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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/25/11

SPONSOR Sanchez, M. LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE City Firefighter Retirement Contributions SB 529

ANALYST Aubel

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	\$1,111.9	\$2,223.8	Recurring	PERA-Municipal Fire Division

(Parenthesis ( ) Indicate Revenue Decreases)

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Maximum 0.75% Pick Up</b>		\$883.9	\$1,667.9	\$2,501.8	Recurring	Municipalities

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to 251

Conflicts with SB 87 and SB 268

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Public Employees Retirement Association (PERA)

### SUMMARY

#### Synopsis of Bill

Senate Bill 529 increases the employee contribution rate for the five municipal fire pension plans by 4 percent, 1 percent each year for four consecutive years.

The bill contains a conditional provision that stipulates the contribution increases shall not take effect if any other law passed during the Fiftieth Legislature of 2011 increases the age and service requirements for affected membership.

**FISCAL IMPLICATIONS**

Increased contributions represent additional revenue to the PERA fund. Based on the June 30, 2010 valuation payroll of \$111.2 million, each year’s incremental increase of \$1.1 million in contributions to the municipal fire division would produce the following schedule:

FY12	FY13	FY14	FY15
\$ 1,111,930.53	\$ 1,111,930.53	\$1,111,930.53	\$ 1,111,930.53
	<u>\$ 1,111,930.53</u>	\$1,111,930.53	\$ 1,111,930.53
	\$ 2,223,861.06	<u>\$1,111,930.53</u>	\$ 1,111,930.53
		\$3,335,791.59	<u>\$ 1,111,930.53</u>
			\$ 4,447,722.12

The final revenue stream increase in FY15 of \$4.5 million would be recurring.

Although the bill applies the contribution increases to employees, the bill represents a fiscal impact to municipalities. As PERA explains:

Municipal affiliated public employers may elect by resolution of its governing body to pay up to 75% of the member contributions on behalf of its employees. Such a resolution is irrevocable under NMSA 1978, Section 10-11-6. The majority of firefighters affected by SB 529 enjoy the benefit of a “pick up”, which means their employers will be required to pay up to 75% of the increase in the contributions SB 529 proposes. In addition, many public safety employer groups negotiate “pick ups” through labor-contract negotiations

Thus, the maximum potential impact to municipalities operating budgets would be as follows:

FY12	FY13	FY14	FY15
\$833,947.90	\$ 1,667,895.80	\$ 2,501,843.69	\$ 3,335,791.59

It is questionable whether municipalities have the resources to pay more into the pension plans given current economic realities. Gerard Miller, an industry expert, has defined pension plan sustainability as the willingness and ability for plans sponsors to make their contributions to a plan. Thus, it would appear any plan that implies contribution increases for the employer might not promote plan sustainability as so defined.

The contribution rate schedule proposed by the bill produces the final schedule for each plan:

**Final Contribution Rates – FY15**

	MF1	MF2	MF3	MF4	MF5
Employee	12%	12%	12%	16.8%	20.2%
Employer	11%	17.5%	21.25%	21.25%	21.25%
Total	23%	29.7%	33.25%	38.05%	41.45%
Employer w/75% “Pick up”	20%	26.5%	30.25%	33.85%	36.4%

**SIGNIFICANT ISSUES**

PERA details the significant issues relating to the municipal fire pension plan:

Ninety-four percent (94%) of all active firefighters are in Municipal Fire Member Coverage Plan 5, which offers the most generous retirement of all fire plans, as follows:

Eligibility	Pension Factor	Annual Average Pension	Member Contribution	Employer Contribution	Actuarial Required Contribution	Additional Contributions Needed
20 years at any age	3.5%	\$34,589	16.2%	21.25%	48.49%	+11.04%

As of June 30, 2010, the Municipal Fire Division is funded at 68% and the financing period for its unfunded actuarial accrued liability (UAAL), based on current statutory contribution rates, is an infinite period. The UAAL increased from \$268 million to \$360.6 million. An 11.04% contribution increase to the annual statutory amount is needed to amortize the UAAL over a 30-year period. The additional member contributions are a necessary step; however, they are insufficient to meet the statutory amount necessary to fund the existing benefits for current firefighters.

