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

ORIGINAL DATE 02/03/04
SPONSOR Stewart **LAST UPDATED** ____ **HB** 270

SHORT TITLE State Employee & Teacher Retirement Changes **SB** ____

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	**FY14**	**FY15**		
	Positive		Recurring	ERB Funding Ratio
	Positive		Recurring	PERA Funding Ratio

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Education Retirement Board
Department of Transportation

SUMMARY

Synopsis of Bill

HB 270 amends the Public Employment Retirement Act ("PERA") to add the definition of 'public safety member.' Positions in various plans within PERA are defined as Public Safety Members.

Under State General Member Plan 3, and Municipal General Member Plans 1-4, five or more years of service credit on July 1, 2012 is required for normal retirement under Tier I. For members who do not have five or more years of service before July 1, a minimum age of 55 is required under the age requirements within Tier II. A similar provision, requiring five or more years of service credit on July 1, 2012 for a Tier I type retirement category, is included within the Magistrate Retirement Act under Section 10-12C-8.

HB 270 also amends certain contribution schedules and contributions rates within various PERA plans. HB 270 sets contribution rates for various PERA plans and the Magistrate Retirement Act for the period July 1, 2013 and thereafter. HB 270 also includes member contribution increases in Municipal General Member Plans 1-5, Municipal Fire Member Plans 1-5 and Municipal Detention Officer Plan 1.

HB 270 adds the term ‘adjustment factor’ and ‘consumer price index’ to its list of definitions in Section 10-11-118 regarding COLA’s. HB 270 limits 3% COLA’s to public safety members or non public safety members who have five or more years of service credit on July 1, 2012. COLA’s commence when the member has been retired for at least two full calendar years from effective date of the latest retirement prior to July 1 of the year in which the pension is being adjusted. COLA’s for non public safety members who do not have five or more year of service credit on July 1, 2012 shall be adjusted annually each July 1 but shall not be increased more than 4% nor be decreased if there is a decrease in the CPI between the second preceding calendar year and the preceding calendar year. The increase shall be one-half percent of the CPI between the second preceding calendar year and the preceding calendar year, or if the percentage increase of the CPI is less than 2 percent the same as the percentage increase of the CPI. The increase shall commence in the year the recipient reaches 65 or the year the recipient retires, whichever is later.

HB 270 amends four sections of the New Mexico Educational Retirement Act, Sections 22-11-21, 22-11-23, 22-11-23.1 and 22-11-27. HB 270 amends the contribution schedule for members of the Educational Retirement Action set forth in Section 22-11-21 by ending, on June 30, 2012, the 7.9% member contribution rate which commended July 1, 2008, for members whose annual salary is twenty-thousand dollars or less. For members whose annual salary is greater than twenty thousand dollars HB 270 continues the 9.4% contribution rate effective July 1, 2012. The

Fiscal Implications

The provisions in House Bill 270 are designed to improve the unfunded liabilities in PERA and ERB.

9.4% rate continues on July 1, 2013 and thereafter provided, that if the Local Administrative Unit's annual contribution per member for the period July 1, 2013 through June 30, 2014 is reduced to less than 13.15% of annual salary during the period July 1, 2013 through June 30, 2014, then the member contribution from July 1, 2013 through June 30, 2012 for members whose annual salary is greater than twenty thousand dollars shall be reduced to 7.9% of annual salary.

HB 270 amends Section 22-11-23 (Tier I) by amending the grandfather clause for Tier I eligibility to allow Tier I eligibility only to members who have five or more years of service credit on or before June 30, 2012 and who on or before June 30, 2012 had been refunded all member contributions and subsequently had all such contributions restored.

HB 270 amends Section 22-11-23.1 (Tier II) by amending eligibility for Tier II to members who do not have five or more years of service credit on or before June 30, 2012 or members who were members at any time prior to June 30, 2012 and who had prior to June 30, 2012 been refunded all their member contributions and not restored such refunded contributions. HB 270 also changes the minimum age requirements of Tier II as follows: a minimum age of 55 for those who have thirty or more years of earned service credit; for those who have five years of earned service credit a minimum age requirement of 65 and; a minimum age of 55 for members whose age and service credit equals at least eighty.

HB 270 amends 22-11-27 to allow members to terminate employment and retire at any time if they have left their contributions in the fund and are eligible to retire under Tier I or Tier II as amended. If the member is retiring under Tier I the member may terminate employment and retire at any time if they have left their contributions in the fund and if the sum of the members age and years of earned service credit equals at least 75; or after the member has at least five years of service credit and is at least 65 years of age. If the member is retiring under Tier II, the member may terminate employment and retire at any time if they have left their contributions in the fund and the member is age 55 years of age or older and has thirty or more years of service credit; or the member has at least five years of service credit and is at least 65 years of age or; the member is age 55 or older and the sum of the members age and years of service credit equals at least eighty.

Effective Date: July 1, 2012.

FISCAL IMPLICATIONS

SIGNIFICANT ISSUES

The LFC is acutely concerned about the solvency of both plans.

- Despite the ERB's poor one-year rank, it still remains the only New Mexico fund to rank higher than the 25th percentile for the past five years; all other funds ranked well in the last quartile of their peer groups for the five-year period.

Three-Year Trend of Funded Ratios FY09-FY11

Fund	June 30, 2009	June 30, 2010	June 30, 2011
ERB	67.5%	65.7%	61.6%
PERA	84.0%	78.5%	70.5%

Source: Pension Valuations

- Realizing returns less than the assumed long-term rate adds to the plans' unfunded liabilities. In April, 2011, the ERB decreased the investment return assumption to 7.75

percent, down from 8 percent. As a result the unfunded accrued actuarial liabilities (UAAL) increased by $473 million, bringing the total UAAL for 2011 to $5.9 billion. Additionally, the PERA also decreased its assumed returns from 8 percent to 7.75 percent. The PERA had a substantial increase in its unfunded liability to nearly $5 billion

- Despite large investment gains for FY10 and FY11, both plans show weaker funded ratios – indicators of plan solvency that compare plan assets to pension obligations. Having 80 percent of obligations covered by assets (funded ratio) has traditionally been viewed as a minimum industry indicator of fund health. Neither plan meets that basic metric nor are they improving. Both plans go far beyond the recommended period of time to pay off the UAAL of 30 years established by the Governmental Accounting Standards Board. Both the ERB and PERA sit on an aggregate period that is now infinite, meaning – given all assumptions holding true – the debt would never be paid off for all its plans.

- New Mexico offers a defined pension benefit plan, calculating benefits based on years of service and highest average salary. The benefits include cost-of-living adjustments (COLAs) that accrue automatically and are tied to the Consumer Price Index (CPI) for inflation. In light of the recent recession and continued growth of pension liabilities, many state legislatures are considering modifying contractually vested rights in the name of state solvency. As a sovereign power, a state has the right to adjust any long-term contract that is largely unfair to one party (taxpayers).

- The Legislative Council Service hired Buck Consultants in 2010 as an independent actuarial firm to advise the task force. While the firm offered valuable recommendations for improving actuarial methods and assumptions for the PERA and the ERB, the firm found the ERB will become insolvent by 2039 and the PERA by 2058, because assets are not growing as fast as the benefits paid out.

ANA/lj