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

ORIGINAL DATE 2/24/09
SPONSOR SRC **LAST UPDATED** 3/6/09 **HB**

SHORT TITLE Legislator Retirement Age & Coverage **SB** 675/SRCS

ANALYST Haug

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY09	FY10		
	Indeterminate*	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)
*See Fiscal Implications below.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$25.0			Non-Recurring	PERA

(Parenthesis ( ) Indicate Expenditure Decreases)
*See Fiscal Implications below.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

Senate Rules Committee substitute for Senate Bill 675 would change the formula for calculating the pension benefit payable under State Legislator Member Coverage Plan 2. Currently, Plan 2 legislator members are eligible to receive an amount equal to 11% of the of the per diem rate in effect on December 31 of the calendar year the legislator retires multiplied by 60 and further multiplied by credited service. The bill would change the benefit calculation to 11% of the average of the three highest separately set per diem rates in effect during the term of service of the legislator multiplied by 75 and further multiplied by years of service credit.

Senate Rules Committee substitute for Senate Bill 675 also removes the provision providing a retirement benefit at age 65 with 5 or more years of service.

Senate Rules Committee substitute Senate Bill 675 would apply to state legislator members who retire on or after July 1. 2009.

FISCAL IMPLICATIONS

The PERA states:

> As a result of Legislative Retirement Plan changes in 2003, there has been a substantial increase in participation by eligible legislators. For the year ending June 30, 2008, the Legislative Retirement Fund had a funding status of 93.44%.
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> For the year ending June 30, 2008, actual contributions to the Fund were $2.6 million on an actuarial reserve basis from the Legislative Retirement Fund in the State Treasury, which is independently invested to finance all legislative retirements. If annual contributions remain at $2.6 million the unfunded liability is expected to be paid off in 1-2 years, in the absence of future gains and losses. However, this observation was made by the PERA actuary prior to the significant investment losses encountered during the last quarter of calendar year 2008. It is assumed that the actuarial funded status of the legislative retirement fund is considerably lower at this point when compared to the June 30, 2008 valuation.
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> Based on the June 30, 2008 actuarial valuation report, the current active membership in the Legislative Retirement Plan has an average age of 59.7 years with an average amount of service of 9.7 years. But the 25% increase in the benefit multiplier will create significant unfunded liabilities to the plan. Without an actuarial study being performed on this proposal, PERA is unsure whether the current contribution rates are adequate to fund the proposed benefit.

Should an actuarial study reveal that current contribution rates are inadequate to fund the proposed benefit, there would be an indeterminate impact to the General Fund since the State contributes to the Legislative Retirement Fund amounts sufficient to finance membership on an actuarial reserve basis.

The PERA notes that it will be required to reprogram its RIO pension administration computer system to calculate the retirement benefit payable to state legislative members who retire effective on or after July 1, 2007. PERA will be required to amend its regulations to address the statutory changes to the PERA Act.

In similar past proposals, PERA has estimated costs up to $25.0 thousand for the computer system revisions.

SIGNIFICANT ISSUES

A legislator who served less than 10 years would no longer qualify for a retirement benefit at age 65.

The PERA states:

> In 2003, the legislature amended the legislative retirement plans to provide optional

increased retirement benefits for certain legislators. Legislative Plan 1 was amended to provide for optional increased pension benefits for Legislators who served terms prior to January 1, 2004. Legislative Plan 1 closed to new members on December 31, 2003.

Currently, all current and future legislator members are covered under Legislative Plan 2, unless they elected to be covered by Plan 1 prior to December 31, 2003. Under Legislative Plan 2, legislator members will receive an amount equal to 11% of the of the per diem rate in effect, pursuant to Section 2-1-8 NMSA 1978, on December 31 of the calendar year the legislator retires multiplied by 60 and further multiplied by credited service. Annual member contributions under Legislative Plan 2 are $500.00 and members are eligible to retire at any age with 10 years of service credit. The State contributes amounts sufficient to finance membership of members under the new legislative coverage plan on an actuarial reserve basis from the Legislative Retirement Fund in the State Treasury, which is independently invested to finance all legislative retirements.

RELATIONSHIP

Senate Bill 675 is related to House Bill 65 which amends the PERA Act to provide a temporary opportunity for State Legislator Plan 1 members who missed the deadline for making additional statutory contributions for the purpose of enhancing their retirement benefits for service credit earned prior to December 31, 2002.

GH/mc