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

SPONSOR Munoz **ORIGINAL DATE** 01/28/11 **LAST UPDATED** **HB**

SHORT TITLE Public Employee Retirement Contributions **SB** 87

ANALYST Aubel

REVENUE (dollars in thousands)*

Estimated Revenue				Recurring or Non-Rec	Fund Affected
FY12	FY13	FY14	FY15**		
$17,321.9- $18,717.3	$34,643.8-$37,434.6	$51,965.7-$56,151.9	$69,287.6-$74,869.3	Recurring**	PERA- SG3
$3,720.5-$3,888	$7,441.1-$7,775.9	$11,161.6-$11,663.9	$14,882.2-$15,551.9	Recurring**	PERA-Municipal Police
$2,128.1-$2,223.9	$4,256.2-$4,447.7	$6,384.3-$6,671.6	$8,512.4-$8,895.4	Recurring**	PERA-Municipal Fire

* Each 2% increment would generate recurring revenue between $17.3 million and $18.7 million for State General Plan 3 (SG3) ; between $3.7 million and $3.9 million for Municipal Police; and between $2.1 million and $2.2 million for Municipal Fire.

JRA and between $70 thousand and $75 thousand for MRA.

**The final recurring revenue from FY15 going forward would be around $18 million for SG3, $15 million for Muni Police and almost $9 million for Municipal Fire.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY12	FY13	FY14	FY15**	4 Year Total Cost	Recurring or Non-Rec	Fund Affected
Employer Contribution Increase – SG3	$11,547.9-$12,478.2	$23,095.9-$24,956.4	$34,643.8-$37,434.6	$46,191.7-$49,912.8	$115,479.3-$124,782.1	Recurring**	Primarily General Fund***
Employer Contribution Increase – Muni Police	$3,274.1-$3,421.4	$6,548.1-$6,842.8	$9,822.2-$10,264.2	$13,096.3-$13,685.6	$32,740.7-$34,214.1	Recurring**	Local Gov
Employer Contribution Increase – Muni Fire	$1,674.1-$1,749.4	$3,348.2-$3,498.9	$5,022.3-$5,248.3	$6,696.4-$6,997.8	$6,696.4-$6,997.7	Recurring**	Local Gov
RIO	$25.0					Non-Rec	PERA
Admin	Minimal					Non-Rec	Muni

*Each increment equates to around $11 million general fund for SG3, over $3 million for Municipal Police, and $1.7 million for Municipal Fire.

**The recurring amount from FY15 going forward would be between $46 to $50 million for SG3, and about $13 million for Municipal Police and $7 million for Municipal Fire.

***See fiscal impact.

Relates to Senate Bill 43, Senate Bill 88, Senate Bill 186, Senate Bill 241, Senate Bill 265, and Senate Bill 268
May conflict with Senate Bill 204 and Senate Bill 248

Senate Bill 87 is an Investment Oversight Committee sponsored bill.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public Employees Retirement Association (PERA)
New Mexico Corrections Department

SUMMARY

Synopsis of Bill

Senate Bill 87 amends the Public Employees Retirement Act to increase the statutory contribution rates for the following member coverage plans:

- State General Member Coverage Plan 3;
- Municipal Police Member Coverage Plans 1, 2, 3, 4, and 5; and
- Municipal Fire Member Coverage Plans 1, 2, 3, 4 and 5.

Senate Bill 87 incrementally increases the total statutory contribution rate by 2 percent per year for four consecutive years beginning July 1, 2011 (for a total of 8 percent). Each annual 2 percent contribution rate increase is split by a one-third employee and two-thirds employer formula, or about 67 basis points for employee and 133 basis points for the employer.

FISCAL IMPLICATIONS

Senate Bill 87 raises the employer and employee contribution rates for State General Plan 3 (SG3) and several municipal plans by 8 percent over four years. Table 1 shows the current statutory rate and impact of contribution rate changes proposed by SB87 over the next four years for State General Plan 3.

