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FISCAL IMPACT REPORT

ORIGINAL DATE 03/12/15

SPONSOR Munoz LAST UPDATED _____ HB _____

SHORT TITLE Public Safety Returning-to-Work Exceptions SB 619

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

Public Employees Retirement Association (PERA)
 New Mexico Municipal League (NMML)
 New Mexico Corrections Department (NMCD)
 Department of Public Safety (DPS)

SUMMARY

Synopsis of Bill

Senate Bill 619 adds an exception in the PERA Act to provide a three-year period during which certain public safety retirees who have earned 20 or more years of service credit can return to work (RTW) and collect both a pension and a salary, subject to certain conditions.

FISCAL IMPLICATIONS

PERA estimates the bill could add \$4.6 million to the unfunded accrued actuarial liability (UAAL) of the Municipal Police Plan and \$5.7 million to the Municipal Fire Plan, however, it could decrease the UAAL of the State Police and Adult Correctional Officer Plan by \$2 million.

PERA reports if SB 619 is amended to make contributions nonrefundable, over the long term, the contributions and pension payment reductions may reduce the increase to the UAAL.

For FY14, the total PERA Fund's funded ratio is 75.9 percent. While most PERA plans have shown modest increases in funded ratios as a result of pension reform legislation passed in 2013,

the State still has a \$4.3 billion unfunded pension liability for PERA. Additionally, much of the positive impact from pension reform, particularly for new hires, takes years to be recognized.

SIGNIFICANT ISSUES

The bill temporarily allows retired experienced municipal police officers and firefighters, state police, and adult correctional officers to RTW and collect a salary and pension, provided that:

- the RTW retiree's monthly pension benefit is reduced 50 percent and COLA suspended;
- the RTW retiree and their affiliated employer pay contributions to the PERA plan;
- the RTW retiree does not accrue and cannot purchase additional service credit; and
- when the RTW employment ends, the RTW retiree's pension resumes with COLA.

The RTW employment must be in a position also covered by the municipal police member plan, municipal fire member plan or the state police and adult correctional officer member plan.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Conflicts with HJM 2 requesting a temporary moratorium on changes to the PERA benefit. Relates to HB 284, requiring PERA to conduct a study on RTW for public safety members. Conflicts with SB 466, which allows RTW for certain public safety members after 60 days.

TECHNICAL ISSUES

PERA notes as drafted, a RTW retiree could theoretically begin employment July 1, 2015, work three years, terminate, and begin a subsequent three year RTW period prior to July 31, 2018.

ALTERNATIVES

PERA suggests employers implement retention bonuses outside the pension system to address short-term retention issues so the recent progress towards pension solvency is not jeopardized.

OTHER SUBSTANTIVE ISSUES

PERA notes pension reforms in 2013 increased the maximum pension amount from 80 percent to 90 percent of final average salary. For the average municipal police officer in a 20-year plan, this could mean an additional \$500,000 in lifetime benefits by working 6 more years. Overall, the same municipal police member will receive approximately \$2.5 million in lifetime benefits, and assuming the member's employer continues to pay 75 percent of the employee contribution, which many public safety employers do, he/she will have made career contributions of \$50,000.

Because of new GASB 68 requirements, any increases in the UAAL will be apportioned to all PERA-affiliated employers, including cities and counties, to report on their financial statements.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

PERA members will continue to be able to earn up to a 90 percent lifetime benefit with COLA.