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FISCAL IMPACT REPORT

SPONSOR: Griego DATE TYPED: 02/24/03 HB _____

SHORT TITLE: Public Employee Service Credit Purchase SB 644

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

Relates to SB 378, SB 716

LFC Files

Response Received From

Public Employees Retirement Association (PERA)

State Personnel Office (SPO)

SUMMARY

Synopsis of Bill

Senate Bill 644 amends the Public Employees Retirement Act to allow PERA members with fifteen or more years of service credit to purchase up to five years of service credit.

This provision would be in effect for the period from July 1, 2004 through June 30, 2005.

Significant Issues

SB 644 will effectively implement a 20-year retirement plan for PERA members with sufficient resources to exercise their option to purchase service credit, regardless of their member coverage plan.

According to PERA, the primary policy issue raised by SB 644 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 644 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 644 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 644 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 644 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.

OTHER SUBSTANTIVE ISSUES

SB 644 provides that 75 % of the purchase cost shall be considered employer contributions and not be refunded to the member in the event of cessation of membership. This is contrary to the PERA Act, which sets each member's employee and employer contributions by statute according to his or her applicable member coverage plan.

SB 644 would allow a PERA member in a 20-year plan to retire with only 15 years of actual service.

SB 644 does not provide for the purchase of service credit by members of the Judicial Retirement Act or the Magistrate Retirement Act.