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FISCAL IMPACT REPORT

ORIGINAL DATE 02/27/15

SPONSOR Sanchez, Cl LAST UPDATED _____ HB _____

SHORT TITLE Actuarial Liability Paid by Employer SB 529

ANALYST Hanika-Ortiz

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See fiscal impact				

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Municipal League (NMML)
Public Employees Retirement Association (PERA)
Attorney General's Office (AGO)

SUMMARY

Synopsis of Bill

Senate Bill 529 authorizes PERA to have studies performed if it believes employment actions taken by a PERA-affiliated employer creates an actuarial liability of \$1 million or more.

Furthermore, the bill provides that:

- if the actions impose a liability, the employer will pay for the cost of the study;
- the employer will provide written acknowledgement of the action and liability;
- the employer will pay the present value of the liability in full or within 24 months;
- late fees and interest may be assessed on amounts outstanding; and
- the AGO may bring action at PERA's request for enforcement purposes.

FISCAL IMPLICATIONS

For the fiscal year ending June 30, 2014, the total PERA Fund's funded ratio is 75.8 percent and the financing period for its \$4.2 billion unfunded liability is 40 years.

Given recent modest improvement to its funded ratio, PERA is concerned with any action that has the potential to roll back the progress made towards solvency over the last two years.

SIGNIFICANT ISSUES

The bill will allow the PERA board to assess the cost of any additional unfunded liability to the public entity responsible for creating that liability.

The PERA Total Fund has five divisions of members: State General, State Police and Adult Corrections, Municipal General, Municipal Police, and Municipal Fire. All assets accumulated for the payment of benefits may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries.

Recent actuarial valuations conducted for this purpose cost approximately \$5,000.

PERFORMANCE IMPLICATIONS

NMML believes this legislation is being proposed as a deterrent to proposed legislation regarding return-to-work legislation that calls for a narrow range of public employees to retire under PERA and return-to-work for an affiliated employer after a defined period of time.

NMML further notes the return-to-work legislation being proposed would require an employer and returned retiree to make payments to PERA in an amount equal to the payment being made by non-retired members with no additional service credit being granted nor additional monetary benefits which should be sufficient to protect the actuarial soundness of the PERA plan.

ADMINISTRATIVE IMPLICATIONS

PERA will need to promulgate administrative rules to carry out enforcement.

RELATIONSHIP

Relates to SB 466, allowing certain retirees to return-to-work and collect a pension and salary.

TECHNICAL ISSUES

The AGO notes the bill does not include an appeal procedure to challenge study findings.

OTHER SUBSTANTIVE ISSUES

PERA reports its actuaries determined that the City of Albuquerque's decision to grant longevity retention pay to end-of-career municipal police officers will add approximately \$6.1 million to the Municipal Police Division's unfunded liability. Within the PERA Fund, the municipal police division is 78.3 percent funded and has a \$491.3 million unfunded accrued actuarial liability.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

PERA will continue to obtain actuarial studies as needed to determine the impact of proposed employment actions or legislation changing retirement rules and/or pension benefit structures.