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## FISCAL IMPACT REPORT

SPONSOR: Altamirano DATE TYPED: 03/20/03 HB \_\_\_\_\_  
 SHORT TITLE: Purchase of PERA Service Credit SB 378/aSFC/aSFI#1  
 ANALYST: Gilbert

### APPROPRIATION

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

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

Response Received From  
 Public Employees Retirement Association (PERA)  
 State Personnel Office (SPO)

### SUMMARY

#### Synopsis of SFI Amendment

Senate Floor Amendment #1 to Senate Bill 378 amends the Public Employees Retirement Act to significantly reduce the total purchase cost of state legislator coverage plan service credit.

Currently, the purchase cost for each year of credited service to be used under a state legislator coverage plan is equal to the *sum of the member contribution and an employer contribution of ten times the annual amount of pension per year of credited service under the state legislator coverage plan* applicable to the member. Thus, each year of purchased legislator service credit currently costs \$2,600.

Under this amendment the purchase cost would be equal to three times the normal member contribution per year of credited service under the state legislator coverage plan applicable to the member. Therefore, a legislative member could purchase a year of service credit for only \$300.

Outlined below is a cost comparison for a legislative member to purchase 15 years of state legis-

lator plan service credit:

Current cost to purchase 15 years of service credit:

$((\$250 \text{ annual amount of pension} \times 10) + \$100 \text{ member contribution}) \times 15 \text{ years} = \mathbf{\$39,000}$

Cost to purchase 15 years of service credit under this amendment:

$(3 \times \$100 \text{ normal member contribution}) \times 15 \text{ years} = \mathbf{\$4,500}$

Therefore, under this bill a legislator member would pay \$34,500 less than the current cost to purchase 15 years of service credit.

#### Synopsis of SFC Amendment

The amendments adopted by the Senate Finance Committee limit to one year the purchase of service credit instead of five years as proposed originally.

#### Synopsis of Original Bill

Senate Bill 378 amends the Public Employees Retirement Act to allow PERA members who are vested (possess five or more years of service credit) to purchase up to five years of service credit.

#### Significant Issues

According to PERA, the primary policy issue raised by SB 378 is whether a PERA member should be able to purchase 5 years of service credit for time not earned. Current law requires that all other service credit in the public employees retirement systems must be earned either through service to a public employer, military or prisoner of war service. The service credit in Senate Bill 378 is not tied to any service requirement. There is no provision currently in law to allow service credit purchase for time that is not served in some manner.

### **FISCAL IMPLICATIONS**

According to PERA, in the absence of an actuarial determination, the fiscal impact of SB 378 is unknown at this time. Therefore, it may be contrary to NM Const., Art. XX, Section 22 (no benefits may be enhanced unless the costs of those benefits are properly funded in accordance with actuarial standards).

Senate Bill 378 requires PERA members to pay the full actuarial present value for purchased service credit. However, PERA's actuaries will charge a fee for each actuarial present value request. PERA does not know how many of their 44,030 active members will seek to purchase service credit. It is logical to assume that if PERA members know of this provision in law, they would all request a purchase estimate.

Additionally, since the full actuarial cost of the service credit will be based on the member's salary at the time of purchase, PERA members may purchase service credit earlier in their careers when it is less costly.

**ADMINISTRATIVE IMPLICATIONS**

Currently, requests for the purchase of service credit are limited to those who have served in the military or who meet very specific criteria. SB 378 expands the group of persons eligible to purchase service credit and will thus increase demands on PERA staff in responding to membership inquiries relating to the purchase of service credit.

Additionally, PERA would be required to amend its regulations to address the statutory changes to the PERA Act.

RLG/prr/njw:yr