

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) and may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR Munoz ORIGINAL DATE 01/31/16
 LAST UPDATED _____ HB _____

SHORT TITLE Public Employee Benefit Bill Moratorium SJM 3

ANALYST Hanika-Ortiz

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY16	FY17	FY18	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		NFI				PERA

(Parenthesis () Indicate Expenditure Decreases)

Duplicates HJM 2
 Relates to HB 171

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

Senate Joint Memorial 3 requests a moratorium on legislation affecting benefits administered under the Public Employees Retirement Act through December 31, 2021 absent an emergency such as a drastic downturn in the economy or an increase in the funded ratios to 100 percent.

SJM 3 includes the following main points:

- already 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 new governmental accounting standards is likely to increase the volatility of the plan's funded ratio and net pension liability into the future; and
- there still remains a significant unfunded liability for the PERA Fund.

SJM 3 was endorsed by the Investments and Pensions Oversight Committee.

FISCAL IMPLICATIONS

SJM 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 Fund balance was \$14.2 billion on June 30 with an investment return of 1.87 percent, short of its actuarial return hurdle of 7.75 percent. Since then, the Fund has declined to \$13.4 billion.

PERA notes that the State still has a \$4.7 billion unfunded pension liability that will take decades to pay off. Additionally, much of the positive impact of the changes to the PERA benefits, particularly related to benefits for new hires after July 1, 2013, will take years to be recognized.

SIGNIFICANT ISSUES

SJM 3 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 the 2013 legislation, as well as other legislation that may roll back progress made towards solvency.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Duplicates HJM 2.

Relates to HB 171, allowing law enforcement officers to return-to-work after retirement.

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 (actuarial accrued unfunded liability) 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 began allocating net pension liabilities at the employer level to local governments this year.

There may be scenarios under which changes to benefits would not adversely impact the Fund.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

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

AHO/jo