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FISCAL IMPACT REPORT

SPONSOR: Lyons DATE TYPED: 02/27/01 HB _____
 SHORT TITLE: Change State Legislator Retirement Coverage SB 652
 ANALYST: Eaton

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	FY02	FY01	FY02		
	Indeterminate/ negative		Indeterminate/ negative	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

Public Employees Retirement Association (PERA)
 New Mexico Retiree Health Care Authority (NMRHCA)
 State Personnel Office (SPO)

SUMMARY

Synopsis of Bill

This bill allows former, but not retired, legislators who served for at least 4 years to participate in the New Mexico Retiree Health Care Authority (NMRHCA), if they pay a monthly premium and a monthly participation fee. Additionally, this bill limits State Legislator Member Coverage Plan 1 to former legislator whose service ended prior to January 1, 1999 and creates State Legislator Member Coverage Plan 2 with enhanced benefits.

Significant Issues

By applying retroactively to Legislators who have retired since December 31, 1998, this bill creates a precarious pattern of un-retiring members and allowing them to take advantage of higher benefits. It raises the question of whether the retired Legislator would then be paid a lump sum to makeup for the underpayment since retirement and before enactment of this bill. It is a harmful precedent that could open other PERA funds to retroactive application.

The PERA Board cannot support this Legislation because of its retroactive application and because it presents a significant plan change that needs to be studied by PERA's Actuaries.

FISCAL IMPLICATIONS

The New Mexico Retiree Health Care Authority (NMRHCA) report that while this bill does not contain an appropriation for legislator participation in the NMRHCA, it would not have an adverse impact on the NMRHCA, as legislators would pay 100 percent of their costs plus a participation fee.

Under the State Legislator Member Coverage Plan 1, the Legislator member pays contributions of \$100 per year. For the current fiscal year, the State will contribute \$235,000 as the amount sufficient to finance the membership of Legislators under State Legislator Member Coverage Plan 1 on an actuarial reserve basis. PERA does not know at this time how much it will cost to finance State Legislator Member Coverage Plan 2 on an actuarial reserve basis. However, Section 9 of this bill allows PERA to annually request the amount of contributions needed on an actuarial reserve basis, as it does under current law. PERA indicate that this would be a significant plan change that needs to be studied by PERA's Actuaries.

ADMINISTRATIVE IMPLICATIONS

Minimal.

OTHER SUBSTANTIVE ISSUES

The Public Employees Retirement Association (PERA) provided the following information.

Under this bill, State Legislator Member Coverage Plan 1 shall apply to all Legislators and Lieutenant Governors who served terms of office that ended on or before December 31, 1998. State Legislator Coverage Plan 1 required members to pay annual contributions of \$100 and the annual pension amount is \$250 multiplied by each year of service. (If the service was prior to January 1, 1960, the pension amount was only \$40 multiplied by credited service.) The member must have 14 or more years of credited service to retire at any age.

This bill adds a new State Legislator Member Coverage Plan 2, which is applicable to Legislators and Lieutenant Governors who are serving terms of office after December 31, 1998. Under Plan 2, the member must contribute \$400 for each year of service. Though a Legislator may have purchased years of service credit prior to January 1, 1999, he or she must pay additional contributions of \$400 per year to be credited under Plan 2. There is no deadline in this bill for when a Legislator must pay the additional contributions for previous years of service. If no time limit is placed on Legislators to bring their account up-to-date, PERA requests that interest be added to the additional contributions past a certain interest free period (see the Alternatives section on the following page).

Under this bill, the amount of the annual pension under State Legislator Member Coverage Plan 2 for Legislators retiring after December 31, 1998 is the sum of the following:

- For the first 12 years, the member's contributions, without interest, multiplied by 2.5;
- For the years 13 through 20, the member's contributions for service in excess of 12 years, but fewer than 20 years, without interest, multiplied by 1.
- For all years over 20, the member's contributions for service in excess of 20 years, without interest, multiplied by 0.25.

EXAMPLES OF RETIREMENT AFTER DECEMBER 31, 1998 IF SB 652 IS ENACTED

A Legislator who currently has 18 years of purchased service, retires December 31, 2010 (for a total of 28 years of service) would owe \$9,400 in contributions (\$5,400 in back contributions [\$300 x 18] and \$4,000 in future contributions) and would receive:

12 years x \$400 x 2.5 = \$12,000
8 years x \$400 x 1 = \$ 3,200
8 years x \$400 x .25= \$ 800
Total: \$16,000 annually

In another example, a Legislator who currently has 10 years of purchased service, retires December 31, 2008 (for a total of 20 years of service) would owe \$7,000 in contributions (\$3,000 in back contributions [\$300 x 10] and \$4,000 in future contributions) and would receive:

12 years x \$400 x 2.5 = \$12,000
8 years x \$400 x 1 = \$ 3,200
Total: \$15,200 annually

**AN EXAMPLE OF RETIREMENT UNDER LEGISLATOR COVERAGE PLAN 1
(IF SB 652 IS NOT ENACTED)**

A Legislator, who currently has 12 years of purchased service and retires effective January 1, 2003 (for a total of 14 years of service) would owe contributions for calendar years 2001 and 2002 (\$200) and would receive:

14 years x \$250 = \$3,500
Total: \$3,500 annually

ALTERNATIVES

Amend SB 652 to ensure its prospective application as follows:

- Page 13, line 5, strike "1999" and in its place add "2001"
- Page 13, line 15, strike "1999" and in its place add "2001"
- Page 14, line 2, strike "1998" and in its place add "2000"
- Page 14, line 2, strike "1998" and in its place add "2000"
- Page 16, add the following sentence to line 2: "Payment for all past credited service shall be made by June 30, 2002. The association may assess an interest charge on any remittance not made by June 30, 2002."

JBE/ar