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## FISCAL IMPACT REPORT

**SPONSOR** Ortiz y Pino/Adkins      **ORIGINAL DATE** 2/16/16  
**LAST UPDATED** \_\_\_\_\_      **HB** \_\_\_\_\_

**SHORT TITLE** Municipal Life Insurance Benefits Trust      **SB** 168

**ANALYST** Malone

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY16	FY17		
	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Finance and Administration (DFA)

Attorney General’s Office (AGO)

New Mexico Municipal League (NMML)

### SUMMARY

#### Synopsis of Bill

Senate Bill 168 authorizes a municipality to establish a post-employment life insurance benefits trust. Such a trust may be established, maintained and used by a municipal treasurer, who shall serve as trustee, with the advice and consent of a municipal board of finance. Contributions to the trust are irrevocable, may only be used for funding “post-retirement” life insurance benefits, and must be invested pursuant to the Uniform Prudent Investor Act.

### FISCAL IMPLICATIONS

No fiscal impact.

### SIGNIFICANT ISSUES

In the wake of the Government Accounting Standards Board (GASB) calling for revised standards for state and local government pensions, other post-employment benefit trusts appear

to be a growing option to offset the costs of health care for retired municipal employees.<sup>1</sup> These trusts can also cover costs associated with other benefits, such as life insurance, disability, legal, and other services when those benefits are provided separately from a pension plan. The trusts may serve as a reserve to account for the difference between projected life insurance costs for retirees and actual costs.

The Government Finance Officers Association (GFOA) has produced best practices for the establishment and administration, governance, and sustainability of post-employment benefit trusts.<sup>2</sup> Included among the GFOA recommendations are:

- Prefund obligations for postemployment benefits once it is determined that the employer has incurred a substantial long-term liability. In most cases, employers can make long-term investments to cover these obligations through a separate trust fund that should, over time, result in a lower total cost for providing postemployment benefits.
- Sponsoring entities provide a clear, well-documented governance structure to guide governing bodies and plan administrators, as a good governance structure establishes the framework for effective plan administration.
- Developing principles and priorities to guide decision making that consider benefit design, actuarial costs and projections, funding approaches, and the needs of all stakeholders and carefully evaluating and designing benefits to ensure that they are sustainable

GASB 45 requires all public sector employers offering post-employment benefits other than pensions to reflect the cost of the benefits in their financial statements and to disclose the amount of any unfunded liability. Employers should be accruing funds throughout an employee's career to fund the benefits being given. GASB 45 allows for a separate irrevocable trust to be set up to fund the liability and to increase the discount rate at which the funds can be invested thus reducing the overall liability.

For example, City of Albuquerque provides life insurance to employees, which is reduced by 50 percent upon retirement. As a result of GASB 45, Albuquerque and other local governments are required to book the actuarial liability of benefit plans such as the life insurance plan, rather than expensing the annual costs. With Albuquerque's current authority, they may only use a fixed income discount rate of 4 percent. However, with this bill, Albuquerque would have the ability to utilize a trustee to establish a diversified portfolio, which may include equities and other investments, thus allowing Albuquerque to increase their discount rate to 6 percent or higher. With a higher discount rate, the amount of the unfunded liability would fall. Albuquerque estimates that this decrease in unfunded liability would be approximately \$15 million. In addition to this, a diversified portfolio may result in better risk adjusted returns, increasing the size of the fund and the financial condition of the city.

## **TECHNICAL ISSUES**

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<sup>1</sup> GASB standards for post-employment benefit trusts can be found at [http://www.gasb.org/opeb#section\\_2](http://www.gasb.org/opeb#section_2)

<sup>2</sup> The full reports can be found at [http://www.gfoa.org/sites/default/files/CORBA\\_OPEB\\_GOVERNANCE\\_AND\\_ADMINISTRATION\\_0.pdf](http://www.gfoa.org/sites/default/files/CORBA_OPEB_GOVERNANCE_AND_ADMINISTRATION_0.pdf)  
[http://www.gfoa.org/sites/default/files/CORBA\\_ENSUREING\\_OPEB\\_SUSTAINABILITY.pdf](http://www.gfoa.org/sites/default/files/CORBA_ENSUREING_OPEB_SUSTAINABILITY.pdf)  
[http://www.gfoa.org/sites/default/files/CORBA\\_GOVERNANCE\\_OF\\_PUBLIC\\_EMPLOYEE\\_POSTRETIREMENT.pdf](http://www.gfoa.org/sites/default/files/CORBA_GOVERNANCE_OF_PUBLIC_EMPLOYEE_POSTRETIREMENT.pdf) <http://www.gfoa.org/establishing-and-administering-opeb-trust>

Subsection B uses the term “*post-retirement*”, whereas the rest of the bill uses the term “*post-employment*.” Amendment may be considered in order to create uniformity and clarity.

**OTHER SUBSTANTIVE ISSUES**

The New Mexico Municipal League supports this legislation.

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