Table 1: Proposed Schedule for 8% Pension Contribution Increase - State

	Current Statute	**SB87 State General Plan 3**				
	FY12	FY12	FY13	FY14	FY15	FY12-FY15 Change
Employer	16.59%	17.92%	19.25%	20.58%	21.92%	5.33%
Employee	7.42%	8.09%	8.76%	9.43%	10.09%	2.67%
Total Contribution	**24.01%**	**26.01%**	**28.01%**	**30.01%**	**32.01%**	
Incremental Increase		2%	2%	2%	2%	8%

SB87 raises contribution rates for five Municipal Police plans and five Municipal Fire plans.

Unlike State General Plan 3, Section 10-11-5 NMSA 1978 allows a municipal plan sponsor to pay up to 75 percent of the employees' contribution. Municipalities differ in this "pick up" rate, which can be implemented through PERA by an irrevocable resolution or by contractual arrangements with unions that can change. Attachment A provides a list of PERA-evoked pickups, which range from a low of 8.1 percent for the City of Bayard's Municipal Police Plan to the maximum of 75 percent for several local bodies. This list, provided by PERA, shows only the PERA-evoked pick up rates and is, therefore, incomplete. Most notably, the City of Albuquerque is not on the list.

Table 2 and Table 3 provide a representative police and fire plans with current statutory rates, proposed rate increases by SB87, and the impact of a maximum pickup rate of 75 percent on the final employer contribution rate increase. For Municipal Police 5, the employer ends up paying 7.33 percentage points out of the 8 percent total contribution increase, paying an additional 2 percentage points of the employee's statutory allocation per the bill. The final rate for an employer sponsoring a Municipal Police 5 plan with a 75 percent pickup rate would be 38.058 percent by FY15.

Table 2: Proposed Schedule for 8% Pension Contribution Increase – Municipal Police

	Current Statute	SB87 Municipal Police 5				
	FY12	**FY12**	**FY13**	**FY14**	**FY15**	**FY12-FY15** Change
Employer/ER	18.50%	19.83%	21.16%	22.49%	23.83%	5.33%
Employee/EE	16.30%	16.97%	17.64%	18.31%	18.97%	2.67%
Total Contribution	**34.80%**	**36.80%**	**38.80%**	**40.80%**	**42.80%**	
Incremental Increase		2%	2%	2%	2%	8%
	Effective Contributions w/ER "Pickup" of Max 75% EE*					
Employer/ER	30.73%	32.56%	34.39%	36.22%	38.058%	7.33%
Employee/EE	4.08%	4.24%	4.41%	4.58%	4.74%	0.67%
Total Contribution	**34.80%**	**36.80%**	**38.80%**	**40.80%**	**42.80%**	
Incremental Increase		2%	2%	2%	2%	8%
75% EE PICKUP	12.23%	12.73%	13.23%	13.73%	14.23%	2.00%

Table 3: Proposed Schedule for 8% Pension Contribution Increase – Municipal Fire

	Current Statute	SB87 Municipal Fire 5				
	FY12	**FY12**	**FY13**	**FY14**	**FY15**	**FY12-FY15** Change
Employer/ER	21.25%	22.58%	23.91%	25.24%	26.58%	5.33%
Employee/EE	16.20%	16.87%	17.54%	18.21%	18.87%	2.67%
Total Contribution	**37.45%**	**39.45%**	**41.45%**	**43.45%**	**45.45%**	
Incremental Increase		2%	2%	2%	2%	8%
	Effective Contributions w/ER "Pickup" of Max 75% EE*					
Employer/ER	33.40%	35.23%	37.07%	38.90%	40.733%	7.33%
Employee/EE	4.05%	4.22%	4.39%	4.55%	4.72%	0.67%
Total Contribution	**37.45%**	**39.45%**	**41.45%**	**43.45%**	**45.45%**	
Incremental Increase		2%	2%	2%	2%	8%
75% EE PICKUP	12.15%	12.65%	13.16%	13.66%	14.15%	2.00%

For Municipal Fire 5, the employer ends up paying 7.33 percentage points out of the 8 percent total contribution increase, paying an additional 2 percentage points of the employee's statutory allocation per the bill. The final rate for an employer sponsoring a Municipal Fire 5 plan with a 75 percent pickup rate would be 40.733 percent by FY15.

