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FISCAL IMPACT REPORT

SPONSOR: Coll DATE TYPED: 03/2/03 HB 805

SHORT TITLE: Seasonal Employee Credited Service Purchase SB _____

ANALYST: Gilbert

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
			\$0.1 See Narrative	Recurring	PERA Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

House Bill 805 amends the Public Employees Retirement Act to provide a new benefit for legislative branch seasonal employees. This bill allows these individuals, if currently vested in PERA, to purchase service credit associated with legislative seasonal employment.

Significant Issues

The PERA Act currently excludes from membership employees designated by their affiliated employers as seasonal or student employees. HB 805 proposes to add a special exception for former legislative seasonal employees.

Therefore, this bill allows a number of statutorily excluded employees to purchase service credit, while most others are prohibited from doing so.

HB 805 also proposes to change the definition of “service credit” as that term is used throughout the PERA Act by permitting some statutorily excluded employees to accrue service credit in a different manner than other PERA members. Specifically, this bill proposes to allow service credit to be posted based on legislative session employment, as opposed to posting credit for con-

tributions being reported to PERA on behalf of a member.

FISCAL IMPLICATIONS

There is no appropriation included in this bill.

Since an actuarial study was not performed to accurately determine the cost of the new benefits provided by this bill, the fiscal impact on PERA is unknown. However, HB 805 requires members to pay the total cost for the purchase of the service credit. Therefore this bill appears to comply with provisions of Article XX, Section 22 of the New Mexico Constitution. It is not known at this time how many PERA members will request to purchase this time.

For the period ending June 30, 2001, PERA's unfunded actuarially accrued liability (UAAL) grew significantly. The June 30, 2002 actuarial valuation indicates that PERA funding resources are sufficient to finance the UAAL over an aggregate period of 10 years. In aggregate, the system had an experience loss for the year ending June 30, 2002 of \$258 million, due to a lower rate of return than assumed (5.5% vs. 8%) and greater retirements than assumed. PERA's actuaries reported a loss of \$328 million for 3 of the 4 years of investment activity that will flow into the recognized gain/loss in next year's actuarial valuation. If a loss of this magnitude occurs next year, the effect would be that the overall PERA funding ratio will drop below 100% and PERA UAAL will increase to approximately 20 years.

ADMINISTRATIVE IMPLICATIONS

If this bill is adopted, PERA must amend its regulations and update member informational publications. PERA believes that it can absorb this impact.

OTHER SUBSTANTIVE ISSUES

According to PERA, HB 805 provides a benefit for a narrowly defined group of PERA members formally designated by their employer as excluded from membership, thus conveying a unique benefit to seasonal employees of the New Mexico Legislature.

This conflicts with the general concept of a defined benefit plan in which similarly situated members should earn and receive similar benefits. PERA members who were designated as "seasonal" employees in other capacities are not eligible to purchase service credit for such periods of excluded employment.

This bill would also allow members who were legislative seasonal employees to accrue more than one month of service credit for service in a calendar month. HB 805 would allow such members to purchase 3 months of service credit for a 60-day session and 2 months of service credit for a 30-day session. As stated above, this is contrary to how service credit is calculated pursuant to the PERA Act by providing for a "block" of service credit for a time period rather than calculating service credit on reported wages.