F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	1/20/22		
SPONSOR	Anderson	**LAST UPDATED**		**HB**	50
SHORT TITLE	Public Retirees Returning to Work			**SB**	
				ANALYST	Jorgensen

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY22	FY23	FY24	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Indeterminate but Positive			Recurring	PERA Retirement

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB 73

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Public Safety (DPS)
New Mexico Municipal League (ML)
Public Employees Retirement Association (PERA)

No Response Received
State Personnel Office (SPO)

SUMMARY

Synopsis of Bill

House Bill 50 allows retirees from any PERA coverage plan to return to work for a PERA-affiliated employer without suspending payment of the pension benefit, provided that the former employee retired before December 31, 2021. The conditions for re-employment include:

1. A retiree returning to work must have retired at least 12 consecutive months before reemployment and may not have worked as an independent contractor for the agency from which the employee retired during that time.
2. An employee who returns to work may do so for up to 36 consecutive or nonconsecutive months.
3. Return to work employees will continue to receive a cost of living adjustment on their current PERA benefit.
4. Non-refundable employee and employer contributions shall be paid to the proper PERA

coverage plan.

5. Return to work employees will not accrue additional service credit during the period of re-employment.

HB50 is effective July 1, 2022.

FISCAL IMPLICATIONS

PERA notes there will likely be a small positive impact to the pension funds as a result of enactment of HB50. There are two reasons for this:

1. During re-employment, return to work employees will pay normal, non-refundable contributions to the fund, but will not receive an added benefit as a result. The requirement for continued contributions increases revenue to the fund though no additional liability is created, thus improving the funded status of the plans.
2. To be eligible for return to work, an employee must have been retired as of December 31, 2021. Because this date has already passed, it cannot influence an employee's decision to retire in order to return to work (RTW). RTW is often a net negative to a pension fund as employees tend to retire earlier than they would have otherwise, thus reducing contributions to the fund and shortening the period over which contributions may be invested before paying benefits. Therefore, creating an incentive for employees to retire early generally reduces pension funding. By setting eligibility criteria which remove the incentive for early retirement, HB50 limits any negative impact to the pension fund.

Because the number of RTW employees is not known, it is not possible to determine the impact to the pension funds. Therefore, the fiscal impact to the retirement fund is indeterminate but positive.

For the year ending June 30, 2021 the PERA Fund had an unfunded actuarial accrued liability (UAAL) of $6.58 billion and was funded at 71.4 percent.

SIGNIFICANT ISSUES

In 2021, the average age of a PERA retiree was 59.6 years, 2.4 years less than the social security early retirement age of 62. Because there are a number of retirees of working age in the state, it is likely the changes in HB50 will allow state and local governments to fill a number of vacant positions. The average ages and annual benefits for the five PERA coverage plans are shown below:

Plan	Avg. Retirement Age	Average Annual Benefit
State General	61.05	$30,048
State Police/Corrections	52.72	$37,752
Municipal General	61.25	$28,644
Municipal Police	50.15	$50,976
Municipal Fire	48.31	$56,148
Total	**59.6**	**$43,719**

The Department of Public Safety reports:

> The DPS believes this bill would likely lead to a substantial number of retired police officers "returning to work," which could assist with staffing challenges that have been plaguing law enforcement in the state. This assumption is based on several factors, including the lower age at which many law enforcement officers retire and the significant number of officers who returned to work when an earlier version of this law was in place. The time limits in place will ensure a one-year separation before renewed employment as well as capping the overall length of renewed service at thirty-six months, which should help ensure the overall retirement plan continues to function as expected. DPS believes this bill would be very beneficial for public safety in the near term.

The Municipal League notes:

> Allowing retirees to return to work for a public employer while continuing to collect pension benefits could be a useful tool for municipal governments and law enforcement departments to fill staff vacancies. Employment in municipal governments has lagged, even as private sector employment has recovered. For example, the Pew Charitable Trusts found that as of August 2021, local public payrolls were down 5.3 percent from pre-pandemic totals. The Municipal League is supportive of HB50 to give municipal governments more options for hiring.

CJ/acv/rl