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FISCAL IMPACT REPORT

SPONSOR Taylor DATE TYPED 2/24/05 HB _____

SHORT TITLE New Public Employer as Affiliated Employer SB 880

ANALYST Geisler

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
		Minimal, see narrative	Recurring	Public Employees Retirement Fund

(Parenthesis () Indicate Revenue Decreases)

Duplicates: HB 1080

SOURCES OF INFORMATION

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

Senate Bill 880 amends the PERA Act to address concerns about continuity of retirement benefits when two or more public affiliated employer merge to create a new entity. SB 880 will allow two or more public employers with existing employees under different PERA coverage plans to affiliate as a new entity under the highest member coverage plan applicable to the affected employees.

Significant Issues

PERA employee and employer contribution rates are defined by statute in terms of percents of active member payroll. Statutory contribution rates under member coverage plans are calculated to meet the actuarial present value of PERA statutory obligations and the financing period applicable to the unfunded actuarial accrued liability. Remittance of employee and employer contributions at levels that accurately reflect the future liabilities accruing to the PERA Fund is intrinsic to a defined benefit structure. Any affiliation process that would allow a significant number of PERA members who have accrued sufficient service credit to retire under a higher coverage plan to contribute to the PERA Fund at levels disproportionate to the benefit that will be received

upon retirement will not be not actuarially sound. SB 880 will preclude this possible scenario by requiring member contributions in the newly created entity to be at the higher plan level.

FISCAL IMPLICATIONS

Minimal fiscal impact, as SB 880 will help ensure that contributions from the newly created entity will be at the appropriate level to support the retirement benefit.

ADMINISTRATIVE IMPLICATIONS

PERA will continue to evaluate and approve affiliation requests as directed by statute, NM 1978, section 10-11-122, and PERA Rule 2.80.1900 NMAC.

In an effort to avoid the potential for unintended consequences, PERA will revise its administrative procedures under PERA Rule 2.80.1900 NMAC to clarify that if a non-public safety entity and a public safety entity that enjoys a 20-year retirement plan consolidate, under SB 880 only certified public safety officers as defined by the applicable section of the PERA Act will be eligible for enhanced retirement benefits that are provided for hazardous duty employment.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 880 is a duplicate of HB 1080.

OTHER SUBSTANTIVE ISSUES

Albuquerque-Bernalillo Water Utility Authority

SB 880 amends the PERA Act to allow an entity created by the consolidation of employees of two affiliated public employers to affiliate under the coverage plan that would afford continuity retirement benefits at the highest of PERA member coverage plans applicable to affected employees.

SB 880 addresses the unprecedented scenario presented by creation of the Albuquerque-Bernalillo Water Utility Authority (“Water Authority”). While the Authority has been approved as a governmental entity that qualifies for affiliation with PERA, if the Water Authority chose to affiliate now, the only available option for affiliation is under Municipal Member Coverage Plan 2, which offers a 2.5% pension factor. The Water Authority’s future employees (City of Albuquerque employees and Bernalillo County employees), all are now in Municipal Plan 3, which offers a 3% pension factor. Unfortunately, Municipal Plan 3 is closed to further public employers. In the case of the Water Authority, current law would result in 600-plus PERA members who have accrued sufficient service credit to retire under Municipal Plan 3 contributing to the PERA Fund at levels lower and disproportionate to their associated accruing liability. In addition new hires would receive pension benefits at the lower Municipal Plan 2 levels.

When PERA calculates pension benefits, the coverage plan from which the member was last employed governs the age and service requirements for retirement. PERA Rule 2.80.700.10.C NMAC (2003). Thus, if a non-public safety entity and a public safety entity that enjoys a 20-year retirement plan consolidate, under SB 880 all affected employees might be eligible for enhanced retirement benefits under the newly created entity. PERA will administer the affiliation

process contemplated by SB 880 in light of the other statutory provisions of the PERA Act. Specifically, only members who meet the statutory definitions of state police, adult correctional officer, municipal fire members, municipal police member and municipal detention officer will be eligible for enhanced benefits under hazardous duty plans.

NMSA 1978, Section 10-11-8(D)(2003) states that the pension of a member who has three or more years of service credit under two or more coverage plans is calculated under the coverage plan that produces the highest pension. Further, the pension of a member who has service credit under two or more coverage plans but who has three or more years of service under only one of those plans is calculated under the coverage plan in which the member has three or more years of service credit.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

Entities created by the consolidation PERA-affiliated public employers will be able to affiliate as a new public entity under the open member coverage plans available under the PERA Act, which might not require the proper contribution level for a higher retirement benefit.

GGG/yr