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FISCAL IMPACT REPORT

LAST UPDATED _____

SPONSOR Rehm/Terrazas/Montoya/Pettigrew **ORIGINAL DATE** 1/25/2023

BILL

SHORT TITLE Safety Officer Retirement Calculations **NUMBER** House Bill 66

ANALYST Simon

REVENUE* (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25		
	Indeterminate but minimal	Indeterminate but minimal	Recurring	PERA Fund

Parentheses () indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		Indeterminate but minimal	Indeterminate but minimal		Recurring	PERA Fund
Total						

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Relates to House Bills 64 and 65

Conflicts with House Bill 106, and Senate Bills 96 and 124

Sources of Information

LFC Files

Responses Received From

Public Employee Retirement Association (PERA)

State Personnel Office (SPO)

SUMMARY

Synopsis of House Bill

House Bill 66 (HB66) would amend the Public Employee Retirement Act to raise the maximum amount of a pension benefit from 90 percent to 100 percent of an employee's final average salary.

Note, although the short title of HB66 is “Safety Officer Retirement Calculations,” HB66 would apply to all PERA plans, including the state and municipal general plans.

This bill does not contain an effective date and, as a result, would go into effect June 16, 2023, (90 days after the Legislature adjourns) if signed into law.

FISCAL IMPLICATIONS

HB66 would increase the cap for pension payments for members of the Public Employees Retirement Association (PERA), which is currently at 90 percent of a member’s final average salary. (For Tier 1 members, the final average salary is the average from the member’s highest 36 consecutive months of pay; for Tier 2 members it is the highest 60 consecutive months). HB66 would apply only to service credit earned after the law goes into effect. Members who are currently employed but have accrued the 90 percent maximum currently in effect would earn additional credit beginning June 2023, but would not be retroactively granted service credit for prior service.

HB66 would allow members to earn up to 100 percent of final average salary by working an extra 10 years. The additional 1-percent-per-year amount would apply uniformly across plans, including those plans that accrue additional benefits at a slower rate and, as a result, have lower contribution rates. The table below shows differences in how long it takes members of various plans to reach the maximum benefit. For example, a member of municipal police plan 1 accrue benefits at 2 percent per year, while members of municipal police plan 5 accrue benefits at 3.5 percent per year. Total contributions for police plan 1 are 20.15 percent, while total contributions for police plan 5 are 37.95 percent. On a hypothetical salary of \$75 thousand, police plan 1 contributions amount to \$13,350 less per year than police plan 5.

Year of Service Required for Maximum Pension Benefit

	Tier 1		Tier 2	
	90% (Current)	100% (HB66)	90% (Current)	100% (HB66)
State General Coverage Plan 3	30	40	36	46
State Police Member, Correctional Officer Member and Probation and Parole Officer Member	30	40	30	40
Juvenile Correctional Officer Member Plan 2	30	40	30	40
Municipal General Member, Plan 1	45	55	45	55
Municipal General Member, Plan 2	36	46	45	55
Municipal General Member, Plans 3 and 4	30	40	36	46
Municipal Police Member, Plan 1	45	55	45	55
Municipal Police Member, Plans 2 and 3	36	46	45	55
Municipal Police Member, Plan 4	30	40	30	40
Municipal Police Member, Plan 5	25.7	35.7	30	40
Municipal Fire Member, Plan 1	45	55	45	55
Municipal Fire Member, Plans 2 and 3	36	46	45	55
Municipal Fire Member, Plan 4	30	40	36	46
Municipal Fire Member, Plan 5	25.7	35.7	30	40

Source: LFC Analysis

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. HB66 would increase benefit payments for future retirees. PERA has yet to complete an actuarial analysis of HB66 to ensure the bill conforms with this section of the Constitution. However, analysis from PERA notes the bill would require retirees to work for a longer period to realize increased benefits, making contributions for a longer period and collecting a pension for fewer years. The agency states an actuarial analysis is underway.

SIGNIFICANT ISSUES

Data from PERA suggests only a limited number of employees serve for 30 years or more and reach the current maximum pension benefit. The table below shows the percentage of retired members by the level of service credit accrued before retirement. Less than 4 percent of members reach the 30 years of service credit required to max out on state and municipal general plans and less than half reach 25 years of service. HB66 may successfully encourage a small number of members to continue working to boost pension benefits and provide compensation to that small percentage of employees who continue to work after achieving the maximum benefit, but may not encourage a large number of employees to continue to work for more years.

**Years of Service Credit at Retirement
Percent of Retired Members**

Plan	Less than 15	15 to 19	20 to 24	25 to 29	30+
State General	31.6%	11.2%	13.4%	40.5%	3.3%
State Police/Corrections	15.5%	5.6%	25.1%	48.9%	5.0%
Municipal General	31.6%	12.1%	13.7%	38.6%	4.0%
Municipal Police	10.3%	11.8%	71.1%	5.6%	1.2%
Municipal Fire	9.3%	9.4%	74.1%	4.7%	2.5%
Total	27.9%	11.2%	22.3%	35.1%	3.4%
Total (Excluding Police and Fire)	31.6%	11.6%	13.5%	39.7%	3.6%

Source: PERA 2022 Valuation Report

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Several bills have been introduced for consideration of the First Session of the Fifty-Sixth Legislature that would incentivize public employees to provide more years of service. These proposals include

- House Bill 64, which would create a return-to-work program for public employees;
- House Bill 65, which would create a return-to-work program for retirees from all PERA plans;
- House Bill 106, which would increase the maximum pension benefit from 90 percent to 100 percent of salary;
- Senate Bill 96, which would increase the maximum pension benefit the state police member, correctional officer member, and probation and parole officer member plan; and
- Senate Bill 124, which would both enact a return-to-work program for all PERA retirees and increase the maximum pension benefits if employees serve for more years.

JWS/mg/ne