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

SPONSOR Ingle **ORIGINAL DATE** 02/03/12 **LAST UPDATED** **HB**

SHORT TITLE Public Employee Retirement Changes **SB** 274

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	**FY14**	**FY15**		
Substantially Positive			Recurring	PERA Funded Ratio

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

Senate Bill 274 provides for an 11% reduction in the pension multiplier for all PERA, MRA and JRA members who do not have 5 or more years of service credit on or before July 1, 2012. It also affects non-vested magistrates, judges and PERA members of the following coverage plans: State General Plans 2 and 3, State Police And Adult Correctional Officers Plan 1, State Hazardous Duty Plan 2; Municipal General Plans 2,3 and 4, Municipal Police Plan 2,3,4 and 5, Municipal Fire Plans 2, 3,4 and 5; Municipal Detention Officer Plan 1.

The bill calls for a more restrictive calculation of final average salary for retirement purposes for all non-vested PERA members on June 30, 2012. It also extends the calculation of final average salary over a 5-year period from the current 3-year period.

Lastly, the bill eliminates posting interest on member contribution accounts. Currently, interest is posted to member accounts at the rate of 5.25% compounded annually.

Effective Date: July 1, 2012

FISCAL IMPLICATIONS

While no actuarial analysis was conducted for SB 274, analysts have had extensive experience reviewing plan design changes. The changes contemplated, especially the change in multiplier, will profoundly improve the plan's solvency.

SIGNIFICANT ISSUES

The LFC is acutely concerned about the solvency of both PERA's and ERB's 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.

SS/svb