FISCAL IMPACT REPORT

		ORIGINAL DATE	02/04/06		
SPONSOR	Picraux	LAST UPDATED		HM	34
SHORT TITLE	PERA Calculation of Employee Average Salary			SB	
				ANALYST	Geisler

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY06	FY07		
	Unknown		

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates: SM 29

SOURCES OF INFORMATION

Responses Received From

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of House Memorial

House Memorial 34 requests a study by PERA to assess the impact that would result from basing an employee's final average salary (used to calculate pension benefit) on the employee's highest salaried thirty-six months regardless of whether the months are consecutive. PERA shall report its findings to the appropriate interim committee of the legislature in 2006.

FISCAL IMPLICATIONS

PERA provides that there will be staff time and actuarial consultant costs to complete this study but they do not have an estimate.

SIGNIFICANT ISSUES

Currently, the calculation for determining a public employee's pension is based on the highest salary the employee received for any consecutive thirty-six month period. In some circumstances, this formula my disadvantage some employees whose salary histories have peak salary periods that are not consecutive.

On the other hand, PERA notes that using an employee's highest salaried 36 months, regardless of whether the months are consecutive, may lead to the employee to "cherry-pick" their highest 36 months over their public employment career. For example, state workers are paid every 2 weeks and have 26 pay periods per year. Generally, there are two 3- pay period months each year. Should this change in the final average salary calculation be enacted, it will undoubtedly increase PERA's overall pension costs, possibly to the extent of requiring contribution increases.

Moving forward, the issue will remain on whether the proposed formula for calculating a public employee's final average salary is a benefit enhancement that conflicts with Article XX, Section 22 of the New Mexico Constitution (the legislature shall not enact any law that changes the funding formula for a retirement plan unless adequate funding is provided).

ADMINISTRATIVE IMPLICATIONS

PERA states that HM 34 will have a significant administrative impact on PERA. PERA's only means of assessing the impact on the Fund in changing the formula for calculating a member's final average salary is by manual audits on a random sampling of PERA members within 5 years of retirement and calculate their final average salary under both methodologies. This work will in large part be a manual task since PERA's current pension administration system is programmed to calculate final average salary according to statute. PERA actuaries will then be required to assess the raw data to determine whether the proposed formula for calculating final average salary will have an impact on the fund.

Currently, PERA is experiencing a higher than usual backlog in member requests. Redirecting staff to the assessment requested by HM 34 will result in additional staff workload.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HM 34 is duplicated by SM 29.

GG/nt