F I S C A L   I M P A C T   R E P O R T

SPONSOR HAFC
ORIGINAL DATE 03/18/09
LAST UPDATED
HB CS/798/HAFCS

SHORT TITLE New PERA Member Eligibility
SB

ANALYST Aubel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
PERA Contributions[3]			(Minimal)	(Minimal)	Recurring	State Agencies/Municipalities
RIO Computer Change		$100.0		$100.0	Nonrecurring	PERA
PERA Operating		$0.1	$0.1	$0.1	Recurring	PERA
Actuarial Study	$250.0				Nonrecurring	PERA

(Parenthesis ( ) Indicate Expenditure Decreases)

[3]Will be able to reduce contributions over time.

Duplicates provisions of HB573
Companion to HJM45
Conflicts with SB 499
Relates to HB65, HB246, HB271 and companion HB355, HB631, HB765, SB145, SB428, SB499HB236, HB525, HB601, HB631, HB648, HB731, HB854, HB 684 and SB231

SOURCES OF INFORMATION
LFC Files

Responses Received From (for Original Bill)
Public Employees Retirement Association (PERA)
State Personnel Board (SPB)

SUMMARY

Synopsis of Bill

The House Appropriations and Finance Committee Substitute for House Labor and Human Resources Committee Substitute for House Bill 798 amends the Public Employees Retirement Act to help promote the plan's long term solvency. The bill establishes new retirement eligibility requirements for PERA plans effective July 1, 2010, and creates a "retirement systems solvency task force" of 25 members to study the actuarial soundness of the retirement plans and submit recommendations to the interim Investments and Pension Oversight Committee, the Legislative Finanance Committee and the Governor no later than October 1, 2009.

The bill proposes the following:

Public Employees Retirement Act (Effective July 1, 2010)

1. Change retirement eligibility for new members in state and municipal general plans, which currently allow retirement at any age with 25 years of service, to a minimum service requirement of 30 years of service;
2. Change retirement eligibility for new members who are not peace officers from retirement at age 65 with five years of service credit to 67 years of age with five years;
3. Replaces various age and service requirements after 60 to a "Rule of 80," which allows a person to retire with less than 30 years of service credit as long as the sum of the age and years of service is equal to 80; and
4. Adjust calculation of service credit under certain "hazardous duty" retirement plans to equalize the eligibility at 25 years with no age requirement (including peace officers in General plan 3).

Appendix A summarizes the plan changes. The bill contains an emergency clause.

FISCAL IMPLICATIONS

The actuarial fiscal impacts of the proposed legislation need to be determined. However, it is reasonable to conclude that the proposed reforms will improve the solvency of the pension fund by extending the contribution period and reducing the timeframe that benefits are paid. Because the retirement eligibility requirements are effective only for new employees hired after July 1, 2010, the impact will not appear in the immediate years but will show up in the "out years" on actuarial reports and accrue over time.

While current contribution rates remain unchanged in this bill, reducing the liabilities will also allow employer and employee contributions to be reduced at some point, which would trim the general fund portion needed to meet this obligation and also allow employees to keep more of their paychecks. For example, according to PERA's actuary, the "normal cost" (the level percentage of pay required to fund the benefits for a new member) to fund benefits would fully decline over 25 years to 30 years, with the resulting reduction in annual contributions paid on behalf of state employees as follows:

PLAN	Reduction in Normal Cost	$ DIFFERENCE*
State General Plan 3	1.3%	$12 million
State Police	3.0%	$1 million
State Corrections Officers		$1.5 million
Juvenile Corrections		$150,000
Municipal General	1.66%	
Municipal Police	3.67%	
Municipal Fire	3.52%	

*Source: PERA -- Based on FY08 annual payroll

Changing or adding plans will require PERA to modify its computer system, costing an estimated at $100 thousand for PERA (RIO). PERA states the bill implies additional operating costs to maintain the two-tier plans.

The bill requires a task force be formed, including 19 public members eligible for per diem and mileage. There is no appropriation made to cover these costs, which presumable will be covered by the LCS. It also directs Legislative Council Service, the Legislative Finance Committee, ERB, PERA and the RHCA to provide staff for the task force. This staff time is presumably provided within current budgets. However, PERA has a quote of $250 thousand for the actuarial study related to HJM045, which is related to this section of the bill.