Revenue

Increasing contributions increases revenue into the pension plans to improve solvency. Based on the June 30, 2010 valuation reported payroll for each plan, the estimated additional revenue per each 2 percent increment produces a recurring revenue stream of $17.3 million for State General Plan 3 as follows:

Table 4 – Increased Revenue Due to SB87 for State General Plan 3

	FY12	FY13	FY14	FY15
FY12	$ 17,321,897.94	$ 17,321,897.94	$ 17,321,897.94	$ 17,321,897.94
FY13		$ 17,321,897.94	$ 17,321,897.94	$ 17,321,897.94
FY14		$ 34,643,795.88	$ 17,321,897.94	$ 17,321,897.94
FY15			$ 51,965,693.82	$ 17,321,897.94
Total Added Revenue Going Forward				$ 69,287,591.76
Cumulative Revenue Added Over 4 Years				$ 173,218,979.40

SB87 will produce a recurring final revenue stream of $69.3 million FY15 going forward for this plan.

The payroll number used in the above calculation does not include any salary increases. Using the valuation payroll of $905,069,167 – which adjusts payroll by assumptions of a general 4.5 percent salary increase plus other factors – produces the higher end of the revenue range for the potential fiscal impact. Under this scenario, SB87 would generate recurring $74.9 million added revenue after FY15 and a cumulative $187.1 million in revenue over the four year period.

FY12	FY13	FY14	FY15
$ 18,717,312.84	$ 37,434,625.68	$ 56,151,938.52	$ 74,869,251.36

Using the same methodology for the two municipal plans produces the following ranges for the recurring revenue streams and cumulative four-year added revenue.

Table 5 – Increased Revenue Due to SB87 for Municipal Plans

Municipal Police - All Plans

	FY12	FY13	FY14	FY15
Low	$ 3,720,539.56	$ 7,441,079.12	$ 11,161,618.68	$ 14,882,158.24
High	$ 3,887,963.84	$ 7,775,927.68	$ 11,663,891.52	$ 15,551,855.36
		Cumulative 4-Year Revenue - Low		$ 37,205,395.60
		Cumulative 4-Year Revenue - High		$ 38,879,638.40

Municipal Fire - All Plans

	FY12	FY13	FY14	FY15
Low	$ 2,128,096.70	$ 4,256,193.40	$ 6,384,290.10	$ 8,512,386.80
High	$ 2,223,861.06	$ 4,447,722.12	$ 6,671,583.18	$ 8,895,444.24
		Cumulative 4-Year Revenue - Low		$ 21,280,967.00
		Cumulative 4-Year Revenue - High		$ 22,238,610.60

Recurring revenue after FY15 would total between $14.8 million and $15.6 million for the police plans and between $8.5 million and $8.9 for the fire pension plans.

Fiscal Impact to the State – Contribution Increases

SB87 distributes 2/3's of each 2 percent increment to the employer. For State General Plan 3, the fiscal impact to state agencies is shown in Table 6.

Table 6 – Fiscal Impact of SB87 to State Agencies

	FY12	FY13	FY14	FY15
FY12	$ 11,547,931.96	$ 11,547,931.96	$ 11,547,931.96	$ 11,547,931.96
FY13		$ 11,547,931.96	$ 11,547,931.96	$ 11,547,931.96
FY14		$ 23,095,863.92	$ 11,547,931.96	$ 11,547,931.96
FY15			$ 34,643,795.88	$ 11,547,931.96
	Total Added Employer Contribution Going Forward			$ 46,191,727.84
	Total Value of Employer Contribution Increases Over 4 Years			$ 115,479,319.60

Employer contributions using the higher valuation payroll amount would be as follows:

FY12	FY13	FY14	FY15
$ 12,478,208.56	$ 24,956,417.12	$ 37,434,625.68	$ 49,912,834.24

This range of $11.5 million to $12.5 million per 2 percent increment would be recurring. The final 8 percent range of $46.2 million to $49.9 million would be recurring FY15 going forward. This fiscal impact includes all funding sources.

