FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Sanchez/Borrego	**ORIGINAL DATE**	01/29/2025
SHORT TITLE	PERA Member Temporary Payment	**BILL NUMBER**	House Bill 96
		ANALYST	Simon

APPROPRIATION*
(dollars in thousands)

FY25	FY26	Recurring or Nonrecurring	Fund Affected
	$66,000.0	Nonrecurring	General Fund

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

Relates to House Bill 164 and Senate Bill 117

Sources of Information

LFC Files

Agency Analysis Received From
Public Employees Retirement Association (PERA)
Educational Retirement Board (ERB)

SUMMARY

Synopsis of House Bill 96

House Bill 96 (HB96) would provide an additional payment to those receiving pension benefits from the Public Employees Retirement Association (PERA) in FY26 and FY27. Payments would equal 2 percent of the beneficiary's payments from the prior fiscal year. The additional payments would only be distributed in FY26 and FY27 and would not be considered when calculating future cost-of-living adjustments.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025. However, the financial impact of the bill applies specifically to fiscal years 2026 and 2027.

FISCAL IMPLICATIONS

HB96 would provide for a temporary increase in benefits paid by PERA. 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 includes a $66 million appropriation to PERA, and PERA reports its actuaries have estimated the costs of the payments at $66 million, providing "adequate" funding for the additional payments. Previous actuarial estimates of the costs of non-compounding payment to retired PERA members have been highly accurate. A previous appropriation for temporary, non-compounding payments had a final balance that was only $43,278, or 0.08 percent, below the $55 million appropriation.

PERA notes the need to make system modifications to its pension administration system but does not report the modifications will have a fiscal impact.

The appropriation of $66 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY27 will not revert to the general fund. Although the bill does not specify funds will revert, presumably unused funds from the appropriation would remain with the PERA trust fund.

SIGNIFICANT ISSUES

In 2020, the Legislature passed Senate Bill 72 (SB72), which amended the Public Employees Retirement Act to replace an annual 2 percent cost-of-living adjustment (COLA) for most members with new "risk-sharing" COLA, following a temporary suspension of the annual COLA in FY21 through FY23. In those years, the annual COLA was temporarily replaced by an additional, non-compounding payment of 2 percent of the member's benefit. Those additional payments, sometimes called the "13th check," were made for three years and the Legislature appropriated $55 million from the general fund to cover the costs of these payment. Following the three-year period, the new "risk-sharing" COLA was implemented. Unlike the 13th check, this payment would compound. The COLA would be based on the plan's investment performance and the plan's funded status—or the percentage of total liabilities for which the plan has invested assets. Under this COLA, rates would vary from 0.5 percent to 3 percent, until the plan is fully funded, at which point COLAs could go as high as 5 percent.

SB72 was passed to address chronic underfunding issues at PERA. At the time, PERA's actuaries estimated the fund held about 70 percent of the assets needed to pay all accrued benefits, but over time that gap was expected to grow because contributions into the fund were not sufficient to pay all protected benefits, make additional annual cost-of-living adjustments, and pay off the plan's unfunded liability. Actuaries were projecting an infinite funding period, meaning PERA was never expected to hold the assets needed to pay the liabilities. PERA's most recent actuarial valuation report shows the fund holds about 67.2 percent of assets needed, but the funding period has improved to 52 years, which is still above the board's target of 25 years. The plan's actuaries recommend increasing contributions to the fund, noting contributions needed to meet the funding target would need to rise by an additional 5.37 percent.

SB72 passed at a time when an annual 2 percent COLA was outpacing inflation. Annual COLAs for social security, which are tied to inflation, averaged 1.4 percent between 2010 and 2020. But more recent increases in the cost of living have led these amounts to spike. Social security COLAs in 2022 were nearly 9 percent and were almost 3.2 percent in 2023, which illustrates the challenges faced by retirees in meeting basic needs on fixed incomes.

Exceptions. While most PERA members are subject to the variable COLA, some members continue to receive a fixed 2.5 percent COLA: disability retirees with an annual benefit of less than $25 thousand, normal retirees with 25 years of service credit and a benefit of less than $25 thousand and retirees who were 75 years old as of July 1, 2020.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Several bills have been introduced to change annual cost-of-living adjustments for PERA members, including:

- House Bill 164 and Senate Bill 30 would increase the annual cost-of-living adjustment to 2 percent for members over 65 who retired from state employment before July 1, 2025. Local governments could opt into the program to provide for larger COLAs for their retired employees.
- Senate Bill 117 would repeal the current COLA structure and replace the annual COLA amount at the amount given for Social Security.

OTHER SUBSTANTIVE ISSUES

House Bill 96 would only apply to public employees who are retired from the Public Employees Retirement Association. Public employees of school districts and higher education institutions receive benefits from the Educational Retirement Board. Since 2013, annual cost-of-living adjustments paid by ERB have been limited to improve the fund's solvency. This reform has been partially responsible for improvements to the solvency of that fund. According to ERB's actuary, the plan's funding status is improving, from 60.4 percent in 2020 to 64.8 percent in 2024. The actuaries currently expect the plan to be fully funded in 22 years, significantly less than the amount of time expected for the PERA fund.

Funding additional cost-of-living adjustments for PERA recipients could lead to requests from ERB retirees to receive additional COLAs. In 2020, ERB commissioned a study to examine the differences in benefits between members of ERB and PERA, finding PERA members receive more in pension benefits than ERB-covered employees. This report has resulted in calls for the Legislature to consider "equalizing" pension benefits structures. Funding additional COLAs for PERA members could lead to additional requests from ERB members to supplement that program with general fund appropriations. \

JS/hg/sgs