

LFC Requester:	Simon, Joseph
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AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO

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(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Date Prepared: 1/25/25 *Check all that apply:*
Bill Number: SB 117 Original Correction
 Amendment Substitute

Sponsor: Senator Padilla & Senator Stefanics **Agency Name and Code** 366-PERA
Short Title: PERA COST-OF-LIVING ADJUSTMENTS **Number:** _____
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
	\$50,000.00	Nonrecurring	

(Parenthesis () indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to: HB96 & SB 30
 Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

Effective July 1, 2026, SB 117 amends the Public Employees Retirement Act [NMSA 1978 10-11-118] to change the current cost-of-living adjustment structure for qualified pension recipients to provide that they receive a cost-of-living adjustment in an amount equal to the Social Security and Supplemental Security Income cost-of-living adjustment. The PERA Board will certify the amount of the cost-of-living adjustment determined by the Social Security Administration on January 1, 2026 and each January 1 thereafter.

FISCAL IMPLICATIONS

Because SB 117 changes the current cost-of-living adjustment (COLA) for qualified pension recipients for the PERA fund to equal the COLA determined by the federal Social Security Administration it will have a significant impact on the funding status of the PERA fund.

The COLAs for Social Security Administration are based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which means they can vary significantly from year to year. The COLAs over the past five years (2020-2024) were 1.3%, 5.9%, 8.7% 3.2%, and 2.5% respectively.

The actuaries proved a sensitivity of the valuation of future COLAs under the proposed legislation and this sensitivity is based on the sensitivity used in the actuarial valuation of the Social Security Administration.

All PERA Division (excluding Legislative)				
	June 30, 2024 Valuation	Low Inflation	Proposed Legislation	High Inflation
COLA Assumption	1.25-2.00%, annually	1.8%, annually	2.5%, annually	3.0%, annually
Unfunded Liability	\$8,714 million	\$9,647 million	\$11,456 million	\$12,886 million
Funded Ratio	67.2%	64.9%	60.9%	58.1%
Amortization Period	52 Years	63 Years	N/A*	N/A*

* Currently scheduled contributions are not expected to accumulate sufficient assets in order to pay all of the currently scheduled benefits.

PERA’s unfunded liability would go from \$8.7 billion to approximately \$11.5 billion based on an analysis done last year excluding the legislative retirement division. Also, PERA’s funded ratio excluding the legislative retirement division would decrease from 67.20% to 60.90% and the amortization period would go from 53 years to infinite years based on last year’s analysis.

For the legislative division the unfunded liability would also increase and funded ratio would decrease from 94.30% to 86.60%. PERA will update the total decrease in the funding ratio once PERA receives updated actuarial analysis for the current year.

The proposed change in the COLA has a significant impact on the PERA fund, increasing the unfunded liability by more than \$2.7 billion. The \$50 million annual appropriation provided in the proposed legislation is not sufficient to fund the proposed COLA enhancements. In order for the funding period to remain at 53 years, the minimum annual appropriation would need to be increased to approximately \$285 million, annually, until PERA is 100% funded.

SB 117 should not have an impact to PERA's operating budget.

SIGNIFICANT ISSUES

The proposed change in the COLA has a significant impact on PERA fund, increasing the unfunded liability by more than \$2.7 billion. The \$50 million annual appropriation provided in the proposed legislation is not sufficient to fund the proposed COLA enhancements.

PERFORMANCE IMPLICATIONS

SB 117 will not affect PERA's performance measures.

ADMINISTRATIVE IMPLICATIONS

PERA will have to make system modifications to its pension administration system to ensure that the COLA is changed each year to the COLA determined by the federal social security administration. The PERA Board will have to certify the COLA determined by the federal social security administration each calendar year.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

None.

TECHNICAL ISSUES

None.

OTHER SUBSTANTIVE ISSUES

Article XX, Section 22, of the New Mexico Constitution prohibits the Legislature from enacting any law that increases the benefits paid by PERA unless adequate funding is provided. That section assigns the PERA board the sole and exclusive power to adopt actuarial assumptions, based on recommendations from an independent actuary. If the proposed legislation does not include adequate funding, it is possible that the proposal does not meet the requirements of that section.

ALTERNATIVES

HB96 sponsored by Representative Joseph Sanchez provides a temporary 2% lump sum non-compounding payment to eligible retired members and provides an appropriation that is sufficient to fund it. This approach can provide eligible retired members with temporary relief without negatively affecting PERA funded ratio or amortization period. The payments will be in addition to any compounding COLA members are eligible for.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

PERA's qualified pension recipients would continue to receive a yearly COLA based on the current COLA structure in the PERA Act.

AMENDMENTS

None,