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FISCAL IMPACT REPORT

ORIGINAL DATE 2-24-09

SPONSOR Varela LAST UPDATED _____ HJM 45

SHORT TITLE Public Employee & Education Solvency Plans SB _____

ANALYST Aubel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
		\$215.0		\$215.0	Non-Rec	PERA
		\$.01*		\$.01*	Non-Rec	ERB

(Parenthesis () Indicate Expenditure Decreases)

See fiscal impact.

Relates to or conflicts with HB 79, HB 236, HB 246, HB 271 and companion HB 355, HB 351 and duplicate SB 366, HB 353, HB 453, HB 573, HB 616, HB 631, HB 648, HB 683, HB 684, HB 721, HB 731, HB 765, HB 798, HB 854, SB 145, SB 231, SB 261, SB 428, SB 476, and SB 499

SOURCES OF INFORMATION

LFC Files

Responses Received From

Educational Retirement Board (ERB)
 Public Employees Retirement Association (PERA)
 State Personnel Office (SPO)
 Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Joint Memorial 45 instructs the two New Mexico pension plans to prepare a solvency plan for their respective systems they administer. The plan shall include analyses and recommendations regarding statutory contribution rates, retirement eligibility and benefits structure, investment policy and allocation, disability retirement and benefits, member services, and actuarial assumptions be made.

FISCAL IMPLICATIONS

Both pension plans indicated that contracts to work with their actuaries on this study would increase. With its 31 plans, PERA estimates the cost at \$215 thousand. ERB, with its one plan, has not received an estimate from its actuary but does not anticipate a substantial cost.

SIGNIFICANT ISSUES

Both pension plans are defined benefit plans, which provide a monthly annuity payment for the retiree based on years of service, final average salary, and a pension-calculation factor established by the Legislature. Both PERA and ERB are mature plans, meaning that contributions made into the plan are less than the benefits being paid out. In order to maintain solvency, actuaries estimate that the earnings on fund investments must average 8 percent over the long term.

The funds have experienced a significant decline in asset values of the funds over the last year. As of December 31, 2008, the ERB fund (including contributions and distributions) reported a fund value of \$6.6 billion, down \$2.8 billion from a year earlier. Over the same period, the PERA fund has lost about one-third of its value, reporting a fund value down to \$8.9 billion from over \$13 billion. Looking forward, new market conditions increase the uncertainty of achieving the 8 percent actuarial return on investments for the pension plans.

The bill directs the pension administrators to review the plan structure in order to improve solvency and preserve the benefits for state employees into perpetuity. PERA summarizes its stance regarding this bill, as follows:

The PERA Board is supportive of studying changes to PERA's benefit plan structure. The PERA Board has already committed to performing an in-depth study on the levels of benefits provided to our various membership groups as recommended by PERA's actuary to determine whether the current level of benefits and contributions are appropriate. This will entail research into income replacement ratios, length of service requirements, comparable state plan comparisons, and social security coverage groups vs. non-social security coverage groups as well as other relevant measures.

ADMINISTRATIVE IMPLICATIONS

Until this study is completed, the PERA Board has determined that any wholesale changes to PERA's benefit structure are premature. As fiduciaries of the Fund, the PERA Board members claim a need for a comprehensive actuarial analysis from which to make informed decisions.

Both solvency plans are to be presented to the Investment and Pensions Oversight Committee, the Legislative Finance Committee and the governor on or before October 1, 2009

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HJM 45 conflicts or relates to the following bills:

HJM 45 – PUBLIC EMPLOYEE & EDUCATION SOLVENCY PLANS STUDY
HB 65 – LEGISLATIVE RETIREMENT CONTRIBUTIONS

HB 79 – PUBLIC EMPLOYEE RETIREMENT INFO DISCLOSURE
HB 236 – PERA SERVICE CREDIT PURCHASE (Expands service credit purchase)
HB 246 – PERA RETURN TO WORK FOR CERTAIN EMPLOYEES
HB 271/HB 355 – REOPEN MUNICIPAL EMPLOYEE RETIREMENT PLAN 4
HB 351/SB 366 – RETIREE HEALTH CARE FUND CONTRIBUTIONS
HB 525 – ALTERNATIVE EDUCATIONAL RETIREMENT PLANS
HB 573 – ADJUSTMENT OF RETIREMENT PLANS
HB 616 – PUBLIC RETIREES RETURNING TO WORK
HB 631 – EDUCATIONAL RETIREMENT ELIGIBILITY
HB 648 – JUDICIAL RETIREMENT FROM GENERAL FUND
HB 683 – RETIRED PUBLIC EMPLOYEE RETURNING AS SHERIFF
HB 684 – CONGRESSIONAL EMPLOYEE NM SERVICE CREDIT
HB 721 – EDUCATIONAL RETIREES RETURNING TO WORK
HB 731 – SESSION EMPLOYEE PERA CREDIT PURCHASES
HB 765 – PUBLIC EMPLOYEES RETURNING TO WORK
HB 798 – NEW PERA MEMBER ELIGIBILITY
HB 854 – PERA MEMBER & STATE CONTRIBUTION CHANGES
SB 145 – ELIMINATE END DATE FOR RETURN TO WORK
SB 231 – PERA ELIGIBILITY FOR MUTUAL DOMESTICS
SB 428 – RETIREE HEALTH DEFINITIONS & CONTRIBUTIONS
SB 499 – MOTOR TRANSPORTATION OFFICER RETIREMENT

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Both plans are reviewing solvency issues. It is possible that the plans will not be coordinated and presented to the interim committees by October 1, 2009 or will not cover all the issue concluded in the bill.

MA/mc