SIGNIFCANT ISSUES

Current general state and municipal plans allow members to retire after 25 years of service. This bill would increase the eligibility service credit to 30 years. Enhanced plans, which provide 1.2 years of service for every year worked, would go to a straight “25 years of service” plan. Municipal plans for “hazardous duty”, currently allowing retirement after 20 years, would increase to 25 years for retirement eligibility. PERA would also adopt a “Rule of 80”, which is a combination of age and years of service for retirement eligibility with less than 30 years.

PERA is a defined benefit plan, which provides a monthly annuity payment for the retiree based on years of service, final average salary, and a pension-calculation factor established by the Legislature. PERA is a mature plan, meaning that contributions made into the plan are less than the benefits being paid out. In order to maintain solvency, actuaries estimate that the earnings on fund investments must average 8 percent over the long term.

The fund has experienced a significant decline in asset values of the funds over the last year. As of December 31, 2008, the PERA fund has lost about one-third of its value, reporting a fund value down to $8.9 billion from over $13 billion. Looking forward, new market conditions increase the uncertainty of achieving the 8 percent actuarial return on investments for the pension plans.

According to a recent publication on public sector retirement benefits by the Pew Center on the States, the primary public policy issue is the need to “intelligently control and manage the cost of post-retirement benefits” in order to meet competing needs -- such as adequate roads, water infrastructure, and high quality public education -- while ensuring that qualified individuals continue to be attracted to careers in public service. New economic conditions that project lower state revenues put all programs on the table for assessing reasonable cost reductions. Pension reforms that reduce future costs are a viable option for ensuring an efficient allocation of limited resources across all state needs.

Given that PERA’s benefit structure is considered the best in the nation for public plans, it appears that the proposed pension structures would still compare favorably with the private sector in New Mexico in terms of total compensation, including salaries and benefits. It would also still appear to compare favorable outside the state. According to SPO, the 2005 Workplace Economics State Employee Benefits Survey showed 25 out of 50 states had a 30-year or more service requirement.

PERFORMANCE IMPLICATIONS

PERA notes that HB 798 could impact PERA’s performance measures related to timeliness of member service requests.

ADMINISTRATIVE IMPLICATIONS

Changing and adding plans will require PERA to modify its computer system. The bill implies 12 additional retirement plans that would need to be administered.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB CS/798/HAFCS is a companion bill to HJM 45 – PUBLIC EMPLOYEE & EDUCATION SOLVENCY PLANS STUDY and tracks PERA provisions in HB 573 – ADJUSTMENT OF RETIREMENT PLANS.

HB CS/798/HAFCS conflicts with SB 499 – MOTOR TRANSPORTATION OFFICER RETIREMENT (Provides motor transportation officers enhanced plan under current State Police and Adult Correctional Plan 1.)

HB798 relates to the following bills:
HB 65 – LEGISLATIVE RETIREMENT CONTRIBUTIONS
HB 79 – PUBLIC EMPLOYEE RETIREMENT INFO DISCLOSURE
HB 236 – PERA SERVICE CREDIT PURCHASE (Expands service credit purchase)
HB 246 – PERA RETURN TO WORK FOR CERTAIN EMPLOYEES
HB 271/HB 355 – REOPEN MUNICIPAL EMPLOYEE RETIREMENT PLAN 4
HB 351/SB 366 – RETIREE HEALTH CARE FUND CONTRIBUTIONS
HB 525 – ALTERNATIVE EDUCATIONAL RETIREMENT PLANS
HB 616 – PUBLIC RETIREES RETURNING TO WORK
HB 631 – EDUCATIONAL RETIREMENT ELIGIBILITY
HB 648 – JUDICIAL RETIREMENT FROM GENERAL FUND
HB 683 – RETIRED PUBLIC EMPLOYEE RETURNING AS SHERIFF
HB 684 – CONGRESSIONAL EMPLOYEE NM SERVICE CREDIT
HB 721 – EDUCATIONAL RETIREES RETURNING TO WORK
HB 731 – SESSION EMPLOYEE PERA CREDIT PURCHASES
HB 765 – PUBLIC EMPLOYEES RETURNING TO WORK
HB 854 – PERA MEMBER & STATE CONTRIBUTION CHANGES
SB 145 – ELIMINATE END DATE FOR RETURN TO WORK
SB 231 – PERA ELIGIBILITY FOR MUTUAL DOMESTICS
SB 428 – RETIREE HEALTH DEFINITIONS & CONTRIBUTIONS

OTHER SUBSTANTIVE ISSUES

PERA offers 31 pension plans covering state, county, and municipal employees; municipal and volunteer firefighters; judges, magistrates, and legislators. As of June 30, 2008, PERA had 52,401 active members and 24,763 retirees. According to the June 30, 2008, actuarial valuation, the average normal pension paid from PERA is $23,863 and all pensions being paid total $570 million. Active member contributions totaled $196.1 million and employer contributions totaled $302.5 million for FY08. The average age of retirement for the general plan is 58 and the average for safety officers is 48. It appears that employees in the general plans do not retire when first eligible while those in the “hazardous duty” plans do.

