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

		ORIGINAL DATE	1-29-07		
SPONSOR	Varela	**LAST UPDATED**		**HB**	221
SHORT TITLE	Payment Obligations of State Pension Systems			**SB**	
				ANALYST	Aubel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Computer Change		$25.0		$25.0	Non-Recurring	PERA

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Computer Change		$50.0		$50.0	Non-Recurring	ERB

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Educational Retirement Board (ERB)
Public Employee Retirement Association (PERA)
Administrative Office of the Courts (AOC)

SUMMARY

Synopsis of Bill

The Reciprocity Retirement Act, NMSA 1978, Section 10-13A-1 *et seq.*, allows public employees who earn service credit under the two or more state systems to combine service credit in order to determine retirement eligibility and calculate pension benefits.

House Bill 221 would require each state pension system to pay its portion directly to a member who has service credit in both state retirement systems. Currently, one system pays the entire monthly pension and is reimbursed by the other system.

FISCAL IMPLICATIONS

PERA stated House Bill 221 will have a positive fiscal impact by eliminating the reimbursement procedure required under the current reciprocity payment system and detailed the annual savings that could be redirected (totaling approximately $10 thousand to $13 thousand), as follows:

> *In calculating Cost-of-Living Adjustments (COLAs), PERA's retiree payroll entered 427 COLAs for reciprocity retirements in FY07. This is a manual procedure because the computer programs for ERB/PERA are incompatible. Annually, 2 FTEs commit a total of 32 hours to this process at a combined hourly rate of $40.77.*
>
> *In preparing a monthly Reconciliation Report, one FTE reports experiencing 1 or 2 reconciliation problem accounts per month from the Reciprocity Report internally. These individual retiree accounts are time-consuming and can take anywhere from 30 minutes to two hours, or longer, depending on the complexity of the problem, at an hourly rate of $28.66.*
>
> *Researching reciprocity issues is very time consuming and requires manual audits of retirement files. One FTE works 3 to 5 days each month on reciprocity files at an hourly rate of $21.94.*

Both PERA and ERB would incur a short-term budget impact to reconfigure their respective computer pensions systems. ERB estimated this impact at $50 thousand, while PERA's estimate is about half that amount. In both cases, the recurring operating FTE savings could be redirected toward other activities.

SIGNIFICANT ISSUES

Under current law, the state system from which a member retires pays the entire monthly pension benefit. In practice this means that either PERA or ERB is the "payor" system for the entire pension benefit. The other system subsequently reimburses the "payor" system for the portion of the pension attributable to service credit accrued under the "non-payor" system. This system requires a monthly reconciliation between the two pension systems to verify and correct payments made between the two systems.

PERA indicated that House Bill 221 would provide a more efficient and cost-effective process for paying pension benefits to reciprocity retirees by allowing each system to pay their retirees directly. The current burdensome process was developed at a time when retirees received a monthly pension check in the mail. Although the process placed a burden on the two systems, the process was convenient for retirees by providing a single, combined monthly check rather than two separate checks which might even be received on different days. However, paper checks are no longer common. The vast majority of current retirees receive their monthly benefit payments via direct deposit on the last banking day of each month.

If House Bill 221 is enacted, reciprocity retirees would simply receive two electronic direct deposits on the same day, instead of one combined direct deposit. As a result, House Bill 221 would have no detrimental effect on retirees, but it would remove the significant problems associated with combined payments from the retirement systems. Retirees will be better able to track pension amounts from both PERA and ERA since the amounts would be direct deposited separately. Two separate direct deposits will also simplify retirees' ability to track COLA increases on each component of their pension benefit and ease tax preparation, because taxable and non-taxable amounts on 1099R Internal Revenue Service forms would be clearly defined.

ERB concluded that with approximately 1,600 retirees who are receiving reciprocity payments, this change would eliminate some accounting reconciliation issues that occur between the two systems. The total pension payment made to each retiree would be the same,

PERFORMANCE IMPLICATIONS

Neither PERA or ERB noted any performance impact, although both suggested that House Bill 221 would produce a more efficient system for processing reciprocity. By freeing up the FTEs that currently process the reimbursement system, additional resources could be redirected to improving member request response times, particularly for PERA.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Under the current law, the state system from which a member retires pays the retirement while the other fund(s) reimburse the payer fund. This causes frequent administrative difficulties for both PERA and ERB.

MA/csd