate Bill 13

## **OTHER SUBSTANTIVE ISSUES**

DFA also noted municipalities currently provide life insurance to employees, which is reduced by 50 percent upon retirement. As a result of GASB 45, municipalities are now required to book the actuarial liability of benefit plans such as their life insurance plans, rather than expensing the annual costs. This bill would allow municipalities the ability to utilize a trustee to establish a diversified portfolio, which may include equities and other investments, thus allowing municipalities to increase their discount rate. With a higher discount rate, the amount of the unfunded liability would fall. In addition, a well-balanced diversified portfolio may result in better risk adjusted returns, increasing the size of the fund and a city’s financial condition.

AHO/sb/jle