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FISCAL IMPACT REPORT

ORIGINAL DATE 02/04/09
 LAST UPDATED 03/07/09 **HB** 271/aHHGAC/aHFI#1

SPONSOR Garcia, T. _____

SHORT TITLE Reopen Municipal Employee Retirement Plan 4 **SB** _____

ANALYST Aubel _____

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		Indeterminate See Below	Indeterminate See Below	Indeterminate See Below	Recurring	Municipal Employer Operating Budgets

(Parenthesis () Indicate Expenditure Decreases)

Companion to HB 355

SOURCES OF INFORMATION

LFC Files

Responses Received From (For Original Bill)

Department of Finance and Administration (DFA)

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of HFI#1 Amendment

The House Floor Amendment #1 to House Bill 271/aHHAGC strikes the HHAGC amendment in its entirety. The new Section 2 further clarifies that the benefits under Municipal Plan 4 will be prospective and that pension benefits earned under more than one plan prior to Municipal Plan 4 will be calculated according to current statute. Specifically, for a member whose employer has adopted Municipal Plan 4 after July 1, 2009, the retirement benefit shall equal the sum of the pension attributable to service credit earned under the new plan plus the pension attributable to the service credit earned under the coverage plan in which the member was enrolled immediately prior to becoming enrolled in the new plan. The Amendment adds that if the member earned service credit under more than one previous plan, the pension attributable to that service shall be determined in accordance with Subsection F of Section 10-11-8 NMSA 1978. This produces the higher benefit.

Synopsis of HHAGC Amendment

The House Health and Government Affairs Committee Amendment adds a new section to the Public Employees Retirement Act that applies to those members whose employers have adopted

the Municipal General Plan 4, pursuant to HB 271, that ensures pension benefit matches the service credit earned by an employee under the plan or plans it was earned.

FISCAL IMPACT

Section 10-11-55.13 NMSA 1978 is amended to allocate the retirement benefit proportionately to the service credit earned by the employee under the plans in which it is earned. For new employees as of the time of Municipal General Plan 4 (Plan 4) adoption, all service credit will be earned under that plan. However, current employees will have earned service credit under other plans. This amendment will calculate their pension benefits by adding the pension attributable to the service credit earned under Plan 4 plus the pension attributable to service credit earned under any previous plan.

This formula will help preserve pension fund solvency by making sure that the pension paid under Plan 4 -- with higher benefit calculations -- does not include prior service for which lower contributions were made.

Synopsis of Original Bill

House Bill 271 reopens Municipal General Member Coverage Plan 4 to new members by striking the language in the PERA Act that closed participation effective July 1, 2000. HB 271 will allow PERA employers in Municipal General Member Coverage Plans 1 and 2 to adopt Municipal General Member Coverage Plan 4 benefits and statutory contribution rates. Municipal General Member Coverage Plan 4 provides for retirement eligibility at any age with 25 or more years of service credit, a 3 percent pension factor, and a pension cap at 80 percent of final average salary. For Municipal General Member Coverage Plan 4, members pay 15.65 percent of salary in contributions and employers pay 11.65 percent of salary in contributions

FISCAL IMPLICATIONS

The 2007 actuarial report commissioned to study the fiscal impact of reopening Municipal Plan 4 estimates the plan’s actuarial unfunded liability would increase approximately \$68.6 million to \$72.4 million and the amortization period would increase from less than one year to approximately 3 years. The study assumed all 1,860 members in General Plan 1 and all 6,123 members in General Plan 2 would become members of General Plan 4. If members opted to remain in their current programs, the actuarial unfunded liability would be less.

The actuary stated that the current statutory rates for Municipal General Member Plan 4 are sufficient to allow for the proposed change. These rates are 15.65 percent for the employee and 11.65 percent for the employer. The table below highlights the estimated average dollar increase for Plan 1 and Plan 2 employee and employer contributions to move to Plan 4:

Municipal Plan 4	Employee: 15.65%	Employer: 11.65%
Municipal Plan 1: Ave. salary - \$19,671	Employee Increase	Employer Increase
Current: 7% Employee 7% Employer	\$1,702	\$915
TOTAL	\$3.2 million	\$1.7 million
Municipal Plan 2: Ave. salary - \$30,685		\$767

Current: 9.15% Employee 9.15 % Employer	\$1,995	
TOTAL	\$12.2 million	\$4.7 million

PERA notes that it is highly unlikely that the majority of employers participating in Plans 1 and 2 will elect to provide benefits and statutory contribution rates under Plan 4. Smaller municipalities do not have the operating budget to cover the increased statutory contribution rates of Plan 4. For example, Plan 1’s statutory contribution rates total 14% (employee 7%; employer 7%) and Plan 2’s statutory contribution rates total 18.30% (employee 9.15%; employer 9.15%). A Plan 1 employer’s decision to adopt a Plan 4 represents an increase in its statutory contribution rate of 4.65 percent or an estimated \$915 per employee. A Plan 2 employer’s decision to adopt a Plan 4 represents an increase in its statutory contribution rate of 2.5 percent or an estimated \$767 per employee.

PERA anticipates that the City of Rio Rancho, which is currently covered by Plan 2, will adopt Plan 4 if HB 271 passes. Rio Rancho’s sister communities of Bernalillo County and the City of Albuquerque are already covered by Plan 3, while the Towns of Belen and Bernalillo are covered by Plan 4.

PERA notes that its actuaries believe that the relationship between the increase in contribution rates (from Plan 1 or Plan 2 to Plan 4) and the increase in liabilities (from Plan 1 or Plan 2 to Plan 4) remains appropriate. However, due to the recent dramatic market downturn, PERA cautions “contributions may need to be increased across the board (including current Municipal General Plans 1, 2, 3 and 4).”

SIGNIFICANT ISSUES

An affiliated public employer may conduct an election of its employees to adopt a new coverage plan. The decision to adopt a new coverage plan is at the discretion of the public employers governing board and is irrevocable for purposes of deciding in the future to lower benefits.

Both Municipal General Member Coverage Plans 3 and 4 are closed to PERA-affiliated employers. Both have a pension factor of 3 percent multiplied by years of service and final average salary. These plans provide pension benefits comparable to the State General Member Coverage Plan 3, which provides retirement benefits to state workers.

The remaining open Municipal General Member Coverage Plans 1 and 2 have pension factors of 2.0 percent and 2.5 percent, and maximum pension of 6 percent and 75 percent of final average salary respectively.

Enabling municipalities such as the City of Rio Rancho to adopt Municipal Plan 4 would make their retirement benefits more equitable to the City of Albuquerque.

ADMINISTRATIVE IMPLICATIONS

PERA maintains that the bill’s administrative impact on PERA will be minimal. PERA will be required to coordinate an election for adoption of the new coverage plan by municipalities who wish to do so. PERA will also be required to move affected membership from other Municipal General Member Coverage Plans into Municipal General Member Coverage Plan 4.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB 271 is a companion to House Bill 355, which recloses the Municipal General Plan 4 on June 30, 2010.

OTHER SUBSTANTIVE ISSUES

The PERA board has adopted Resolution 08-04 opposing all benefit enhancements that are not prospective and that may create an unfunded liability to the retirement system. The funded status of all PERA plans have been negatively impacted since the last actuarial valuation was performed and due to this, PERA states it cannot support any legislative changes that allow for benefit increases, however minimal they may be.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If not passed municipalities and employees will not be able to adopt Municipal General Member Coverage Plan 4.

MA/mc