F I S C A L   I M P A C T   R E P O R T

SPONSOR Begaye **DATE TYPED** 01/24/05 **HB** 16

SHORT TITLE Return to Employment for Public Retirees **SB**

ANALYST Geisler

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
NFI	See narrative	$.01 See Narrative	Recurring	PERA Trust Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to: HB 207

SOURCES OF INFORMATION

Public Employees Retirement Association (PERA)
New Mexico Municipal League

SUMMARY

Synopsis of Bill

House Bill 16 amends the PERA Act to reinstate an earnings limitation of $15,000 for PERA retirees who return-to-work with a PERA affiliated-public employer before suspension of pension benefits. Further, HB 16 eliminates the exemption for retirees who are employed during the legislative session for legislative session work.

Significant Issues

Under current law, retirees who return to work with public-affiliated employers are required to remit nonrefundable retired member contributions when their post-retirement earnings reach $25,000. As of December 31, 2004, affiliated-public employers have re-hired approximately 1,501 retirees under the PERA Act's back-to-work provisions. Effective July 1, 2005, HB16 would reinstate an earnings limitation of $15,000 for such post-retirement employment with affiliated-public employers and would be applicable to those retirees already re-employed. Upon reaching the $15,000 earnings limitation, pension benefits for those affected retirees would be suspended, the former retired members would become contributing PERA members and would accrue service credit until employment terminated.

Under current law, retirees who return to work for the legislature for legislative session work are exempt from the requirement of making retiree contributions to the Fund. HB 16 removes this exemption. As a result, retired members who return to work for the legislature during the legislative session will have their pensions suspended when the retired member's earnings reach $15,000.

The Municipal League notes that municipalities continue to have difficulty in retaining and finding employees in rural areas and that the return to work provision has helped rural employers retain valuable employees. Employers are not required to hire back retirees—the provision is optional. In addition, the return to work legislation provides for contributions to cover any negative actuarial cost caused by the return to work legislation. Since the return to work provision was just implemented in 2004, the Municipal League requests that the legislature allow the provision to remain in place and allow PERA to monitor the effect over time.

FISCAL IMPLICATIONS

PERA states that HB 16 may have a positive fiscal impact on the fund. Since removal of its earning limitation for retirees who return to work with affiliated-public employers, PERA has experienced historically heavier end-of-year retirements. For example, for the year 2004 PERA retired 1,878 of its members. The number of back-to-work-retirees has escalated from 363 on October 31, 2003 to 1,501 through December 31, 2004. The number of retirees who have returned to work correlates very closely with the increased retirements in 2004 and represents approximately 7% of annuitant payroll.

Under current law, retired member contributions will continue to be required through December 31, 2006, allowing for two full years of actuarial experience to determine the full actuarial cost of PERA's expanded return-to-work provisions. Beginning January 1, 2007, the employer contribution rate will be adjusted annually at PERA's determination to cover the full actuarial cost of PERA retirees for post-retirement employment with PERA affiliates. It is unknown whether removal of the earnings limitation for post-retirement employment will require PERA's actuaries to modify the retirement trend assumptions used for valuation purposes. Until PERA's actuaries have sufficient experience to determine the actuarial cost of the return-to-work provisions, it is unknown what impact removal of the earnings limitation has had on the Fund. However, if reinstatement of the PERA Act's earnings limit for retirees who return to work triggers later retirements, there may be a gain to the Fund.

ADMINISTRATIVE IMPLICATIONS

HB 16 will require PERA to make additional changes to the new pension software system that PERA is implementing. For example, by incorporating removal of the PERA's post-retirement earning limit into the pension system, PERA incurred approximately $50,000 in software change orders costs during FY05. If further revisions to the system are necessary in FY06, PERA will be required to seek a BAR to cover the costs of these system changes.

Returning to an earnings limitation for retirees returning to work with affiliated-public employers will alleviate the administrative requirements of accounting for nonrefundable retired member contributions required when members post-retirement earnings reach $25,000.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB 207, introduced on behalf of the Legislative Finance Committee, proposes to impose a $30,000 earnings limit for PERA retirees who return to work for public-affiliated employers for those retired members who return-to-work on or after July 1, 2005. The bill grandfathers in retirees who returned to work prior to July 1, 2005 under the provisions of the current statute.

OTHER SUBSTANTIVE ISSUES

<u>PERA Actuarial Position</u>

Per PERA, for the period ending June 30, 2003, PERA's unfunded liability grew significantly, and the time to pay off its unfunded actuarially accrued liability (UAAL) increased from 10 years to 17 years. The June 30, 2004 actuarial valuation indicates that PERA funding resources are sufficient to fund the Normal Cost and finance the UAAL over an aggregate period of 21 years. It should be noted, however, that the funding of assets uses a smoothing technique that spreads investment gains and losses out over a 4-year period. One quarter of this year's investment gain has been recognized in last fiscal year's funding value and one quarter of it will be recognized in each of the next 3 years. Past losses more than offset last year's gain. In aggregate, the system had an experience loss for the year ending June 30, 2004 of $474 million, due to rate of return on funding value of assets less than assumed (3.8% vs. 8%) and retirements greater than assumed. PERA's actuaries report a loss of $186 million for past investment losses 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 to 90% and PERA's overall UAAL will increase to approximately 30 years.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

Retirees who return to work with public-affiliated employers are required to remit nonrefundable retired member contributions when their post-retirement earnings reach $25,000. Retired member contributions will continue to be required through December 31, 2006, allowing for two full years of actuarial experience to determine the full actuarial cost of PERA's expanded return-to-work provisions. Beginning January 1, 2007, the employer contribution rate will be adjusted annually at the determination of PERA to cover the full actuarial cost of PERA retirees for post-retirement employment with PERA affiliates.

GGG/yr