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

SPONSOR Griego **ORIGINAL DATE** 2/06/07 **LAST UPDATED** 3/11/07 **HB**

SHORT TITLE Revise Legislative Retirement **SB** 680/aHAFC

ANALYST Aubel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

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

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee amendments add two provisions:

1. PERA will be required to annually disclose to the public on January 2 the names of the participants in the State legislature Member Coverage Plan 2 when the annual amount is calculated under the new formula; and

2. A temporary eligibility provision requires a legislator or lieutenant governor serving on July 1, 2007 to elect membership and make a contribution amount totaling $500.00 for each year of credited service earned prior to December 31, 2007.

Synopsis of Original Bill

Senate Bill 680 changes the formula for calculating the pension benefit payable under State Legislator Member Coverage Plan 2.

FISCAL IMPLICATIONS

PERA notes a substantial increase in participation by eligible legislators as a result of legislative retirement plan changes in 2003. For the year ending June 30, 2006, the legislative retirement fund has a funding ratio of accrued valuation assets to accrued liabilities of 70.4 percent (from

60.6 percent ending June 30, 2005.) Governmental Accounting Standards Board recommends a minimum of 80 percent funding ratio.

Actual contributions to the fund are $2.4 million annually on an actuarial reserve basis from the legislative retirement fund in the State Treasury, which is independently invested to finance all legislative retirements. If annual contributions remain at $2.4 million, the unfunded liability is expected to be paid off in 4 years, in the absence of future gains and losses and unanticipated member retirements. This funding pace is faster than that required under a 30-year amortization schedule for the unfunded liability.

PERA states that SB 680 would require changes to PERA's computer pension administration system. Such past changes have cost up to $50 thousand.

SIGNIFICANT ISSUES

In 2003, Legislative Plan 1 was amended to provide for optional increased pension benefits for legislators who served terms prior to January 1, 2004. Legislative Plan 1 closed to new members on December 31, 2003.

Currently, all current and future legislator members are covered under Legislative Plan 2, unless they elected to be covered by Plan 1 prior to December 31, 2003. Under Legislative Plan 2, legislator members will receive an amount equal to 11% of the of the per diem rate in effect, pursuant to Section 2-1-8 NMSA 1978, on December 31 of the calendar year the legislator retires multiplied by 60 and further multiplied by credited service. Annual member contributions under Legislative Plan 2 are $500.00 and members are eligible to retire at any age with 10 years of service credit.

SB 680 would change the benefit calculation to 11% of the *average of the three highest year* per diem rates in effect *as determined on July 1* of each year of service of the legislator multiplied by 60 and further multiplied by years of service credit.

The state contributes amounts sufficient to finance members under the new legislative coverage plan on an actuarial reserve basis from the legislative retirement fund in the State Treasury, which is independently invested to finance all legislative retirements. PERA states that the specific funding for Plan 2 is coming from the "Oil and Gas Proceeds Withholding Tax." Section 7-1-6.43 of the Tax Administration Act states, " A distribution pursuant to Section 7-1-6.1 NMSA 1978 shall be made to the legislative retirement fund in the amount equal to two hundred thousand dollars ($200,000) or, if larger, one-twelfth of the amount necessary to pay out the retirement benefits due under legislator member coverage plan 2." Section 7-1-6.1 provides for a monthly distribution.

ADMINISTRATIVE IMPLICATIONS

In addition to the computer system changes, PERA will be required to amend its regulations to address the statutory changes to the PERA Act.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

All current and future legislator members will continue to be covered under Legislative Plan 2, unless they elected to be covered by Plan 1 prior to December 31, 2003. Under Plan 2, legislator members are eligible to receive an amount equal to 11% of the of the per diem rate in effect, pursuant to Section 2-1-8 NMSA 1978, on December 31 of the calendar year the legislator retires multiplied by 60 and further multiplied by credited service. Annual member contributions under Legislative Plan 2 are $500.00 and members are eligible to retire at any age with 10 years of service credit.

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