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## FISCAL IMPACT REPORT

<b>SPONSOR</b> <u>Alcon/Roybal</u> <u>Caballero/Rehm/Vincent/Terrazas</u>	<b>LAST UPDATED</b> <u>3/16/2023</u> <b>ORIGINAL DATE</b> <u>1/26/2023</u>
<b>SHORT TITLE</b> <u>Increase Public Employee Pension Max</u>	<b>BILL NUMBER</b> <u>House Bill 106/aSFC/aSfI#1</u>
<b>ANALYST</b> <u>Simon</u>	

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT\* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	See Fiscal Implications				Recurring	PERA Fund

Parentheses ( ) indicate expenditure decreases.  
 \*Amounts reflect most recent analysis of this legislation.

Relates to House Bills 64 and 65  
 Conflicts with House Bill 66  
 Sections 1 through 18 of this bill duplicates Sections 2 through 19 of Senate Bill 124  
 Sections 2 and 19 of this bill duplicates Senate Bill 96  
 Section 19 of this bill duplicates Section 20 of Senate Bill 124

### Sources of Information

LFC Files

Responses Received From  
 Public Employee Retirement Association (PERA)  
 State Personnel Office (SPO)

## SUMMARY

### Synopsis of SFI#1 Amendment to House Bill 106

The Senate floor amendment to House Bill 106 (HB106/aSFC/aSfI) strikes the Senate Finance Committee Amendments.

### Synopsis of SFC Amendment to House Bill 106

The Senate Finance Committee Amendment to House Bill 106 (HB106/aSFC) strikes the section increasing the maximum amount for the state police member, correctional officer member, and probation and parole officer member plan.

### Synopsis of Original House Bill

House Bill 106 (HB106) would amend the Public Employee Retirement Act to raise the maximum amount of a pension benefit from 90 percent to 100 percent of an employee’s final average salary.

The effective date of this bill is July 1, 2023.

## FISCAL IMPLICATIONS

HB106/aSFC/aSfl would increase the cap for pension payments for members of the Public Employees Retirement Association (PERA), which is currently at 90 percent of a member’s final average salary. (For Tier 1 members, the final average salary is the average from the member’s highest 36 consecutive months of pay; for Tier 2 members it is the highest 60 consecutive months). The bill would apply only to service credit earned after the law goes into effect. Members who are currently employed but have accrued the 90 percent maximum currently in effect would earn additional credit beginning July 2023, but would not be retroactively granted service credit for prior service.

The bill would allow members to earn up to 100 percent of final average salary based on the same rate of service credit accrual as is currently in law. The table below shows differences in how long it takes members of various plans to reach the maximum benefit. PERA members accrue service credit at different rates based on plan and hire dates. Generally, members that accrue benefits at a higher rate have higher contributions. For example, a member of municipal police plan 1 accrue benefits at 2 percent per year, while members of municipal police plan 5 accrue benefits at 3.5 percent per year. Total contributions (employee and employer) for police plan 1 are 20.15 percent, while total contributions for police plan 5 are 37.95 percent. On a hypothetical salary of \$75 thousand, police plan 1 contributions amount to \$13,350 less per year that police plan 5.

**Year of Service Required for Maximum Pension Benefit**

	Tier 1		Tier 2	
	90% (Current)	100% (SB124)	90% (Current)	100% (SB124)
State General Coverage Plan 3	30	33.3	36	40
State Police Member, Correctional Officer Member and Probation and Parole Officer Member	30	33.3	30	33.3
Juvenile Correctional Officer Member Plan 2	30	33.3	30	33.3
Municipal General Member, Plan 1	45	50	45	50
Municipal General Member, Plan 2	36	40	45	50
Municipal General Member, Plans 3 and 4	30	33.3	36	40
Municipal Police Member, Plan 1	45	50	45	50
Municipal Police Member, Plans 2 and 3	36	40	45	50
Municipal Police Member, Plan 4	30	33.3	30	33.3
Municipal Police Member, Plan 5	25.7	28.6	30	33.3
Municipal Fire Member, Plan 1	45	50	45	50
Municipal Fire Member, Plans 2 and 3	36	40	45	50
Municipal Fire Member, Plan 4	30	33.3	36	40
Municipal Fire Member, Plan 5	25.7	28.6	30	33.3

Source: LFC Analysis

Article XX, Section 22, of the New Mexico Constitution prohibits the Legislature from enacting any law that increases the benefits paid by PERA unless adequate funding is provided. That section assigns the PERA board the sole and exclusive power to adopt actuarial assumptions, based on recommendations from an independent actuary. The bill would increase benefit payments for future retirees. However, analysis from PERA notes the bill would require retirees to work for a longer period to realize increased benefits, making contributions for a longer period and collecting a pension for fewer years. PERA provides the following actuarial analysis:

PERA’s actuaries indicated that [HB106] would cause an initial increase to the unfunded liability by \$25 million and the amortization period by 1 year and increase the shortfall by 0.07 percent. However, they also noted members who retire later would lower the cost to the retirement system which could offset the costs noted above.

## SIGNIFICANT ISSUES

Data from PERA suggests only a limited number of employees serve for 30 years or more and reach the current maximum pension benefit. The table below shows the percentage of retired members by the level of service credit accrued before retirement. Less than 4 percent of members reach the 30 years of service credit required to max out on state and municipal general plans and less than half reach 25 years of service. The bill may successfully encourage a small number of members to continue working to boost pension benefits and provide compensation to that small percentage of employees who continue to work after achieving the maximum benefit but may not encourage a large number of employees to continue to work for more years.

**Years of Service Credit at Retirement**  
Percent of Retired Members

Plan	Less than 15	15 to 19	20 to 24	25 to 29	30+
State General	31.6%	11.2%	13.4%	40.5%	3.3%
State Police/Corrections	15.5%	5.6%	25.1%	48.9%	5.0%
Municipal General	31.6%	12.1%	13.7%	38.6%	4.0%
Municipal Police	10.3%	11.8%	71.1%	5.6%	1.2%
Municipal Fire	9.3%	9.4%	74.1%	4.7%	2.5%
<b>Total</b>	<b>27.9%</b>	<b>11.2%</b>	<b>22.3%</b>	<b>35.1%</b>	<b>3.4%</b>
<b>Total (Excluding Police and Fire)</b>	<b>31.6%</b>	<b>11.6%</b>	<b>13.5%</b>	<b>39.7%</b>	<b>3.6%</b>

Source: PERA 2022 Valuation Report

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Several bills have been introduced for consideration of the First Session of the Fifty-Sixth Legislature that would incentivize public employees to provide more years of service. These proposals include:

- House Bill 64, which would create a return-to-work program for public safety retirees;
- House Bill 65, which would enact a return-to-work program for all PERA retirees;
- House Bill 66, which would increase the maximum pension benefit from 90 percent to 100 percent of salary, but in a different way than SB124;
- House Bill 227, which, among other proposals to boost law enforcement retention, allows law enforcement officers to return to work;

- House Bill 294, which would allow retired law enforcement officers to return-to-work as school resource officers or courthouse security;
- House Bill 344, which would allow retired PERA members to return to work as a county detention officer or a juvenile detention officer; and
- Senate Bill 96, which would increase the maximum pension benefit the state police member, correctional officer member, and probation and parole officer member plan.
- Senate Bill 124, which would both enact a return-to-work program for all PERA retirees and increase the maximum pension benefits if employees serve for more years.

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