Because PERA does not track the type of funding for employer contributions, the percent by funding source is not available by pension plan and the general fund portion of this fiscal impact can only be estimated. The FY12 Compensation Table produces a 62 percent general fund allocation for state agencies. However, this percentage includes the other state plans, such as Judicial, State Police and Corrections. Eliminating the employee groups most likely associated with these other plans produces an adjusted general fund estimate of about 96 percent.

No appropriation is made in the bill for agencies to cover the added employer contribution. If no additional funding is provided through the budget process and the bill is enacted, agencies will have to absorb the additional $12 million additional contribution cost in FY12.

Fiscal Impact to the Municipalities – Contribution Increases

Due to the incomplete data set on the municipal pick up rates, the true fiscal impact to municipalities is indeterminate. However, a potential range can be developed based on the payroll for the entire municipal police and municipal fire divisions. Using the data provided in Attachment A, a weighted pick up rate for Municipal Police is 64 percent and a weighted pick up rate for Municipal Fire is 36 percent. Using these pick up rates, a potential scenario shows for each 2 percent incremental increase, the municipal employer would pick up about 1.76 percent for the police plan and 1.57 percent for the municipal fire plans. Applying these rates to the lower revenue amount noted in Table 5 produces the lower range of the estimated employer fiscal impact shown below.

Table 7 – Fiscal Impact to Municipal Employers – Police @ 64% Pick Up Rate

	FY12	FY13	FY14	FY15
FY12	$ 3,274,074.81	$ 3,274,074.81	$ 3,274,074.81	$ 3,274,074.81
FY13		$ 3,274,074.81	$ 3,274,074.81	$ 3,274,074.81
FY14		$ 6,548,149.63	$ 3,274,074.81	$ 3,274,074.81
FY15			$ 9,822,224.44	$ 3,274,074.81
	Total Added Employer Contribution Going Forward			$ 13,096,299.25
	Total Value of Employer Contribution Increases Over 4 Years			$ 32,740,748.13

Table 8 – Fiscal Impact to Municipal Employers – Fire @ 36% Pick Up Rate

	FY12	FY13	FY14	FY15
FY12	$ 1,674,102.74	$ 1,674,102.74	$ 1,674,102.74	$ 1,674,102.74
FY13		$ 1,674,102.74	$ 1,674,102.74	$ 1,674,102.74
FY14		$ 3,348,205.47	$ 1,674,102.74	$ 1,674,102.74
FY15			$ 5,022,308.21	$ 1,674,102.74
	Total Added Employer Contribution Going Forward			$ 6,696,410.95
	Total Value of Employer Contribution Increases Over 4 Years			$ 16,741,027.37

Using the higher valuation payroll revenue estimate produces the higher end of the range.

	FY12	FY13	FY14	FY15
Police	$ 3,421,408.18	$ 6,842,816.36	$ 10,264,224.54	$ 13,685,632.72
Fire	$ 1,749,437.37	$ 3,498,874.73	$ 5,248,312.10	$ 6,997,749.47

It should be noted that adding the City of Albuquerque would skew the weighted average up toward 75 percent, increasing the potential fiscal impact of each 2 percent increment up to the maximum of $3,410.5 thousand for police plans and $1,950.8 thousand for fire plans. This maximum is based on a flat 75 percent pick up rate applied to the lower payroll revenue amount and would overstate the fiscal impact to the degree the actual statewide weighted average pick up rate falls below the 75 percent maximum.

Plan Sponsor Operating Costs

PERA will need to change its retirement information system to implement SB87 as well as inform all participants of the revised contributions schedule. In prior bill analyses, PERA has attributed a $25 thousand fiscal impact to pension changes.

Presumably, the municipalities will also incur some administrative cost to implement the changes but the amount is indeterminate and would be considered minimal when compared to the contribution increase costs.

