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

		ORIGINAL DATE	02/03/15		
SPONSOR	Trujillo, J	**LAST UPDATED**		**HB**	HJM 2
SHORT TITLE	Defer Retirement Benefits Legislation			**SB**	
				ANALYST	Hanika-Ortiz

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total			NFI			PERA

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
Public Employees Retirement Association (PERA)
Department of Public Safety (DPS)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Joint Memorial 2 (HJM 2) suggests a moratorium on legislation affecting benefits administered under PERA through December 31, 2020 absent an emergency such as a drastic downturn in the economy or investment markets or an increase in funded ratios to 100 percent.

HJM 2 includes the following main points:

- enacted reform measures, particularly new tier benefits and provisions regarding reemployment of retirees, need to be in place a few years to demonstrate actuarial gains;
- investment market volatility and economic uncertainty continue to be a major concern;
- implementation of newly mandated governmental accounting standards is likely to increase the volatility of the plan's funded ratio and net pension liability into the future;
- there remains a significant unfunded liability; and
- recently improved funded ratios could lead to efforts to modify reform measures.

HJM 2 was endorsed by the Investments and Pensions Oversight Committee.

FISCAL IMPLICATIONS

The joint memorial reminds us that Article 20, Section 22 of the Constitution of New Mexico states the legislature shall not enact any law that increases public employee retirement benefits or changes the funding formula for a retirement plan unless adequate funding is provided.

The total PERA Fund's funded ratio is 75.8 percent and the financing period is 40 years.

SIGNIFICANT ISSUES

HJM 2 suggests that a five-year moratorium on benefit changes would allow sufficient actuarial experience to gauge effectiveness of comprehensive pension solvency legislation passed in 2013.

The memorial does not create new law but only asks for consideration against premature calls for retirement benefit changes under the PERA plans that could erode the solvency gains made.

Given improvement to its funded ratio, PERA is concerned about efforts to repeal provisions of Senate Bill 27, as well as other legislation that may roll back progress made towards solvency.

PERFORMANCE IMPLICATIONS

Article 20, Section 22 of the Constitution of New Mexico vests the retirement board of PERA as trustees with the fiduciary duty of holding all assets in trust for the benefit of its membership.

TECHNICAL ISSUES

A "drastic downturn in the economy or investment markets" should be defined.

OTHER SUBSTANTIVE ISSUES

PERA notes it has begun implementation of new GASB 67 and 68 reporting requirements which will be calculated differently from the UAAL and is likely to be a more volatile measure. While the new reporting requirements will not change PERA's funding, they will likely result in a different, and possibly higher, estimate of the unfunded liability for accounting purposes. PERA will be allocating net pension liabilities at the employer level to local governments in early 2015.

DPS notes there may be scenarios under which changes to the PERA benefit would not adversely impact funding. An example would be allowing service accrual upon the transfer of a specific group of employees from one plan into a different plan. So long as the service credit under the new plan is applied from the date of transfer forward, and employees and employers contribute at the rate required under the new coverage plan, the fund should not be adversely impacted.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

With or without the memorial, legislators could still propose legislation affecting PERA.

AHO/bb/je