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FISCAL IMPACT REPORT

ORIGINAL DATE
LAST UPDATED

SPONSOR Swisstack **HB** 93

SHORT TITLE Municipal Employment Retirement Coverage **SB** _____

ANALYST Aubel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY08	FY09	FY10	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		\$6.4 million*	\$6.4 million*	\$12.8 million*	Recurring	Municipal Employer Operating Budgets

(Parenthesis () Indicate Expenditure Decreases)

*Maximum estimated fiscal impact to municipal operating budgets based on all eligible employees. Fiscal impact is expected to be less. See Fiscal Implications.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Employee Retirement Association (PERA)

Municipal League

SUMMARY

Synopsis of Bill

House Bill 93 reopens Municipal General Member Coverage Plan 4 to new members by striking the language in the PERA Act that closed participation effective July 1, 2000. HB 93 will allow PERA employers in Municipal General Member Coverage Plans 1 and 2 to adopt Municipal General Member Coverage Plan 4 benefits and statutory contribution rates. Municipal General Member Coverage Plan 4 provides for retirement eligibility at any age with 25 or more years of service credit, a 3% pension factor, and a pension cap at 80% of final average salary. For Municipal General Member Coverage Plan 4, members pay 15.65% of salary in contributions and employers pay 11.65% of salary in contributions

FISCAL IMPLICATIONS

The actuarial report commissioned to study the fiscal impact of reopening Municipal Plan 4 estimates the plan’s actuarial unfunded liability would increase approximately \$68.6 million to \$72.4 million and the amortization period would increase from less than one year to approximately 3 years. The study assumed all 1,860 members in General Plan 1 and all 6,123 members in General Plan 2 would become members of General Plan 4. If members opted to remain in their current programs, the actuarial unfunded liability would be less.

The actuary stated that the current statutory rates for Municipal General Member Plan 4 are sufficient to allow for the proposed change. These rates are 15.65 percent for the employee and 11.65 percent for the employer. The table below highlights the estimated average dollar increase for Plan 1 and Plan 2 employee and employer contributions to move to Plan 4:

Municipal Plan 4	Employee: 15.65%	Employer: 11.65%
Municipal Plan 1: Ave. salary - \$19,671	Employee Increase	Employer Increase
Current: 7% Employee 7% Employer	\$1,702	\$915
TOTAL	\$3.2 million	\$1.7 million
Municipal Plan 2: Ave. salary - \$30,685		\$767
Current: 9.15% Employee 9.15 % Employer	\$1,995	
TOTAL	\$12.2 million	\$4.7 million

PERA notes that it is highly unlikely that the majority of employers participating in Plans 1 and 2 will elect to provide benefits and statutory contribution rates under Plan 4. Smaller municipalities do not have the operating budget to cover the increased statutory contribution rates of Plan 4. For example, Plan 1’s statutory contribution rates total 14% (employee 7%; employer 7%) and Plan 2’s statutory contribution rates total 18.30% (employee 9.15%; employer 9.15%). A Plan 1 employer’s decision to adopt a Plan 4 represents an increase in its statutory contribution rate of 4.65 percent or an estimated \$915 per employee. A Plan 2 employer’s decision to adopt a Plan 4 represents an increase in its statutory contribution rate of 2.5 percent or an estimated \$767 per employee.

PERA anticipates that the City of Rio Rancho, which is currently covered by Plan 2, will adopt Plan 4 if HB 93 passes. Rio Rancho’s sister communities of Bernalillo County and the City of Albuquerque are already covered by Plan 3, while the Towns of Belen and Bernalillo are covered by Plan 4.

SIGNIFICANT ISSUES

An affiliated public employer may conduct an election of its employees to adopt a new coverage plan. The decision to adopt a new coverage plan is at the discretion of the public employers governing board and is irrevocable for purposes of deciding in the future to lower benefits. See, 2.80.1700 NMAC 1994, NMSA 1978, §10-11-122(C).

Both Municipal General Member Coverage Plans 3 and 4 are closed to PERA-affiliated employers. Both have a pension factor of 3% multiplied by years of service and final average salary. These plans provide pension benefits comparable to the State General Member Coverage

Plan 3, which provides retirement benefits to state workers.)

The remaining open Municipal General Member Coverage Plans 1 and 2 have pension factors of 2.0% and 2.5%, and maximum pension of 60% and 75% of final average salary respectively.

Enabling municipalities such as the City of Rio Rancho to adopt Municipal Plan 4 would make their retirement benefits more equitable to the City of Albuquerque.

ADMINISTRATIVE IMPLICATIONS

PERA maintains that HB 93's administrative impact on PERA will be minimal. PERA will be required to coordinate an election for adoption of the new coverage plan by municipalities who wish to do so. PERA will also be required to move affected membership from other Municipal General Member Coverage Plans into Municipal General Member Coverage Plan 4.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If not passed municipalities and employees will not be able to adopt Municipal General Member Coverage Plan 4.

MA/nt