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

SPONSOR Swisstack **ORIGINAL DATE** 1-26-07 **LAST UPDATED** 3-05-07 **HB** 280

SHORT TITLE E-911 Telecommunicator Public Retirement **SB**

ANALYST Aubel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	See Fiscal Impact		General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$50.0		$50.0	Non-Rec	Public Employees Retirement Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with SJM 6

SOURCES OF INFORMATION
LFC Files

Response Received From
Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

House Bill 280 creates a new retirement plan under the PERA Act allowing for E-911 telecommunicator members to be first eligible to retire with 20 years of service credit with a 3.5 percent pension factor. This coverage plan would be applicable to both E-911 telecommunicator members directly dispatching emergency services in response to 911 service calls and to those supervising such E-911 telecommunicators. The member must be in the E-911 Telecommunicator Plan 1 for 18 months prior to being eligible for the proposed benefit enhancements. The member's contributions under the proposed E-911 Telecommunicator Plan 1 will be 14.65 % of salary; the employer contributions are 16.6 %.

FISCAL IMPLICATIONS

The actuarial study recently completed to assess the fiscal impact of this enhanced plan estimates House Bill 280 will increase unfunded liabilities to the PERA fund by approximately $11.4 million. Rather than pre-funding this liability through an appropriation, House Bill 280 raises contribution rates sufficiently to amortize the $11.4 million unfunded accrued actuarial liability over 30 years, given certain assumptions hold.

Under the current plan, the combined average contribution rate paid for the affected 470 members is 20.1% of payroll (10.47% member and 9.63% employer). House Bill 280 would raise the contribution rate to a combined contribution rate of 31.25% (14.65% member and 16.6% employer), almost doubling the employer contribution and yielding a total increase for all employer contributions of approximately $1.1 million recurring budget expense. General funds would be required for those employers that are state funded. Providing an appropriation to reduce any portion of the $11.4 million unfunded liability would reduce the required statutory contribution rates for the new coverage plan going forward.

PERA stated that House Bill 280 would require changes to PERA's computer pension administration system and estimated such revisions would cost approximately $50.0 thousand to implement, based on past change orders.

SIGNIFICANT ISSUES

The primary policy issue raised by House Bill 280 is whether E-911 Telecommunicators should receive the increased benefits of a plan where service credits are enhanced by 20% for every year of service and retirement benefits are calculated using a 3.5% pension factor. To date, all employee groups that are eligible for 20-year enhanced plans (state police, adult correctional officers, municipal police/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 may set precedent for all employer groups to seek enhanced benefits from the retirement system.

According to the actuarial study, the average annual salary for affected members is $34,276. Using this average, the annual increase for the employee's PERA deduction would be approximately $1,432, from $3,589 to $5,021. While on average 911 operators would have $120 less take-home monthly pay, they would be able to retire sooner.

It should be noted that short term evidence supporting the theory that enhanced retirement plans improve hiring and retention has so far remained elusive. Using the experience of the Department of Corrections, which instituted the enhanced plan effective July 1, 2004, long term performance results are inconclusive:

Performance Measure	FY02	FY03	FY04	FY05	FY06
Percent turnover of correction officers	10.97%	9.97%	11.8%	10.8%	20.91%*
Number of cadets					

entering corrections department training academy	274	236	215	206	206

*In 2006, 85 officers retired the first month of eligibility under the new plan.

However, in the short term the Correction Department's experience of its new plan clearly showed a negative impact on turnover rate: 85 officers retired in the first month of eligibility under the new plan. To the extent this new plan encouraged officers to retire earlier than they would have otherwise means retirements will be paid out longer, also contributing a negative fiscal impact to the fund. The shorter the "waiting period" is specified the higher the impact, because the member and employer will have contributed at the higher rate for a shorter period of time.

As of June 30, 2006, PERA's aggregate funding ratio (fund actuarial asset value divided by plan liabilities) was 92%. The aggregate funding period (amount of time to fully amortize the liabilities) was 16 years. The minimum GASB standards are 80% and 30 years, respectively.

PERFORMANCE IMPLICATIONS

PERA noted that it does not anticipate that House Bill 280 would affect its performance measures.

ADMINISTRATIVE IMPLICATIONS

PERA noted it will need 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.

House Bill 280 will add another member coverage plan to the 31 that PERA already administers.

CONFLICT

House Bill 280 conflicts with Senate Joint Memorial 6, which proposes a two year moratorium on benefits enhancement legislation affecting the Public Employees Retirement Association.

OTHER SUBSTANTIVE ISSUES

Article XX Section 22 of the Constitution of the State of New Mexico requires that an increase in benefits under the retirement system be adequately funded to preserve the PERA fund's actuarial soundness. While House Bill 240 does provide for such funding over a 30 year period, PERA maintained that the unfunded accrued actuarial liability for House Bill 280's benefit enhancement should be pre-funded through a special appropriation as a safeguard to the fund's solvency. Future events may not validate the actuarial assumptions underlying this unfunded liability estimate and its estimated 30-year amortization, such as the assumed 8 percent returns on investments.

House Bill 280 provides for an 18-month eligibility period for a member to first become eligible to retire with enhanced benefits under the plan. PERA maintained that a 36-month mandatory waiting period is appropriate before members are eligible to retire from the plan to allow for payment of contributions at higher levels toward their enhanced benefit prior to retirement. This will lessen the impact of increased liabilities on the new plan that may occur if a number of members immediately retired with enhanced benefits sooner than normally projected.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Statewide E-911 telecommunication workers will continue to be covered by one of 8 member coverage plans (State General Plan 3, Municipal General member coverage plans 1, 2, 3 and 4 and Municipal Police plans 1, 4 and 5) with varying retirement benefit levels.

POSSIBLE QUESTIONS

1. Should the employer or employee bear the cost of the increased contribution rates required by the proposed benefit plan structure?

2. Will high turnover and vacancy rates be adequately addressed through this plan?

3. How will the reduced take-home-pay influence hiring and retention?

MA/csd