Despite the -7.4 percent investment return for FY08, PERA’s actuarial position remains unchanged from 2007 due to the smoothing method used to calculate solvency indicators. As of June 30, 2008, PERA’s aggregate funded ratio (fund actuarial asset value divided by plan liabilities) is 93 percent, remaining above the Governmental Accounting Standards Board (GASB) standard of 80 percent. However, individual plans within PERA range in funding status. For example, the State General Plan is only 85 percent funded and the Municipal Fire coverage plan is 83 percent. The continued volatility in the market raises concerns over future investment performance, and reasonable scenarios indicate a decline in the aggregate funded ratio below 80 percent is possible within the next four years.

PERA provides the following details on member profiles:

> During the past five fiscal years, the average age of state and municipal general members at the time of retirement was 58. For State Police and Corrections, the average age at retirement was 53. For municipal safety members, the average age during this period was 48.
>
> For active state members, the average age and length of service is presently:

State General	44 years old with 8.5 years of service credit
State Police	38 years old with 12.6 years of service credit
State Corrections	37 years old with 8.8 years of service credit
Juvenile Corrections	40 years old with 6.6 years of service credit

It is significant to note that on average, state general members start their careers around 36. This means that they reach 25 years of service around age 60. This coincides with the average age of 58 at retirement. The average annual pension amount paid to a state general member is currently $23,748. The average annual pension paid to a state police and corrections plan member is $27,194. The average annual salary for all state members is $40,671.

ALTERNATIVES

PERA notes that HJM 45 proposes that the retirement plans study the solvency issue with their actuaries over the interim and report their analysis and recommendations for solvency plans to the Legislative Finance Committee and the Investment and Pensions Oversight Committee for implementing legislation in the 2010 Legislative Session.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Plan benefits would remain as currently structured and the opportunity to lay the groundwork for ensuring plan solvency will be missed. Without addressing these issues, the current benefit structures may lead to accelerated decline in funded status of the retirement plans due to market and economic conditions. Current benefits may not be sustainable over the long term without contribution increases. Meeting the obligations as currently structured may require reductions in services or other expenditures of government due to shrinking revenues.

MA/mt

ATTACHMENT A
Public Employees Retirement Association (PERA)
State General Plan 3

Eligibility by Age and Service	Pension Factor	Factor Cap	Example:
30 years of service	Benefit is based on average 3 year salary and 3% pension factor.	80% which is reached at 26 years, 8 months of service	3% factor * 30 years *final average salary of 2,000 = $1,600 (capped by 80%)
Age and Service Retirements Without 30 Years			
Age and years of Service=80	Same	N/A	Example: Age 65 and 15 years
Age 67 or older with 5 years or more of service credit	Same	N/A	Example: 5 years * 3% * 2000 = $300
"Grandfathered"		**Number of Active Members**	
Employees prior to July 1, 2009		22,237*	
Commissioned Peace Officers		450**	
Includes Department of Public Safety Motor Transportation (156 authorized) and Special Investigators (32), Department of Game & Fish (111), Energy, Minerals and Natural Resources Department, Parks (98) and Forestry (3), NM Livestock Board Inspectors (32), District Attorney Investigators (10)			

*Source: PERA 6/30/08 Actuarial Valuation Report

**Estimated number

State Police and Adult Correctional Officers Plan 1
Municipal Detention Officer Plan 1

Eligibility by Service	Enhanced Service	Factor Cap	Example:
25 years of service, no age requirement	No enhanced service credit (Currently is 1.2 years for every year worked)	80% which is reached at 26 years, 8 months of service	3% factor * 30 years *final average salary of 2,000 = $1,600 (capped by 80%)

Municipal Police Plans 3, 4, 5
Municipal Fire Plans 3, 4, 5

Change from 20-year plan to 25-year plan; no age requirement.