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

ORIGINAL DATE 1-28-07
SPONSOR Trujillo **LAST UPDATED** **HB** 304

SHORT TITLE Public Employee Cost Of Living Adjustment **SB**

ANALYST Aubel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	Significant *	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases) *See Fiscal Impact

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$15.0		$15.0	Non-Recurring	PERA

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with SJM 6

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public Employee Retirement Association (PERA)
Department of Corrections (DOC)

SUMMARY

Synopsis of Bill

House Bill 304 proposes to raise the cost-of-living adjustment (COLA) for Public Employees Retirement Association retirees who have been retired for two full calendar years from 3% to 4% annually.

FISCAL IMPLICATIONS

PERA stated that SB 304 will cause a significant multimillion dollar fiscal impact on the PERA fund, although no actuarial cost determination study was conducted to quantify this fiscal impact. However, the 2003 supplement actuarial cost determination to calculate the effect of raising the COLA from 3% to 3.5% for PERA retirees who have been retired 3 full calendar years determined that an additional annual contribution of approximately 2.24 percent would be required to fund the higher COLA. In addition, that study indicated the amortization period for State General member coverage plans' unfunded liabilities would increase from a then-35 years to a projected 57 years. Any plan enhancement would require either pre-funding or an annual contribution from the general fund for state-funded employers.

Any change to the PERA computerized pension administration system would require additional change orders with the vendor. Past changes of more complex nature in FY05 cost PERA approximately $50 thousand. HB 304 would impact the budget somewhat less.

SIGNIFICANT ISSUES

Prior to 1992, the PERA Act's COLA provisions contained an adjustment factor that reflected the change in the consumer price index (CPI-U), with a minimum and a maximum range for any year. Current law provides PERA retirees who have been retired two full calendar years with a 3% COLA each July 1st. PERA retirees age 65 and PERA disability retirees receive a 3% COLA each July 1st after one full calendar year. NMSA 1978, Section 10-11-118.

PERA noted that a comparison of the consumer price index to PERA's annual 3% COLA for the 10-year period between 1994 and 2004 shows that the PERA Act's 3% COLA gives the PERA member a monthly benefit that is 6.25% higher than if the COLA was tied directly to the CPI-U.

Article XX, Section 22 of the Constitution of the State of New Mexico requires that any law that will increase the benefits paid by the retirement system must be adequately funded. This constitutional amendment precludes creating additional liabilities to the PERA retirement system without providing adequate funding for those liabilities. All adjustments to the PERA Act's COLA provision, including rate increases and reduction of deferral periods, become permanent liabilities to the fund and require a funding source to pass constitutional muster.

DOC stated that the cost of living increase will benefit public employees and help improve morale during their working and retirement years. However, DOC also noted that HB 304 may increase the turnover rate among agencies because employees will have more of an incentive to retire after 25 years as opposed to working additional years (26.8 years for maximum benefits) because of the 4 percent cost of living increase. Any program that encourages employees to retire earlier would have a negative fiscal impact on the fund.

PERFORMANCE IMPLICATIONS

PERA noted that HB 304 would not impact its performance measures.

ADMINISTRATIVE IMPLICATIONS

PERA claimed HB 304 will have an administrative impact on PERA. In the short term, PERA will be required to implement changes to its pension administration system to reflect the proposed COLA increase.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB 304 conflicts with SJM 6, which proposes a two-year moratorium on plan enhancements.

Article XX, Section 22 of the Constitution of the State of New Mexico requires that all benefit enhancements be adequately funded. No appropriation is contained in HB 304.

ALTERNATIVES

Some pension plans fund COLA increases through establishing a reserve program, whereby excess returns over the actuarial rate (8% for PERA) or excess funding over 100 percent liability funding is accrued and paid as a COLA increase when sufficient funds have been generated.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

PERA retirees who have been retired two full calendar years will receive a 3% COLA each July 1st. Disability retirees and retirees who are at least age 65 prior to their first COLA eligibility date have a reduced waiting period of one full calendar year.

MA/csd