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FISCAL IMPACT REPORT

ORIGINAL DATE 2/25/19

SPONSOR Griggs LAST UPDATED _____ HB _____

SHORT TITLE Public Employee Retirement Changes SB 446

ANALYST Jorgensen

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Unknown but Significant	Unknown but Significant	Unknown but Significant	Recurring	PERA Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Attorney General (NMAG)
 Education Retirement Board (ERB)
 Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

Senate Bill 446 amends the Public Employees Retirement Association (PERA) Act to allow all PERA retirees to return-to- work (RTW) with public employers in the executive, legislative, or judicial branch and receive a pension and a salary simultaneously. SB446 sets the following requirements and conditions on RTW employees:

1. Requires nonrefundable employee and employer contributions be made for the period of reemployment;
2. Requires a 180-day break in service prior to reemployment;
3. RTW retirees will not accrue additional service credit during the period of re-employment;
4. RTW retirees will not be eligible to receive cost-of-living adjustments (COLA) during the period of RTW;
5. Limits Class A Counties or municipalities within a Class A County from employing RTW retirees under this provision of law to 10 percent of its authorized workforce but does not count existing, grandfathered RTW employees against the 10 percent cap; and
6. Precludes RTW retirees employed as certified law enforcement officers to be

employed above the rank of sergeant, except for the position of chief of police.

FISCAL IMPLICATIONS

It is likely that SB446 will encourage public employees to retire at the earliest possible date and seek reemployment with the state to enable them to collect a salary and a pension simultaneously. This will damage the pension fund by shortening the average career duration of state employees and thus limiting the amount of time for invested assets to grow.

According to PERA, a municipal police officer will receive approximately \$1.9 million in total benefits retirement benefits after a 20 year career. These benefits are paid for by approximately \$200 thousand in contributions from employees and employers leaving the remainder to be made up of investment returns. Because investments grow through compounded interest, the longer assets remain invested, the larger the compounding effect. While the bill suspends the COLA, requires nonrefundable contributions, and does not allow the accrual of service credit, it is likely these changes will not be enough to offset the impact of early retirement.

Any legislation which may reduce career durations is likely to have a significant negative impact on PERA funds. Because it is unknown exactly how this bill will change individuals' retirement decisions, it is not possible to provide a cost estimate.

SIGNIFICANT ISSUES

In 2013, the Legislature passed pension reform legislation to improve fund solvency. Senate Bill 27 increased the maximum pension benefit from 80 percent to 90 percent of final average salary in an effort to induce longer careers. In the 5 years since implementation of SB27, the average retirement age increased from 57 to 60. PERA believes SB446 may reverse that trend.

CJ/gb/al