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FISCAL IMPACT REPORT

ORIGINAL DATE 2-18-07
 SPONSOR Varela LAST UPDATED 3-22-07 HB 1100/aHJC/aSJC
 SHORT TITLE Juvenile Correction Officer Retirement SB _____
 ANALYST Aubel

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- Recurring	PERA

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 280, HB 411, HB 595, HB 765 and SB 575 (duplicate of HB 595)

Conflicts with SJM6

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Retirees Retirement association (PERA)

Children, Youth and Families Department (CYFD)

Note: Synopsis of bill has been revised to correct the current calculation for employee contribution rate for State Hazardous Duty Plan 2. Specifically, the rate is currently 4.78%, not the 7.42% as reported by CYFD. This correction changes the employee contribution analysis under Significant Issues.

SUMMARY

The Senate Judiciary Committee amendments make two significant changes:

1. The enhanced twenty-year plan is made applicable only to service credit for juvenile correctional officer member earned from the effective date of the plan becoming applicable to that member going forward. It would no longer apply to past earned service credit.
2. The employee contribution rate is reduced from 10.25 percent to 8.29 percent, which is the new actuarial rate required to fund the enhanced benefit going forward. There is no need to amortize an unfunded liability for 30 years because the past service credit component has been eliminated, which accounted for 1.96 percent of the actuarial required increase of 5.47 percent. The current rate of 4.78 percent plus 3.51 percent

equals the 8.29 percent.

Synopsis of HJC Amendment

The House Judiciary Committee Amendment to House Bill 100 incorporates the suggested amendments to clarify voting, correct language and include language making the qualifications applicable to “normal or disability retirement” payments under the correctional coverage plan 1.

The 18-month eligibility “wait-period” remains unchanged.

Synopsis of Original Bill

House Bill 1100 proposes to provide juvenile correctional officers employed by the Children, Youth and Families Department or its successor agency with the same benefits as provided under the current State Police and Adult Correctional Officer Member Coverage Plan 1. Specifically, juvenile correctional officers, if approved by an election of the affected membership, would be eligible for a 20 percent service credit enhancement benefit, a 3 percent pension factor and an 80 percent pension maximum now only available to state police officers and adult correctional officers. Only actual service in the position of juvenile correctional officer under the new State Police Member and Correctional Officer Member Coverage Plan 1 would be eligible for its benefit enhancements. The member’s contributions under the proposed State Police Member and Correctional Officer Member Coverage Plan 1 will be 10.25 percent of salary; the employer contributions will remain 25.72 percent.

FISCAL IMPLICATIONS

The increase in unfunded liabilities to the PERA fund due to HB 1100 is calculated at approximately \$3.2 million, based on the validated active membership of 291 members. HB 1100 does not provide for an appropriation to pre-fund the \$3.2 million unfunded liability that results from the proposed benefit enhancements. Rather, HB 1100 provides for a combined contribution rate of 35.97 percent of payroll (10.25 percent member and 25.72 percent employer) that is sufficient to amortize the \$3.2 million unfunded accrued actuarial liability over 30 years. The increase of 5.47 percent over existing contribution levels is borne by the affected membership; thus, HB 1100 has no fiscal impact to CYFD regarding pension contributions.

HB 1100 will require changes to the new computerized pension system that PERA is implementing. Benefit enhancements amending the PERA Act will result in a change order, with associated costs, to PERA’s existing contract with the vendor. Similar changes have cost up to \$50.0 thousand. If further revisions to the system are necessary in FY08, PERA will be required to seek a BAR to cover the costs of these system changes.

SIGNIFICANT ISSUES

The primary policy issue is whether juvenile correctional officers should receive the increased benefits of 20 percent service credit enhancement retirement benefit. Testimony was presented during the interim that suggests that these officers work under similar conditions and face similar risks as the adult correction officers.

