FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Sanchez	**ORIGINAL DATE**	01/22/2024
SHORT TITLE	PERA Member Temporary Payment	**BILL NUMBER**	House Bill 172
		ANALYST	Simon

APPROPRIATION*
(dollars in thousands)

FY24	FY25	Recurring or Nonrecurring	Fund Affected
	$63,000.0	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Conflicts with Senate Bill 63

Sources of Information

LFC Files

<u>Agency Analysis Received From</u>
Public Employees Retirement Association (PERA)
Retiree Health Care Authority (RHCA)

SUMMARY

Synopsis of House Bill 172

House Bill 172 (HB172) would create a temporary, non-compounding payment to current retirees under the Public Employees Retirement Act equal to 2 percent of a member's annual pension payment. The bill includes a $63 million appropriation to the Public Employee Retirement Association (PERA) to cover the costs of the payments.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or May 15, 2024, if enacted. Provisions of the bill are specific to fiscal years 2025 and 2026.

FISCAL IMPLICATIONS

HB172 would provide for a temporary increase in benefits paid by PERA. 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.

HB172 includes a $63 million appropriation to PERA, and PERA reports its actuaries have estimated the costs of the payments at $63 million. Previous actuarial estimates of the costs of non-compounding payment to retired PERA members have been highly accurate. A previous appropriation for temporary, non-compounding payments had a final balance that was only $43,278, or 0.08 percent, below the $55 million appropriation.

PERA notes the need to make system modifications to its pension administration system but does not report the modifications will have a fiscal impact.

The appropriation of $63 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY26 will revert to the general fund.

SIGNIFICANT ISSUES

In 2020, the Legislature passed Senate Bill 72 (SB72), which amended the Public Employees Retirement Act to replace an annual 2 percent cost-of-living adjustment (COLA) for most members with new "risk-sharing" COLA, following a temporary suspension of the annual COLA in FY21 through FY23. In those years, the annual COLA was temporarily replaced by an additional, non-compounding payment of two percent of the member's benefit. Those additional payments, sometimes called the "13th check," were made for three years and the Legislature appropriated $55 million from the general fund to cover the costs of these payment. Following the three-year period, the new "risk-sharing" COLA was implemented. Unlike the 13th check, this payment would compound. The COLA would be based on the plan's investment performance and the plan's funded status—or the percentage of total liabilities for which the plan has invested assets. Under this COLA, rates would vary from 0.5 percent to 3 percent, until the plan is fully funded, at which point COLAs could go as high as 5 percent.

Annual Cost-of-Living Adjustments for PERA and Social Security

Year	Social Security	PERA
2010	0.0%	2.0%
2011	0.0%	2.0%
2012	3.6%	2.0%
2013	1.7%	2.0%
2014	1.5%	2.0%
2015	1.7%	2.0%
2016	0.0%	2.0%
2017	0.3%	2.0%
2018	2.0%	2.0%
2019	2.8%	2.0%
2020	1.6%	2.0% [1]
2021	1.3%	2.0% [1]
2022	5.9%	2.0% [1]
2023	8.7%	0.5%
2024	3.2%	0.5% [2]

Source: Social Security Administration and LFC Files

[1]Non-compounding

[2]PERA has not yet announced a 2024 COLA, but reported a 4.2 percent return, likely too low to provide more than a 0.5% COLA.

SB72 was passed to address chronic underfunding issues at PERA. At the time, PERA's actuaries estimated the fund held about 70 percent of the assets needed to pay all accrued benefits, but over time that gap was expected to grow because contributions into the fund were not sufficient to pay all protected benefits, make additional annual cost-of-living adjustments, and pay off the plan's unfunded liability. SB72 increased employee and employer contributions to the funds, which PERA reports has raised $32.4 million per year in additional revenue, with that amount increasing in future years, and lowering cost-of-living adjustments.

SB72 was passed at a time when an annual 2 percent COLA was outpacing inflation. Annual COLAs for social security, which are tied to inflation, averaged 1.4 percent between 2010 and 2020. But more recent increases in the cost of living have led these amounts to spike. Social security COLAs in 2022 were nearly 6 percent and were almost 9 percent in 2023, which illustrates the challenges faced by retirees in meeting basic needs on fixed incomes.

Exceptions. While most PERA members are subject to the variable COLA, some members continue to receive a fixed 2.5 percent COLA: disability retirees with an annual benefit of less than $25 thousand, normal retirees with 25 years of service credit and a benefit of less than $25 thousand, and retirees who were 75 years old as of July 1, 2020. While the previous additional payments were not paid to those who continued to receive the 2.5 percent COLA, payments proposed by HB172 would apply to all PERA retirees.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB172 conflicts with Senate Bill 63 (SB63), which would repeal and replace Section 10-11-118 NMSA 1978, the section of law HB172 seeks to amend. SB63 would re-establish a compounding COLA.

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