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## FISCAL IMPACT REPORT

ORIGINAL DATE 2-10-07

SPONSOR Smith LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Benefit Enhancement Bill Moratorium SB SJM 6

ANALYST Aubel

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	See narrative	Recurring	General Fund
	See narrative	Recurring	Fire Protection Fund
	See narrative	Recurring	PERA, ERA

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB 222, HB 224, and HB 243

Conflicts with SB 213, HB 280, HB 411, HB 595, SB 576 (Duplicate of HB 595), HB 765, HB 800, HB 893, HB 1091, SB 680, and SB 830

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Public Employees Retirement Association (PERA)  
 Educational Retirement Board (ERB) (ERA)  
 New Mexico Corrections Department (NMCD)  
 Department of Public Safety (DPS)  
 Adult Parole Board (APB)  
 Administrative Office of the District Attorneys (AODA)

### SUMMARY

#### Synopsis of Bill

Senate Joint Memorial 6 will impose a two-year moratorium on proposed benefit enhancement legislation to the public employees retirement system and the educational retirement system through December 31, 2008.

### FISCAL IMPLICATIONS

By itself, SJM 6 would have no immediate fiscal impact for PERA or ERA. The long-term fiscal

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impact of a two-year moratorium on plan enhancement for the PERA and ERA funds is unknown, although any reduction in enacting legislation that adds liabilities would most likely have a positive long-term effect on both plans.

However, if SJM 6 suspends any of the plan enhancements proposed by several groups during the 2007 session for an additional two years, general fund appropriations and operating budgets would be correspondingly reduced for that period of time. Article 20, Section 22 of the Constitution of the State of New Mexico requires that the PERA Board and its independent actuary must establish funding periods for benefit enhancements that reflect sound actuarial principles and cover the cost of new benefits. The consensus of the PERA Board is that the Unfunded Accrued Liability for each benefit enhancement should be pre-funded through special appropriations.

The table below provides a summary of the potential fiscal impact of implementing HJM 6 if the 2007 proposed legislation to enhanced benefits is put on hold. “Actuarial Pre-funding” refers to the amount that was estimated by actuarial study to pre-fund the liability, whereas the “Actuarial Amortization” refers to the estimated annual employer-portion contribution rate required to amortize the liability over a period of 30 years. (Note that unless otherwise specified, the current employer contribution rate for PERA General Plan 1 is 16.59 percent.) Where no amount is indicated, no actuary study was requested to determine the liability impact of the proposed enhancement. NFI is used where either PERA or ERB has noted no fiscal impact.

<b>House Bill</b>	<b>Senate Bill</b>	<b>Title</b>	<b>Actuarial Pre-funding</b>	<b>Actuarial Amortization</b>
	213	Volunteer Firefighter Retirement Benefits	\$2 - \$4 million*	
222		Judicial Retirement Service Credit Purchases	NFI	NFI
224		Magistrate Retirement Service Credit Purchase	NFI	NFI
243		Volunteer Firefighter Retirement Benefits	NFI	NFI
280		E-911 Telecommunicator Public Retirement – 20 year enhanced plan	\$11.4 million	From 9.63% to 18.5%
411		Law Enforcement Academy Retirement Plan – 20 year enhanced plan		
595	576	District Attorney & Staff Retirement Plan	\$6.5 million	22.68%
765		Probation Officer Alternative Retirement Plan	\$7.3 million	No change for employer.
800		Motor Transportation Officer Retirement	\$3.0 million	
893		Public Retirement for Military Service		
1091**		Educational Retirement Benefits & Calculation		
	680	Revise Legislative Retirement		
	830	Congressional Employee Service Credits		

\*Estimated annual contribution from FPF. Current contribution is \$750.0 thousand.

\*\*No agency analysis available as of February 10, 2007.

## **SIGNIFICANT ISSUES**

Several proposals have been presented in the 2007 session to increase benefits as well as salaries. The cumulative effect of multiple benefit enhancements to the PERA retirement system is unknown. However, the combination of enhancing members' prior service credit, proposing new members be admitted to an enhanced plan, and providing salary increases in excess of PERA's assumed rate of 4.5% per year for existing members, inevitably will increase the liability risk to the fund. Even if the enhancements are funded according to actuarial estimates, the liability is still subject to the investment performance of the PERA portfolio that could possibly cause a decrease in the funded status of the overall PERA system. In addition, actuarial estimates of retirements may be understated, adding another level of uncertainty to fund solvency.

PERA notes that a primary issue is whether a 2-year moratorium on proposed benefit enhancement legislation pertaining to the public employees retirement system and the educational retirement system will contribute to the actuarial soundness of the funds PERA and ERB administer.

ERB's funded ratio, the actuarial value of assets as a percentage of actuarial accrued liabilities, declined from 81 percent to 70 percent from 2004. The funding period for their unfunded actuarial liability, which the Governmental Accounting Standards Board (GASB) states should be less than 30 years, is infinity.

PERA's actuarial position is still strong, but it has also declined in recent years. For example, at June 30, 2006 their funded ratio was 92 percent, but it has declined 11 percent from the FY 02 funded ratio of 103 percent. Given actuary assumptions hold, the current funding period is 16 years.

A recent survey compiled by the Indiana Legislative Service Agency confirmed PERA's position as the number one national public employee pension plan in terms of benefits. ERA places among the top plans for educational retirement plans.

## **PERFORMANCE IMPLICATIONS**

Agencies with proposed legislation for enhanced benefits all suggest that delaying their legislation will impair agency performance.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Relates to HB 222 and HB 224, which allow magistrates and judges to purchase up to one year of "air time" to bring parity to other PERA-affiliated employees.

Potentially conflicts with HB 243, which allows a longer period for volunteer firefighters to post past service credit.

Conflicts with all other legislation that propose plan enhancements: HB 280, HB411, HB 595, HB 765, HB 800, HB 893, HB 1091, SB 576, SB 680 and SB 830.

## **OTHER SUBSTANTIVE ISSUES**

During the past decade, the Legislature has increased the benefit structure available to certain public employee groups by reducing eligibility requirements for normal retirement to an “enhanced” 20-year plan. For example, legislative proposals providing benefit enhancements for adult correctional officers and municipal detention officers have been recently enacted.

Responding agencies assert that these enhanced plans have created inequity within their departments and seek parity for the members that are still under PERA’s general plan. HB 800 and HB 765 are examples. The Corrections Department points out that SJM 6 would delay this objective until the 2009 session at the earliest. PERA reports that the New Mexico Conservation Officers Association is considering a similar enhancement for its commissioned officers.

DPS also details a benefit-equity issue within commissioned officers of the agency and suggests that morale may suffer, leading to higher turnover, if its proposal to improve benefits under HB 800 is not enacted.

## **ALTERNATIVES**

One option regarding PERA is to bring parity to plans for hazardous duty only, where service includes a potential loss of life. Using this “hazardous duty” as the qualifying factor would create a standard that is easily definable and more defensible, and end additional requests to enhance plans due to anything less stringent through an indefinite moratorium or legislation.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

PERA will continue to receive a proliferation of legislative proposals to enact benefit enhancements from different employee groups and special interests. PERA will continue to provide the legislature with actuarial information to determine the cost of benefit enhancements requested by agencies.

## **POSSIBLE QUESTIONS**

1. Would certain legislation that has no fiscal impact, such as allowing the magistrates and judges to purchase up to one year of service credit as all other PERA-affiliated employees are able to do, be exempted?

MA/mt