SIGNIFICANT ISSUES

Note: To facilitate discussion, actuarial technical terms are related in more familiar language, such as the Actuarial Value of Assets is simply referred to as "assets" and the Actuarial Value of Liabilities is referenced as "liabilities." The present value of liabilities relies on several actuarial assumptions related to inflation, investment returns and demographics. This discussion assumes all future experience meets these assumptions as well as all assumptions remaining constant.

Pension Solvency

Senate Bill 87 is an Investment Oversight Committee sponsored bill to improve pension solvency.

The PERA plans are defined benefit plans, with specified factors that calculate a set pension benefit. For example, for State General Plan 3 members, the pension formula for normal retirement is calculated as follows:

Table 9 - State General Plan 3 Defined Benefit Calculation

Formula: # Years Service credit * Pension Factor *		**Final Ave Salary (FAS) =**	**Pension Benefit**
Example 1:	25 years * 3% = 75% *	$50,000 =	$37,500
Example 2	30 years * 3% = 90% *Benefit is capped by 80% *	$50,000 =	$40,000

*The cap effectively means that no additional benefit is earned after 26.7 years.

The defined benefit is considered an obligation of the plan sponsor, and actuaries calculate the value of the future benefits based on several assumptions. For long term sustainability of the plan, the funding for all the projected benefits must equal the value of those obligations - or liabilities – according to the following equation:

Pension Sustainability Equation

(I)nvestments + (C)ontributions = (B)enefits + (A)dministrative Expenses

Or

Assets = Liabilities

A general view of plan health can be indicated by how much of the liabilities are covered by assets at any given time. This is called the funded ratio, or

$$\frac{\textbf{Assets}}{\textbf{Liabilities}}$$

The June 30, 2010 funded ratio for state General Plan Division was 72.3 percent. A minimum industry standard of the funded ratio is 80 percent. More important is whether this ratio is trending up or down. The trend is downward for this plan as well as for the municipal plans considered by this bill, as seen in Table 10.

Table 10 – Trend of Funded Ratio

Plan	Funded Ratio June 30, 2009	Funded Ratio June 30, 2010	Trend
State General Plan 3	77%	72.3%	↓
Municipal Police	86.7%	80.1%	↓
Municipal Fire	74.6%	68%	↓

The value of the liabilities not covered by the value of assets is called the unfunded actuarial accrued liability, or UAAL. The table below shows the UAAL for each plan as of June 30, 2009 and June 30, 2010. Note that the UAAL is increasing, a sign of plan deterioration.

Table 11 – Unfunded Actuarial Accrued Liabilities (in millions)

Plan	UAAL June 30, 2009	UAAL June 30, 2010	Trend
State General Plan 3	$1,548	$1,934	↑
Municipal Police	$248	$391.5	↑
Municipal Fire	$268	$360.6	↑

The amount of time to pay off the UAAL (amortization) is called the funding period. The Government Accounting Stands Board (GASB) has set a minimum standard for amortization of the UAAL of 30 years. The table below shows the funding period as of the last two valuation dates. Note that this measure lies far below the 30-year recommendation: an infinite funding period means that, given all assumptions hold, the UAAL would never be paid off with current contributions as of that date.

Table 12 – Trend of Funding Period

Plan	Funding Period June 30, 2009	Funding Period June 30, 2010
State General Plan 3	111 years	Infinite
Municipal Police	Infinite	Infinite
Municipal Fire	Infinite	Infinite

The primary issue is that, due mainly to investment returns falling significantly below the plans' 8 percent assumption, the sustainability equation noted above is not in balance and the trends indicate that the plans are moving toward insolvency unless action is taken:

(I)nvestments + (C)ontributions < (B)enefits + (A)dminsitrative Expenses
Or
Assets < Liabilities

The central policy issue is what action needs to be taken to ensure public employees receive their pensions and how swiftly the Legislature needs to act. Although the pension boards can make recommendations, unlike some states, New Mexico public pension plans are set in statute and it is the Legislature - with concurrence by the governor - that ultimately makes plan changes.

