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## FISCAL IMPACT REPORT

SPONSOR Harrison DATE TYPED 2/11/04 HB 354

SHORT TITLE E-911 Telecommunicator Retirement Plan SB \_\_\_\_\_

ANALYST Wilson

### APPROPRIATION

| Appropriation Contained |      | Estimated Additional Impact |               | Recurring or Non-Rec | Fund Affected |
|-------------------------|------|-----------------------------|---------------|----------------------|---------------|
| FY04                    | FY05 | FY04                        | FY05          |                      |               |
|                         |      |                             | See Narrative |                      |               |
|                         |      |                             |               |                      |               |

### SOURCES OF INFORMATION

LFC Files

Responses Received From

PERA

### SUMMARY

#### Synopsis of Bill

House Bill 354 creates a new state E-911 Telecommunicator member coverage plan for E-911 Telecommunicators, employed by an affiliated-public employer, who are responsible for receiving 911 service calls and directly dispatching emergency response services. Specifically, E-911 Telecommunicator Plan 1, if approved by an election of the affected membership, will provide for a 20 % service credit enhancement benefit, a 3% pension factor and an 80 % pension maximum. The member must be in the E-911 Telecommunicator Plan 1 for 18 months prior to being eligible for the associated benefit enhancements. The member's contributions under the proposed E-911 Telecommunicator Plan 1 will be 16.65 % of salary; the employer contributions are 16.65 %.

#### Significant Issues

The primary policy issue raised by HB 354 is whether E-911 Telecommunicators should receive the increased benefits of 20% service credit enhancement retirement benefit. Another policy issue for the legislature is whether the employer and employee should fund the increased benefit equally.

PERA's actuary has not been asked to conduct an actuarial study for an actuarial cost determination on the increase of benefits contained in HB 354. PERA cannot determine whether the contribution levels proposed in HB 354 have an actuarial relation to the membership affected by the proposed legislation. Adequate funding through employee and employer contributions will be required before E-911 Telecommunicator Plan 1 could be implemented.

To date, all employee groups eligible for the enhanced benefits of a 20-year retirement plan or having each year of service credit enhanced by 20% as do the state police, adult correctional officers, municipal police, municipal fire, and municipal detention officers, have a commonality of danger to life as an integral part of the job. Expanding enhanced benefits to employee groups beyond these "hazardous duty" employee groups will effectively set precedent for all employer groups to seek enhanced benefits from the retirement system.

The PERA Board has adopted a position to not endorse any benefit enhancement legislation until sufficient experience is gained to determine the actuarial impact of benefit enhancements passed during recent legislative sessions.

Currently, statewide E-911 Telecommunicators employed by municipal and county public-affiliated employers are covered under Municipal General Coverage Plans 1, 2 and 3. All statewide E-911 Telecommunicators are eligible to retire at any age with 25 or more years of service credit and, depending on which plan they are under, pay between 7% and 13.15% of their salary in contributions. Similarly, their employers pay between 7 % and 9.15% of salary in contributions, depending on the coverage plan they are under.

HB 354 allows each public-affiliated employer to hold an irrevocable election of its E-911 Telecommunicators to decide whether they will accept the increased contributions for the enhanced benefits. If accepted by an election of the affected membership, HB 354 will allow employees covered by the new E-911 Telecommunicator Plan 1 to have each year of service credit enhanced by 20%, effectively allowing its members to retire with 20 years and 10 months of actual service, with a 3 % pension factor and an 80% pension maximum. For E-911 Telecommunicator Plan 1, employees will pay 16.65 % of their salary in contributions and their employer will pay 16.65 % of salary in contributions. For E-911 Telecommunicators currently covered by Municipal General Plan 3, this represents a 3.5 % increase in employee contributions and a 7.5% increase in employer contributions.

## **FISCAL IMPLICATIONS**

HB 354 would add another member coverage plan to the 29 other coverage plans that PERA currently administers. Since PERA is implementing a new pension software system, the addition of another coverage plan may result in a change order to the existing contract with the vendor. PERA would be required to absorb the costs associated with such a change.

For the period ending June 30, 2002, PERA's unfunded liability grew significantly and the time to pay off its unfunded actuarially accrued liability (UAAL) increased from 7 years to 10 years. The June 30, 2003 actuarial valuation indicates that PERA funding resources are sufficient to fund the Normal Cost and finance the UAAL over an aggregate period of 17 years. It should be noted, however, that the funding of assets uses a smoothing technique that spreads investment gains and losses out over a 4-year period. One quarter of this year's investment loss has been recognized in last fiscal years funding value and one quarter of it will be recognized in each of

the next 3 years. Past gains have been fully realized in this year's funding value. In aggregate, the system had an experience loss for the year ending June 30, 2003 of \$546 million, due to rate of return on funding value of assets less than assumed (3% vs. 8%) and retirements greater than assumed. Specifically, PERA's actuaries reported a loss of \$511 million for 3 of the 4 years of investment activity that will flow into the recognized gain/loss in next year's actuarial valuation. If a loss of this magnitude occurs next year, the effect would be that the overall PERA funding ratio will drop to 92% and PERA UAAL will increase to approximately 36 years.

#### **ADMINISTRATIVE IMPLICATIONS**

HB 354 will require PERA to manage another member coverage plan, in addition to the existing 29 other coverage plans.

PERA will be required to coordinate each election for adoption of the new coverage plan by E-911 Telecommunicators employed by affiliated-public employers statewide. PERA would be required to move affected membership, along with corresponding assets and liabilities, from their current coverage plans into the proposed E-911 Telecommunicators Member Coverage Plan 1.

**DW/dm**