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FISCAL IMPACT REPORT

ORIGINAL DATE 02/03/13

SPONSOR Munoz LAST UPDATED _____ HB _____

SHORT TITLE Supplemental Retirement Contributions SB 26

ANALYST Hanika-Ortiz

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$25.0 - \$100.0			Recurring	PERA Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Employees Retirement Association (PERA)
 New Mexico Municipal League (NMML)
 Department of Public Safety (DPS)
 Administrative Office of the Courts (AOC)
 Retiree Health Care Authority (RHCA)
 Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 26 (SB 26) amends the Public Employees Retirement Act, the Magistrate Retirement Act and the Judicial Retirement Act by giving the PERA Board statutory authority to impose supplemental employee contribution rates subject to a limit of a 35 percent increase and cost-of-living adjustments (COLA) subject to a 0 percent floor and a 3 percent cap in any one year.

In determining the supplemental employee contributions, the PERA Board shall consider whether the plan is projected to be 90 percent funded within 30 years and any other relevant factors as determined by the PERA Board.

In determining each plan's COLA, the PERA Board shall consider whether the plan is projected to be 90 percent funded within 30 years, the change in the Consumer Price Index and any other relevant factors as determined by the PERA Board.

FISCAL IMPLICATIONS

The bill gives the PERA Board authority to increase employee contributions over and above the current percent of salary contributions in statute. It is possible that the supplemental rates could negatively impact the state’s recruitment and retention of qualified employees.

If the PERA board sets a COLA less than the 3 percent currently in statute, it would be actuarially beneficial for the plans.

Below is the funded ratio for each of the 5 major divisions within PERA:

PLAN	FUNDED RATIO	
	2012	2011
PERA TOTAL	65.3%	70.5%
State General	60.4%	65.3%
State Police/Adult Corrections	95.3%	101.8%
Municipal General	69.5%	75.1%
Municipal Police	65.8%	71.1%
Municipal Fire	55.2%	60%

Under the bill, the PERA reports the major divisions would require an additional 12.14 percent in the overall statutory contribution rate to amortize the unfunded liability of \$6.2 billion over a 30-year period:

	Statutory Contribution Rate	
	Current	Increase in Statutory Rate Needed
All PERA Plans	25.12%	12.14%
State General	24.01%	15.68%
State Police/Adult Corrections	32.39%	2.13%
Municipal General	21.52%	6.87%
Municipal Police	33.88%	18.23%
Municipal Fire	37.10%	20.90%

SIGNIFICANT ISSUES

The PERA Board’s authority to set supplemental employee contribution rates cannot be in excess of 35 percent of the existing statutory rate for the coverage plan.

SB 26 does not give the PERA Board authority to increase employer contribution rates.

SB 26 uses a 90 percent funded ratio as a consideration factor for supplemental employee contributions and cost-of-living adjustments.

The DFA notes that meaningful reform involves balancing contributions with benefit payments and putting such power in one board's hands to raise contributions is of major concern.

PERFORMANCE IMPLICATIONS

The bill provides that the Board must be acting to enhance or preserve the actuarial soundness of the plans. Article XX, Section 22 of the New Mexico Constitution, Subsection E reads: “Nothing in this section shall be construed to prohibit modifications to retirement plans that ... preserve the actuarial soundness of an affected trust fund or individual retirement plan.”

ADMINISTRATIVE IMPLICATIONS

SB 26 will require the PERA Board to determine if supplemental employee contributions are required and determine the appropriate COLA for each plan. This could increase operating costs for the agency from the actuarial studies that would need to be tailored for each coverage plan.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 27 amends the PERA Act to incorporate the PERA Board’s pension reform proposal.

HB 95 amends the Judicial and Magistrate Retirement Acts by delaying and reducing the COLA, decreasing the pension multiplier July 1, 2013 and increasing age and service requirements.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The PERA Act’s statutory member contribution rates and cost-of-living adjustment (COLA) will continue to be set by the Legislature.

AHO/bm