To address the pension solvency issues recorded by PERA, the Legislature has two options: 1) increase contributions or 2) reduce the value of the pension obligations. Reducing pension obligations entails benefit plan changes; this is called pension reform.

(1) ↑ (2)↓
(I)nvestments + (C)ontributions ↑ < (B)enefits ↓ + (A)dministrative Expenses

Contribution Increases
SB87 focuses on using contribution increases to put the plans back on track to solvency. The design of the bill's contribution schedule is determined by two factors: the amount of shortfall tempered by PERA policy.

The shortfall is determined by the actuarial required contribution (ARC), which calculates the required contribution, based as a percent of payroll, needed to cover the current cost associated with participants and to amortize the UAAL over the GASB 30-year recommendation. The UAAL can go up or down, primarily as a result of investment returns (holding all other factors constant). Thus, the actuaries calculate the ARC on an annual basis. Some public plans must fund any change in the ARC automatically. However, PERA contribution rates are set in statute. For the most part these rates have been sufficient to meet solvency requirements, but the FY08 and FY09 investment returns of -7.4 percent and -24.1 percent, respectively, have created significant shortfalls in funding as measured by the ARC less current contribution rates:

Table 13 - Contribution Shortfall

Plan	Contribution Shortfall June 30, 2009	Contribution Shortfall June 30, 2010	Trend
State General Plan 3	**4.13%**	**6.67%**	↑
Municipal Police	**4.14%**	**7.49%**	↑
Municipal Fire	**7.22%**	**11.04%**	↑

Because the actuaries anticipate further declines in PERA's funding measures as additional FY08 and FY09 investment losses are 'smoothed" into their calculations over the next two years, they recommend the enacting the maximum 8 percent contribution rate promulgated by PERA policy.

Note that the Municipal Fire Plan shortfall is over 11 percent; unless investment gains are above the 8 percent assumption or other benefit changes or other experience gains reduce the value of liabilities, it is likely the 8 percent increase will be insufficient to ensure plan sustainability.

The bill proposes splitting each 2 percent annual incremental increase between the employee and employer on a one-third, two thirds basis. As previously noted, the actual employer share may be higher for individual municipal plan sponsors due to the "pickup" provision. This raises another core issue: whether the plan sponsors have sufficient resources to pay the additional contributions.

Relying on contributions solely to address pension solvency does not address the issue of sustainability as defined by the ability and willingness of the pension sponsors to pay the actuarial required contribution (ARC). The state faces a budget shortfall for FY12 of over $200 million. Because the state must produce a balanced budget, any increase in employer contributions means cutting expenses elsewhere in the budget or raising additional revenue. Thus, pension solvency is at odds with state solvency, and contribution increases potentially reduce services or increase taxes to pay for them.

In addition, a structural misalignment to demographics remains, allowing people to retire with 25 or 30 years of service, regardless of age – which requires the pension to pay out for a long period of time due to increased longevity. The ability to retire earlier than qualifying for Medicare also puts significant pressures on the Retiree Health Care system, which is facing its own solvency issues.

A final issue regarding contribution increases is whether raising employee contributions impairs the ability to hire and retain qualified personnel.

Pension Reform

According to the National Conference of State Legislators, 20 states have implemented higher contribution rates and/or pension reform in 2010 to address pension solvency issues. Due to concerns regarding property and contractual rights, much of pension reform focuses on new hires. Such pension reform takes years to impact solvency and does little to address current pension liabilities.

Some states have taken more aggressive action to strengthen funds by aligning pension structures with new demographic and economic realities. South Dakota, Colorado and Wisconsin enacted legislation that impacted current employees and also retirees—such as reducing the cost of living adjustment (COLA). Lawsuits filed in these states are being closely watched for how courts will view pension rights.

The New Mexico Constitution (Article XX, Section 22) states that vested employees acquire a property right to pensions. However, Article XX, Section 22 (E) states that "Nothing in this section shall be construed to prohibit modifications to retirement plans that either enhance or preserve the actuarial soundness of an affected trust fund or individual retirement plan."

