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## FISCAL IMPACT REPORT

SPONSOR: Sanchez, M. DATE TYPED: 03/11/03 HB \_\_\_\_\_

SHORT TITLE: Adult Correctional Officer Retirement SB 797/aSFC

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)

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	\$90.0	\$180.0	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to HB 611, HB 116, HB 788, SB 577, SB 591, SB 764

### SOURCES OF INFORMATION

LFC Files

#### Response Received From

Public Employees Retirement Association (PERA)  
New Mexico Corrections Department (NMCD)

### SUMMARY

#### Synopsis of SFC Amendment

Senate Finance Committee amendment to Senate Bill 797 removes the July 1, 2004 earliest plan implementation date as follows:

*State police member and adult correctional officer member coverage plan 1 is applicable to adult correctional officer members in the first full pay period after*

*July 1, 2004 if the retirement board certifies to the secretary of state that, of those adult correctional officer members to be covered under state police member and adult correctional officer member coverage plan 1, a majority of the members voting have voted to approve adoption of that plan at an election conducted pursuant to Section 9 of this 2003 act."*

The bill also reduces the minimum service credit necessary to qualify for state police member and adult correctional officer member coverage plan 1 from 3 years to only 18 months. This change would allow members, who meet the age and service requirement, to retire 18 months sooner than permitted by the original bill. The specific actuarial impact of this change is unknown.

### Synopsis of Original Bill

Senate Bill 797 expands eligibility for membership in State Police Member Coverage Plan 1 (a 20 year 10 month retirement plan) to include adult correctional officers and adult correctional specialists, pending approval by election of the affected membership. Only actual service under the State Police Member and Adult Correctional Officer Member Coverage Plan 1 would be eligible for the associated benefit enhancement.

Contributions under the proposed State Police Member and Adult Correctional Officer Member Coverage Plan 1 would be 7.6% of salary for employees and 25.1 % for the employer.

### Significant Issues

Under Hazardous Duty Plan 2, correctional officers are defined as juvenile and adult correctional officers. Correctional officers are currently eligible to retire at any age with 25 or more years of service credit. They receive a 3 percent pension factor for every year they earn service credit and are capped at 100% of their final average salary. Correctional officers currently pay 4.78% of their salary in contributions and the employer pays 25.72%.

## **FISCAL IMPLICATIONS**

The Corrections Department consulted with the PERA Board regarding this benefit enhancement contained in this bill. An actuarial study determined that increased contributions equal to 9.2% were necessary to properly fund the new benefits in this plan. However, because of the healthy funding level of the plan, PERA's actuaries determined that current contribution rates would be sufficient to fund the improved benefits for correctional officers.

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.

NM Const. Art. XX, Section 22 prohibits increased benefits unless the benefits are properly funded on an actuarially sound basis.

**ADMINISTRATIVE IMPLICATIONS**

PERA would be required to amend its regulations to address the statutory changes to the PERA Act and to reprint pertinent information relating to State Police Member Coverage Plan 1.

If adopted, this bill may assist the Corrections Department in recruiting correctional officers and in reducing correctional officer turnover and vacancy rates.

**RELATIONSHIP**

HB 788 transfers lieutenants and captains into State Police Plan 1.

HB 116 creates a new state hazardous duty member coverage plan for adult correctional officers

HB 611 creates a new state hazardous duty member coverage plan for adult correctional officers.

RLG/prr/njw