

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website ([www.nmlegis.gov](http://www.nmlegis.gov)) and may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

ORIGINAL DATE 3/12/15

SPONSOR SPAC LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Public Peace, Health, Safety, and Welfare SB 711/SPACS

ANALYST Malone

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	FY16		
	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

Substantially similar to HB 577

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Municipal League (NMML)

Department of Finance and Administration (DFA) (on HB 577)

Attorney General's Office (AGO) (on HB 577)

### SUMMARY

#### Synopsis of SPAC Substitute

The Senate Public Affairs Committee substitute for Senate Bill 711 authorizes a municipality, defined as an incorporated city with a population of more than 200 thousand people according to the most recent federal decennial census (Albuquerque), to establish a post-employment life insurance benefits trust. The trust may be established, maintained, and used by a municipal treasurer with the advice and consent of the municipal board of finance. Money in the trust shall be invested pursuant to the Uniform Prudent Investor Act and must be exclusively dedicated to funding post-retirement life insurance benefits.

### FISCAL IMPLICATIONS

None noted.

### SIGNIFICANT ISSUES

1. In the wake of the Government Accounting Standards Board (GASB) calling for revised

standards for state and local government pensions, other post-employment benefit trusts appear to be a growing option to offset the costs of health care for retired municipal employees.<sup>1</sup> These trusts can also cover costs associated with other benefits, such as life insurance, disability, legal, and other services when those benefits are provided separately from a pension plan. The trusts may serve as a reserve to account for the difference between projected health care costs for retirees and actual costs.

The Government Finance Officers Association (GFOA) has produced best practices for the establishment and administration, governance, and sustainability of post-employment benefit trusts.<sup>2</sup> Included among the GFOA recommendations are:

- Prefund obligations for postemployment benefits once it is determined that the employer has incurred a substantial long-term liability. In most cases, employers can make long-term investments to cover these obligations through a separate trust fund that should, over time, result in a lower total cost for providing postemployment benefits.
  - Sponsoring entities provide a clear, well-documented governance structure to guide governing bodies and plan administrators, as a good governance structure establishes the framework for effective plan administration.
  - Developing principles and priorities to guide decision making that consider benefit design, actuarial costs and projections, funding approaches, and the needs of all stakeholders and carefully evaluating and designing benefits to ensure that they are sustainable
2. Currently, Albuquerque is the only city that would qualify for this trust fund based on population requirements. The second largest city in New Mexico, Las Cruces, has only about 100 thousand residents according to the 2013 census estimates.

DFA notes that Albuquerque provides life insurance to its employees, which is reduced by 50% upon retirement. As a result of GASB 45, Albuquerque and other local governments are required to book the actuarial liability of benefits plans such as the life insurance plan, rather than expensing the annual costs.

With the city's current authority, they may only use a fixed income discount rate of 4 percent. However, with this bill, Albuquerque would have the ability to utilize a trustee to establish a diversified portfolio which may include equities and other investments, thus allowing the city could increase their discount rate to 6 percent or higher. With a higher discount rate, the amount of the unfunded liability would fall. According to DFA, the city estimates that this would be approximately \$15 million. Additionally, a diversified portfolio may result in better risk adjusted returns, increasing the size of the fund and the financial condition of the city.

---

<sup>1</sup> GASB standards for post-employment benefit trusts can be found at [http://www.gasb.org/opeb#section\\_2](http://www.gasb.org/opeb#section_2)

<sup>2</sup> The full reports can be found at

[http://www.gfoa.org/sites/default/files/CORBA\\_OPEB\\_GOVERNANCE\\_AND\\_ADMINISTRATION\\_0.pdf](http://www.gfoa.org/sites/default/files/CORBA_OPEB_GOVERNANCE_AND_ADMINISTRATION_0.pdf)

[http://www.gfoa.org/sites/default/files/CORBA\\_ENSURING\\_OPEB\\_SUSTAINABILITY.pdf](http://www.gfoa.org/sites/default/files/CORBA_ENSURING_OPEB_SUSTAINABILITY.pdf)

[http://www.gfoa.org/sites/default/files/CORBA\\_GOVERNANCE\\_OF\\_PUBLIC\\_EMPLOYEE\\_POSTRETIREMENT.pdf](http://www.gfoa.org/sites/default/files/CORBA_GOVERNANCE_OF_PUBLIC_EMPLOYEE_POSTRETIREMENT.pdf)

<http://www.gfoa.org/establishing-and-administering-opeb-trust>

**OTHER SUBSTANTIVE ISSUES**

The membership of the New Mexico Municipal League at its' annual conference endorsed this legislation through the adoption of a resolution. The New Mexico Municipal League supports this legislation.

**CONFLICT, RELATIONSHIP, AND DUPLICATION**

This bill is a duplicate of HB 577, as HB 577 was amended by the House Government, Elections, and Indian Affairs Committee.

CEM/bb/je