Employee Contribution. According to CYFD, on average juvenile correctional officers (JCOs)

earn about \$30.2 thousand annually. CYFD currently employs 303 Juvenile Correctional Officers. At the current rate of 4.78 percent under the State Hazardous Duty Plan 2, they contribute about \$1,444.00 each per year to their retirement. At the proposed rate of 10.25 percent, they would be contributing \$3,095.00 per year, an additional \$1,652.00 more per year. While JCOs would have less take home pay on average, they would be able to retire sooner. CYFD proposes that this benefit will strengthen CYFD’s ability to recruit and retain JCO’s.

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.

PERFORMANCE IMPLICATIONS

CYFD maintains that HB 1100 could positively impact the General Accountability Act and CYFD strategic plan performance measure of “turnover rate of journeyman juvenile correctional officers.”

However, the Correction Department’s experience of its new plan clearly showed a negative impact in the short term 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 will have contributed at the higher rate for a shorter period of time.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to HB 280, which creates a 20-year retirement plan for statewide E-911 telecommunicator workers.

Relates to HB 595, which creates a 20-year retirement plan for statewide district attorney members.

Relates to HB 765, which proposes to add probation and parole officer members to State Police Member and Adult Correctional Officer Member Coverage Plan 1.

Relates to HB 411, which creates a new member coverage plan under the PERA Act allowing a 20-year retirement plan for Law Enforcement Academy Instructor members.

Relates to SB 576, which creates a 20-year retirement plan for statewide district attorney members.

Relates to HB 800, which proposes to add motor transportation officers and special investigator members to State Police Member and Adult Correctional Officer Member Coverage Plan 1.

Conflicts with SJM 6, which proposes a 2-year moratorium on benefit 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. The membership affected by the proposed legislation has received an actuarial study for an actuarial cost determination of its benefit increase that estimates the unfunded liability at \$3.2 million. As noted, HB 1100 does not provide any appropriation for the \$3.2 million unfunded accrued actuarial liability. The consensus of the PERA Board is that the unfunded accrued actuarial liability for HB 1100's benefit enhancement should be pre-funded through a special appropriation as a safeguard to the fund's solvency. Providing an appropriation to reduce any portion of the \$3.2 million unfunded liability would necessarily reduce the required statutory contribution rates for the new coverage plan going forward.

HB 1100 provides for an 18-month eligibility period for JCO members to first become eligible to retire with enhanced benefits under the plan. PERA maintains 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 longer eligibility period 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.

HB 1100 will allow for an election by the affected membership to decide whether they will accept the increased contributions for the enhanced benefits.

A number of proposals have been made during the 2007 Session for increased benefits for various groups. While the actuarial unfunded liability may have been estimated for a specific group, no actuarial impact was determined for the cumulative fiscal impact on PERA's unfunded liability if all the proposals are enacted.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Juvenile correctional officers employed by CYFD will continue to be covered by Hazardous Duty Plan 2. Juvenile correctional officers are eligible to retire at any age with 25 or more years of service credit. They receive a 3 percent pension factor for every year they earn service credit and are capped at 100 percent of their final average salary. For Hazardous Duty Plan 2, correctional officers pay 4.78 percent of their salary in contributions and their employer pays 25.72 percent of salary in contributions.

AMENDMENTS

The following PERA-suggested amendments were included in the HJC Amendment:

Page 9, line 2 after the word “for” insert “normal or disability retirement or payment of normal or disability retirement benefits”.

Page 8, line 20, states that the retirement board shall certify, “a majority of the members voting have voted to approve adoption of that plan at an election.” Line 20 should be corrected to state, “a majority of affected members have voted to approve adoption of that plan.”

Page 11, line 12 after the word “and” strike the word “adult”.

POSSIBLE QUESTIONS:

1. How will the average \$55 annual (\$138.00 monthly) increased deduction for retirement, which will reduce take-home salary, affect recruitment and retention?
2. How many officers will be eligible to retire after 18 months? After 36 months?
3. How is CYFD planning to address any large number of retirements?

MA/mt