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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/16/13

SPONSOR Sanchez, M. LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Public Employee Retirement Cost of Living SB 317

ANALYST Hanika-Ortiz

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY1	FY14	FY16		
	\$576.4	\$1,152.9	Recurring	PERA

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

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		(\$576.4)	(\$1,152.9)	(\$1,729.3)	Recurring	OSF

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Office of the Attorney General (AGO)  
 Public Employee Retirement Association (PERA)  
 New Mexico Corrections Department (NMCD)  
 Department of Public Safety (DPS)  
 State Personnel Office (SPO)

### SUMMARY

#### Synopsis of Bill

SB 317 amends the PERA Act's automatic cost-of-living adjustment (COLA) for retirees and the pension benefits for certain municipal fire plan members hired on or after July 1, 2013.

COLA changes:

- Reduces the COLA from 3 percent to 2 percent.
- Beginning July 1, 2016, delays the COLA eligibility period from 2 to 3 years.
- Beginning 2030 and every five years thereafter, gives the board statutory authority to increase the COLA to 3 percent if the funded ratio is 80 percent or greater.

Municipal Fire Plan 5 members:

- Increases employee contributions 1.5 percent, effective July 1, 2013.
- Increases employer contributions 1.5 percent, phased-in over 2 fiscal years.
- Provides municipal fire employers, with an existing employee pick-up, relief from the 1.5 percent employee contribution increase.
- Beginning July 1, 2013, establishes a new tier of benefits that include:
  - a decrease in the pension multiplier from 3.5 percent to 3.25 percent, and
  - an increase in the pension maximum from 80 percent to 85 percent.

All PERA members:

- Prorates future service credit under different plans for a “blended” benefit.

## **FISCAL IMPLICATIONS**

The table above reflects new revenues for the PERA fund and additional expenditures for municipal fire employers from increasing the employer contribution 1.5 percent.

Under the bill, members under Municipal Fire Plan 5 contribute 17.7 percent of salary, up from 16.2 percent, and employers contribute 22.75 percent, up from 21.25 percent. The bill provides a temporary reduction in the employer contribution the first two years of implementation.

The bill reduces the COLA from 3 percent to 2 percent for all retirees which will immediately reduce the PERA’s unfunded liability by more than \$1 billion.

The PERA reports the bill adds \$600 million to the fund’s \$6.2 billion unfunded liability.

## **SIGNIFICANT ISSUES**

The plan continues the pattern of more generous pension benefits for firefighters than other public safety members.

The bill increases the pension maximum from 80 to 85 percent which may create an incentive to work longer and decrease the time certain employees are collecting a pension from the state.

The increase in contribution rates will reduce take-home pay for certain firefighters and may impact the ability of municipal fire employers to give future pay raises.

All service credit earned on or after July 1, 2013 will be subject to a “blended” pension benefit. Currently, if a PERA member earns service credit under one or more PERA member coverage plans, his or her pension is calculated under the coverage plan providing the highest benefit.

Members in the PERA Municipal Fire and Municipal Police plans on average retire earlier and with a higher monthly benefit than members in the PERA State Police/Corrections plan.

## **PERFORMANCE IMPLICATIONS**

The AGO notes that Article XX, Section 22 of the New Mexico Constitution, Subsection D reads: “Upon meeting the minimum service requirements...a member of a plan shall acquire a vested property right with due process protections under the applicable provisions of the New

Mexico and United States constitutions.” However, Subsection E also reads: “Nothing in this section shall be construed to prohibit modifications to retirement plans that ... preserve the actuarial soundness of an affected trust fund or individual retirement plan.”

### **ADMINISTRATIVE IMPLICATIONS**

The SPO notes that the bill may affect the ability to attract and retain qualified employees.

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

SB 25 changes age and service credit requirements in the Judicial and Magistrate Retirement Acts.

SB 26 authorizes the PERA Board to change contribution rates and cost-of-living adjustments.

SB 27 amends the PERA Act to incorporate the PERA Board’s pension reform proposal.

SB 86 amends the PERA Act’s calculation of final-average-salary for determining pension benefits.

HB 95 amends the Judicial and Magistrate Retirement Acts by delaying and reducing the COLA, decreasing the pension multiplier July 1, 2013 and increasing age and service requirements.

SB 121 allows retirees to be reemployed as undersheriffs and chiefs-of-police and requires employer and employee contributions.

SB 168 allows retirees to be reemployed as state police, adult correctional and municipal police officers and requires employer and employee contributions.

### **OTHER SUBSTANTIVE ISSUES**

California increased the minimum retirement age for public safety members to 57.

The California Public Employees' Retirement System in a study of mortality rates over 10 years found that “life expectancy of safety members is slightly higher than the life expectancy of other members.”

A National Conference of State Legislatures study indicated that 71 percent of public safety retirement plans have a minimum age requirement.

### **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Failure to redesign pension benefits this year will mean more drastic changes next year.

AHO/blm