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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/21

SPONSOR Rehm LAST UPDATED \_\_\_\_\_ HB 65

SHORT TITLE Increase Certain PERA Member Contributions SB \_\_\_\_\_

ANALYST Jorgensen

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23		
		Significant*	Recurring	PERA Trust Fund

(Parenthesis ( ) Indicate Revenue Decreases)

\*See Fiscal Implications

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

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>			Significant*		Recurring	Municipalities

(Parenthesis ( ) Indicate Expenditure Decreases)

\*See Fiscal Implications

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Public Employees Retirement Association (PERA)

### SUMMARY

#### Synopsis of Bill

House Bill 65 (HB 65) amends the PERA Act's statutory employee contribution rates, allows members who work in excess of 90 percent of final average salary at a reduced pension multiplier and lowers eligibility for and changes cost-of-living adjustments, as follows:

1. Effective FY25, increases employee and statutory contribution rates for state employees 9 percent, 1.5 percent each year for six consecutive fiscal years;
2. Effective FY27, increases employee contribution rates for municipal general

- members 6 percent, 1.5 percent each year for four consecutive fiscal years;
3. Effective FY27, increases employee statutory contribution rates for municipal police employees 4 percent, 1 percent each year for four consecutive fiscal years;
  4. Effective FY27, increases employee statutory contribution rates for municipal fire employees 6 percent, 1.5 percent each year for four consecutive fiscal years;
  5. Allows members to earn service credit in excess of 90 percent of pension (the current pension maximum) at a reduced multiplier (1 percent general members and 1.5 percent public safety members);
  6. Lowers age for cost-of-living adjustment (COLA) eligibility to 60 years after one calendar year of retirement, from the current 65 years and two years after retirement;
  7. Reduces the current 2.5 percent COLA to 2 percent for disability and lower income retirees;
  8. Restores a 2 percent compounding COLA for all eligible retirees.

**FISCAL IMPLICATIONS**

Laws 2020, Chapter 11 (Senate Bill 72) increased employee and employer contributions by 0.5 percent each year for four years beginning in FY21 for state employees and in FY23 for local governments. HB 65 provides for continued employee contribution increases over what was passed in 2020. Because the increased contributions in HB 65 do not begin until FY25, they do not appear in the revenue or estimated operating budget tables

The contribution increases will increase revenue to the PERA retirement trust fund as follows:

**Revenue to PERA by Plan**

(in thousands)

Plan	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
State General	15,420	30,480	45,721	60,961	76,201	86,361	86,361	86,361
State Police	0	0	0	0	0	0	0	0
Municipal General	0	0	15,414	29,872	44,375	59,219	68,888	68,888
Municipal Police	0	0	2,871	5,742	8,612	11,483	11,483	11,483
Municipal Fire	0	0	2,703	5,407	8,113	10,814	13,517	16,244
<b>Total</b>	<b>15,420</b>	<b>30,480</b>	<b>66,709</b>	<b>101,981</b>	<b>137,302</b>	<b>167,877</b>	<b>180,249</b>	<b>182,977</b>

Source: PERA

HB65 increases employee contributions for all PERA-covered members with the exception of those members of the state police and adult corrections plan. The increases are made on the employee and will thus not have a direct impact on state expenditures. However, local governments, counties and municipalities, often cover a portion of employee contributions required by statute. Section 10-11-5 NMSA 1978 allows municipal affiliated employers to pay up to 75 percent of employees’ member contributions. Should HB65 be enacted, local

government employers will likely face increased costs as they pick up a portion of the increased employee contribution.

PERA estimates the costs to municipalities as follows:

**Estimated Additional Operating Budget Impact**

(in thousands)

Plan	FY27	FY28	FY29	FY30	FY31	FY32
Municipal General	7,707	14,936	22,188	29,610	34,444	34,444
Municipal Police	1,435	2,871	4,306	5,742	5,742	5,742
Municipal Fire	1,352	2,703	4,057	5,407	6,759	8,122
<b>Total</b>	<b>10,494</b>	<b>20,510</b>	<b>30,550</b>	<b>40,758</b>	<b>46,944</b>	<b>48,308</b>

Source: PERA

**SIGNIFICANT ISSUES**

For the year ending June 30, 2020 the PERA Fund had an unfunded actuarial accrued liability (UAAL) of \$6.65 billion and was funded at 70.3 percent. HB65’s contribution increases will not affect State Police and Adult Correctional Officer Plan 1, which is currently funded at 127.2 percent.

The large UAAL prompted the Legislature to pass a pension solvency bill in 2020 which increased member contributions and reduced the annual cost-of-living-adjustment (COLA) paid to retirees. Approximately 70 percent of the PERA plans’ liability was attributable to retirees and the method for paying the COLA resulted in increasing the liability over time. HB65 would reverse the changes made to the cost control aspects of prior legislation and increase employee contributions to offset the additional liability. PERA notes “HB 65 provides for employee contribution increases that may create intergenerational inequities among membership groups.”

Increasing employee contributions will reduce employee take home pay and may be a disincentive to government employment. Additionally, municipalities which offer pension “pick-ups” will need to evaluate the compensation package and determine if they will continue paying employee contributions at the same rate.

**OTHER SUBSTANTIVE ISSUES**

The increase in employee contributions will not have the same positive impact on the funded status of the plan as an employer contribution increase would because employee contributions are refundable while employer contributions are not. In 2020, PERA refunded \$45 million to terminated employees.