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FISCAL IMPACT REPORT

ORIGINAL DATE 2-19-07
 SPONSOR King LAST UPDATED 3-01-07 HB 1209/aHLC
 SHORT TITLE CO-OP WORK STUDY PUBLIC RETIREMENT SB _____
 ANALYST Aubel

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	Negative		Recurring	PERA
	NFI			

(Parenthesis () Indicate Revenue Decreases)

Conflicts with HB 1187 and HB 906
 Relates to HB 222, HB 224, SB 181

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of HLC Amendment

The House Labor and Human Resources Committee Amendment requires the purchase of the service credit be based on the full actuarial present value of the increase in the member's pension as a consequence of the purchase as determine by PERA. Thus, the fiscal impact to PERA is now neutral. In addition, the member must pay the full amount within 60 days of notification.

Synopsis of Original Bill

House Bill 1209 expands the definition of those PERA members eligible to purchase service credit for prior cooperative (co-op) work-study employment to any member who participated in such a program established jointly by any state agency and any four-year post-secondary educational institution, subject to certain conditions. Currently the PERA Act limits this service credit to those co-op programs established jointly by the former state highway and transportation department, the University of New Mexico (UNM), and the New Mexico State University

(NMSU).

FISCAL IMPLICATIONS

PERA notes that House Bill 1209 will most likely negatively affect the PERA fund because the purchase cost calculation contained by HB 1209 does not reflect the full actuarial cost of the service credit it proposes to provide certain PERA members who participated in a cooperative work study program.

As an example of the disparity between the calculation provided in HB 1209 and the full actuarial cost, using the average age, service amount, and salary of a PERA member in State General Plan 3 from the June 30, 2006 actuarial valuation, the cost of one year of co-op service at full actuarial value would be \$10,846. However, using the calculation provided in HB 1209, that same member would only pay \$8,258 for the year of service. In this instance, the calculation in HB 1209 would only provide PERA with 76 percent of the full actuarial cost for the year of service purchased.

PERA indicates that HB 1209 will not have any significant impact on its operating budget.

SIGNIFICANT ISSUES

The primary policy issue is to determine whether to expand the cooperative work study to any joint state agency and four-year post-secondary educational institutions.

Section 10-11-7 of the PERA Act became effective in 1987, which authorized the purchase service credit for PERA members who participated in joint cooperative work study programs between what was then the state Highway and Transportation Department and either UNM or NMSU. Since that time, the cost of co-op service credit has been partially subsidized by the retirement system.

In 1998, the state Constitution was amended to require funding in connection with expansion of PERA benefits. Article XX, Section 22 of the Constitution of the State of New Mexico was enacted, which now requires that an increase in benefits under the retirement system be adequately funded to preserve the PERA fund's actuarial soundness. Thus, any future expansion of the category of persons eligible to receive co-op service credit must provide a purchase cost that reflects the full actuarial present value of the amount of the increase in the member's pension as a consequence of the co-op service credit. PERA suggests language to accomplish this requirement in the Amendments section below.

ADMINISTRATIVE IMPLICATIONS

HB 1209 will most likely increase the volume of co-op service credit purchases by PERA members processed by PERA.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Conflicts with Article XX, Section 22 of the Constitution of New Mexico, which states that the Legislature shall not enact any law increasing benefits under the retirement system without providing adequate funding to preserve the PERA fund's actuarial soundness.

Conflicts with to HB 906, which also allows PERA members who participated in a cooperative work study program established jointly by any state agency and any post-secondary educational institution but does not require the full actuarial present value purchase price.

Conflicts with HB 1187, which also allows PERA members who participated in a cooperative work study program established jointly by any state agency and any post-secondary educational institution.

Relates to HB 222, which authorizes judicial retirement members to purchase up to one year of additional service credit at the full actuarial present value of the increase in the member's pension as a consequence of the purchase.

Relates to HB 224, which authorizes magistrate retirement members to purchase up to one year of additional service credit at the full actuarial present value of the increase in the member's pension as a consequence of the purchase.

Relates to SB 181, which authorizes seasonal employees of the legislative branch to purchase service credit under existing law, subject to certain conditions.

OTHER SUBSTANTIVE ISSUES

The PERA Act does not define the term “post-secondary educational institutions”. HB 1209 provides a requirement that the co-op work study program be through a four-year post-secondary educational institution. Section 21-1-38 (A)(2) NMSA 1978 (2005) defines post-secondary educational institutions to include -- but are not limited to -- an academic, vocational, technical, business, professional or other school, college or university or other organization offering or purporting to offer courses, instruction, training or education through correspondence or in person, to any individual within this state over the compulsory school attendance age, if that post-secondary educational institution is directed supported in whole or in part by the state or local taxation.

This bill limits the co-op service credit to “four-year post-secondary institutions”; HB 906 and HB 1187 specify “post-secondary institutions”, which presumably would include junior colleges or other two-year programs. It is a policy decision as to whether to limit the service credit purchase to four-year institutions.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Only PERA members who participated in cooperative work study training programs established jointly by the former State Highway and Transportation Department and the University of New Mexico or the New Mexico State University can purchase service credit for their period of participation, subject to certain conditions.

AMENDMENTS

Page 4, line 16:

[NEW MATERIAL] D. A member who was appointed to participate in a cooperative work study training program established jointly by any state agency and a four-year post-secondary

educational institution may purchase credited service for the period of participation subject to the following conditions:

- (1) the member has at least five years of service credit acquired as a result of personal service rendered in the employ of an affiliated public employer;
- (2) the member pays full actuarial present value of the amount of the increase in the employee's pension as a consequence of the purchase as determined by the association;
- (3) the member pays the full cost of the purchase within sixty days of the date the member is informed of the amount of the payment; and
- (4) the aggregate amount of credited service purchased pursuant to this subsection does not exceed five years."

MA/mt