Laws 2009, Chapter 288, established a30-year eligibility for new hires for the education retirement system and PERA non-public safety plans. This established what is termed a "second tier" to the plans. The legislation also set up a 25-member task force to study the plans and make recommendations for the 2011 legislative session to address pension solvency. The task force made few final recommendations. Any challenges to pension reform applied in New Mexico will ultimately need to be resolved by the courts.

Cost of Inaction

The cost of doing nothing, neither increasing contribution rates nor implementing pension reform, goes up with time. Table 14 below, provided by PERA's actuaries, shows the impact of not doing anything to address pension solvency over the next four years. In this case, the power of compounding would be significant. Under current assumptions and plan structures, the additional cost of paying off the added UAAL totals over $1 billion. It is like paying off a 30-year mortgage at an 8 percent interest rate. The longer the repayment period, the greater is the difference between paying now (cash) or paying more later (principal plus interest).

Table 14 – Impact of Waiting to Address Pension Solvency

	Additional UAAL (in millions)	Additional % of Payroll to Pay Extra UAAL over 30 Years	Sum of Additional Payments (in millions)
2011	$19.0	0.11%	$61.0
2012	$60.0	0.35%	$199.0
2013	$126.0	0.71%	$430.0
2014	$222.0	1.23%	$774.0
2015	$329.0	1.79%	$1,177.0

PERFORMANCE IMPLICATIONS

PERA measures for the funding period, UAAL amortization, and funded ratio would most likely improve under this bill.

ADMINISTRATIVE IMPLICATIONS

Affected plan sponsors will need to implement the changes and notify all members. Funding for the employer contribution increases will need to be sought.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 87 relates to Senate Bill 43 and Senate Bill 241, which propose to add additional eligible municipal employers to PERA.

Senate Bill 87 relates to Senate Bill 88, which is also an IOC committee sponsored bill to improve solvency of the judicial and magistrate plans by raising contributions under the same schedule.

Senate Bill 87 relates to Senate Bill 186, which proposes to remove the ability of municipal plan sponsors to pick up any portion of the employee contribution for new plans started after July 1, 2011.

Senate Bill 87 may conflict with Senate Bill 204, which proposes to reduce the cost-of-living adjustment for all members and retirees. This would reduce the value of liabilities and reduce the need for higher contributions.

Senate Bill 87 may conflict with Senate Bill 248, which contemplates making the current 1.5 percent pension contribution shift permanent and adding a one-year shift of 1.75 percent for FY12. However, the rates in this bill could be adjusted to reflect SB 248.

Senate Bill 87 relates to 268, which proposes to close the current plans and open new ones for new hires as of July 1, 2011. New plans for new hires do not adequately address the current UAAL of any plan.

OTHER SUBSTANTIVE ISSUES

Federal legislation has been proposed adding reporting requirements on pension UAAL for states. In addition, GASB is still determining what changes they will require from pension funds and states for including UAAL as part of liabilities rather than reporting UAAL in a footnote in the financial statements. Industry experts anticipate it will probably be another year before anything is finalized. However, Moody's recently announced that it will be recalculating states' debt burdens in a way that includes unfunded liabilities.

These efforts to grant higher visibility to the unfunded statutes of pension plans and potential debt burden could impact pension sponsor debt ratings.

PERA has indicated it might seek contribution increases for Municipal General Plans next year.

ALTERNATIVES

Greater effort toward looking at pension reform could be considered, such as reducing the COLA as proposed by SB204. Other options include closing the plans and creating defined contribution plans or hybrid plans for new hires. However, the upfront cost of paying off the UAAL for current plans would be quite significant under this option.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The pension plans will most likely continue to deteriorate in funding status.

POSSIBLE QUESTIONS

1. **Has the PERA board considered pension reform?**
2. **Why not?**
3. **Have members been surveyed on what they would be willing to negotiate to preserve the plans as defined benefit plans?**

MA/bym:mew