# FISCAL IMPACT REPORT

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|---|---|---|---|---|---|
| | | **ORIGINAL DATE** | 2/14/22 | | |
| **SPONSOR** | HLVMC | **LAST UPDATED** | | **HB** | 243/HLVMCS |
| **SHORT TITLE** | PPHSW/Increasing Maximum Amount of Pension | | | **SB** | |
| | | | | **ANALYST** | Graeser/Jorgensen |

## REVENUE (dollars in thousands)

| **Estimated Revenue** | | | | | **Recurring or Nonrecurring** | **Fund Affected** |
|---|---|---|---|---|---|---|
| **FY22** | **FY23** | **FY24** | **FY25** | **FY26** | | |
| | | | neutral to slightly positive impact | | Recurring | Public Employees Retirement Trust Fund |

Parenthesis ( ) indicate revenue decreases

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

| **FY22** | **FY23** | **FY24** | **3 Year Total Cost** | **Recurring or Nonrecurring** | **Fund Affected** |
|---|---|---|---|---|---|
| | | | | | |

Parenthesis ( ) indicate expenditure decreases

HB243/CSHLVMC is related to HB50, HB73 and HB105, which would permit certain public retirees to return to work without suspending pension payments.

**SOURCES OF INFORMATION**
LFC Files

Responses Received From
Public Employees Retirement Association (PERA)
State Personnel Office (SPO)

**SUMMARY**

Synopsis of Bill

House Labor, Veteran' and Military Affairs Committee substitute for House Bill 243 (HB243) would increase the maximum pension amount from 90 percent of the final average salary to 100 percent of the final average. The increase will affect the state general, municipal general, state police, municipal police, and municipal fire plans.

There is no effective date of this bill. It is assumed that the effective date is 90 days following adjournment of the Legislature or May 18, 2022.

## FISCAL IMPLICATIONS

Pension benefits are calculated by multiplying the number of years of service by a service credit multiplier and the final average salary so that:

*Annual Pension Benefit = years of service X service credit multiplier X final average salary*

House Bill 243 would increase the maximum benefit paid to retirees from 90 percent to 100 percent. A tier 1 state general plan employee receiving a service credit multiplier of 3 percent would have to work 3.3 years longer to qualify for the increased benefit. Lengthening the average career both increases contributions to the fund and provides a longer time for investment returns to compound and also reduces the time a member will receive benefits, assuming no change in life expectancy. For these reasons, HB243 would have a slight positive impact on the fund.

PERA's actuary indicates the following:
"Overall, there was no material impact on the PERA fund. A small decrease in the actuarial accrued liability of $6.9 milllion led to a small increase in funded ratio from 71.4% to 71.5%. The normal cost rate remains unchanged as does the amortization period both from the June 30, 2021 valuation as well as the projection model. The following table shows a compariosn of the results both before and after the proposed changes in HB 243 for all PERA divisions combined.

| June 30, 2021 Actuarial Valuation Results (All PERA Divisions) | | | |
|---|---|---|---|
| **($ in millions)** | **Baseline (No Change to current valuation)** | **Benefit Cap 100% (HB 243)** | **Difference** |
| Actuarial Accrued Liability (AAL) | $ 23,042.4 | $ 23,035.5 | $ (6.9) |
| Actuarial Value of Assets (AVA) | $ 16,460.3 | $ 16,460.3 | $ 0.0 |
| Unfunded Actuarial Accrued Liability (UAAL) | $ 6,582.1 | $ 6,575.2 | $ (6.9) |
| **Funded Ratio (AVA/AAL)** | **71.4%** | **71.5%** | **(0.1)%** |
| Statutory Contribution Rate | 28.14% | 28.14% | 0.00% |
| Normal Cost and Admin Expenses | (16.74%) | (16.74%) | 0.00% |
| Remaining to Amortize UAAL | 11.40% | 11.40% | 0.00% |
| **Amortization Period** | **72 years** | **72 years** | **No Change** |
| Increase in Statutory Rate Necessary to Amortize UAAL over 25 Years | 5.87% | 5.87% | No Change |

SPO notes that by eliminating the 90% benefits cap, HB243 will encourage employees to delay retirement (until they reach the 100% benefits cap), which in turn will require employers and employees to make PERA contributions on behalf of those employees longer than they otherwise would.

## SIGNIFICANT ISSUES

While HB243 creates additional liability to the pension fund by increasing the maximum pension benefit, it matches that additional liability with commensurate employee and employer contributions and investment returns. Additionally, rather than encouraging early retirement, the potential increase in pension encourages employees to work the additional three to five years required to maximize each employee's pension. By setting eligibility criteria which remove the incentive for early retirement, the provisions of this bill limit that source of negative impact to the pension fund. However, because both the earned service credit and the final average salary will increase, the overall impact to the fund may be moderately negative.

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. The provisions of this bill will probably encourage employees to retire later rather than earlier. This would aid state and local public agencies in maintaining appropriate levels of staffing. The average ages and annual benefits for the five PERA coverage plans are shown below:

| Plan | Average 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** |

HB243 will also have a positive impact on the retention and recruitment efforts of government entities.

PERA indicates that there are 191 active employees with 30 or more years of service.

Similarly, increased pension amounts should assist with recruitment efforts. PERA's defined benefit plan is already an asset to New Mexico's government workers. By increasing the pension amount by 10%, HB243 compounds the appeal of government jobs and will help attract additional applicants

Other comments expected will indicate support for the proposal from all state and local agencies:.

> … has particular potential to benefit the New Mexico Corrections Department, State Police, State Fire Marshal's Office, and city and county municipalities who employ law enforcement and corrections employees, since these employees generally retire younger due to accelerated retirement plans. The bill could reduce vacancy rates in these hard to recruit/retain areas.
>
> ... 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.

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

HB 50 and HB105 would allow a retired public employee, pursuant to certain restrictions to return to work for a public employer without having to suspend that person's PERA pension. HB73 would allow a retired teacher to return to work for a public employer without suspending the teacher's ERA pension. If HB243 and either HB50 or HB105 were to pass, it would change the fiscal impact and, perhaps, the PERA solvency provisions.

LG/al