To address the solvency issue relating to five pension plans, including the municipal fire, PERA proposed the “ideal plan” contained in Senate Bill 268, which amends the PERA Act to provide a second tier of member coverage plans with a reduced benefit structure for new members first hired on or after July 1, 2011. Under this scenario, retirement eligibility and plan structure for uniform members in Plan 7 would be as follows:

Eligibility	Pension Factor	Member Contribution	Employer Contribution	Actuarial Required Contribution	Additional Contributions Needed
	3.5%	12%	24%	24.97%	None (New Plan)
<ul style="list-style-type: none"> <li>• Age 50 w/ 25 years of service</li> <li>• Age 55 w/ sum of age and service=80</li> <li>• Age 60 w/ 5 years of service age</li> </ul>				Rates provide a “cushion” for negative actuarial experience and to strengthen the actuarial status of the fund.	

The union for fire fighters desires to maintain the 20-year retirement with no minimum age for eligibility, pointing to the fire/fighter paramedic life expectancy between 52 and 63 years of age as the primary justification. Evidence from the PERA’s return-to-work program, where fire members rarely returned to work after retiring, supports the idea that the hazardous nature of the job might support a lower retirement eligibility than non-uniform members. However, comparable state plans have either a minimum age requirement or a lower pension factor than the PERA uniform plans:

Plan	Eligibility Requirement	Pension Factor (% times Final Average Salary (FAS))
Hawaii Employees Retirement System	Age 55 w/5 years; any age w/25 years	2.5%; Max: 80%
Iowa Public Employees Retirement Systems	Fire: age 55	60% of FAS + after 22 years, 1.5% >22 years; Max: 72% FAS
New Hampshire Retirement System	Age 45 w/20 years of service; or age 60	2.5% Max: 100% of FAS or \$120,000
Utah Retirement System	Age 65 w/4 years; age 60 w/10 years; any age w/20 years	2.5% + 2.0% over 20 years; Max 70%
Wyoming Retirement System	Age 50 w/ 4years	2.8% for first 25 years; Max 70%

Source: PERA Benefits Adequacy Study Spring 2010

Compared to these plans, the PERA Municipal Fire Plan 5 is the richest plan (3.5% Factor) with the least eligibility requirements (no minimum age, 20 years and out). PERA concludes, “The PERA Fund cannot sustain the existing 20-year retirement plan with a 3.5% pension factor for future members.”

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Senate Bill 529 conflicts with Senate Bill 87, which raises statutory contribution rates by 2% per year for four consecutive years for the following member coverage plans under the PERA Act: State General Member Coverage Plan 3, Municipal Police Member Coverage Plans 1, 2, 3, 4 and 5 and Municipal Fire Member Coverage Plans 1, 2, 3, 4 and 5.

Senate Bill 529 conflicts with Senate Bill 268, which creates new plans for new hires with reduced benefits and costs.

Senate Bill 529 relates to the following bills:

House Bill 251, which amends the PERA and ERB acts to reduce cost-of-living for PERA plans and increasing age requirements for certain employees and legislators.

Senate Bill 248, which makes other changes to contribution rates for state plans.

**OTHER SUBSTANTIVE ISSUES**

According to the National Conference for State Legislators, legislation to enact pension reform continues into 2011. The recent article <http://www.ncsl.org/?tabid=22272> that compiles selected proposals contains the following entry, which is representative of the attempt of pension sponsors to meet the new economic, demographic and political realities.

MASSACHUSETTS. Governor Deval Patrick, Senate President Therese Murray and House Speaker Robert A. DeLeo have proposed extensive changes to Massachusetts public defined benefit pension plans. Some are listed below, and all are available at the source listed at the end of this entry.

*Increase the retirement age for virtually all state workers, reflecting the fact that people are living and working longer.*

- Group 1 (elected officials and most general employees): Increase the retirement age to 60-67 from the current 55-65;
- Group 2 (employees with titles reflecting hazardous duties): Increase the retirement age to 55-62 from the current 55-60;
- Group 3 (state police): The maximum benefit is currently reached with 25 years of service. Our proposal would increase this to 30 years by lowering the benefit factor after 20 years of service from 3.0 to 2.5 per year of service;
- Group 4 (firefighters, police officers, some corrections officers): Increase the retirement age to 50-57 from the current 45-55.

PERA notes that the Municipal Fire Division is the smallest and most mature fund in PERA with 64% of total liabilities attributable to the pension payments of members who have already retired. The Municipal Fire Division is in the worst funding position of all PERA's retirement plans.

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

The financing period of the unfunded liability for the Municipal Fire Division based on existing statutory contribution rates will continue to be an infinite period and the cost to strengthen solvency will continue to compound.

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