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

SPONSOR Ingle **ORIGINAL DATE** 02/08/11 **LAST UPDATED** 03/05/11 **HB**

SHORT TITLE Change Public Retiree Contributions **SB** 248/aSPAC/aSFC

ANALYST Aubel

REVENUE (dollars in millions)*

Estimated Revenue-Impact of Delay 0.75% Increase Two Years					Recurring or Non-Rec	Fund Affected
Compared to:	FY12	FY13	FY14	FY15		
Current Statute	($20.1)**	($40.2)**			Nonrecurring	ERB
			$20.1**	$40.2**	Recurring	ERB

(Parenthesis ( ) Indicate Revenue Decreases)

**All funding sources based on ERB reported FY10 total salaries of $2.7 billion.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in millions)*

	FY12	FY13	FY14	FY15*	4 Year Total Cost	Recurring or Non-Rec	Fund Affected
Make 1.5% Contribution Shift Permanent-Compared to Current Statute	($42.2) **	~~($42.6)~~ ($42.2)	~~($42.6)~~ ($42.2)	~~($42.6)~~ ($42.2)	($168.8) ~~($42.2)~~ **	Recurring	General Fund
Temporary 1.75% Contribution Shift	($49.2)**				($49.2)**	Nonrecurring	General Fund
~~**Temporary 1.25% Shift $20,000-$50,000and 2.25% Shift over $50,000**~~	~~$49.2~~				~~$49.2~~	~~Nonrecurring~~	~~General Fund~~
Delay ERB Employer Increase	($18.0)-$19.3)	($36.0)-($38.6)			($54)-($57.9)	Nonrecurring	General Fund
Impose ERB Employer Increase			$18.0-$19.3	$36.0-$38.6	$54-$57.9	Recurring*	General Fund
IT Systems		$25.0 ~~$50.0~~ thousand				Nonrecurring	PERA, ERB. DFA

(Parenthesis ( ) Indicate Expenditure Decreases)

*See Fiscal Impact **Revised 02/24/11.

Relates to Appropriation in House Bill 3 and the General Appropriation Act
Conflicts with HB 133, SB 87, SB 88 and SB 265
Relates to HB 142

Senate Bill 248 is a Legislative Finance Committee sponsored bill.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public Employees Retirement Association (PERA)
Educational Retirement Board (ERB)
Office of Attorney General (AG)
Department of Transportation (DOT)
New Mexico Corrections Department (NMCD)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendment for Senate Bill 248/aSPCA strikes the SPAC amendments #3 through #110 that sunset the 1.5 percent contribution shift as of July 1, 2012 and create two tiers for the one-year application of an additional contribution shift: 1.25% for those making between $20,000 and $50,000 and 2.25% for those over $50,000. The result is to restore the bill to the original schedule, as follows:

- Makes the 1.5% contribution shift permanent; and
- Applies the one-year 1.75% contribution shift to all employees over $20,000 equally.

The amendment retains the language added by the Senate Public Affairs Committee amendment that requires an actuarial study for the pension plans no later than September 30, 2013 and authorizes the pension plans to submit a request for a supplemental appropriation to the second session of the Fifty-First Legislature in the amount to rectify any adverse actuarial effect.

Attachment B shows the respective contribution rates for employees and employers.

SIGNIFICANT ISSUES

The amendment for the actuarial study and potential for a supplemental addresses PERA's concerns regarding the impact of the contribution shifts. It should be noted that the bill's impact to PERA's pension solvency is deminimus in comparison to the solvency issues raised by two years of negative investment earnings during FY08 and FY09. Coupled with the optimistic expectation for investment returns of 8 percent, aggressive action is likely needed to restore solvency. PERA has the richest plan in the country—with its automatic 3% COLA, 3% pension factor, no minimum age requirement, and 25-year or less retirement eligibility for most members, the plans do not align with new demographic realities where people are living longer.

PERA's request for 8 percent contribution increases over the next four years in SB 87 and SB 88 ignores economic realities of reduced revenues for employer contributions and stagnate salaries for employees. A definition of pension sustainability is the ability and willingness of pension sponsors to pay required contributions. Reduced revenues appear likely for some time, limiting the state's ability to increase contributions. In addition, increasing revenues through increased taxes appears unlikely. PERA could spend more attention at looking at realistic solutions for aligning the plans with demographic, economic and political realities.

Synopsis of SPAC Amendment

The Senate Public Affairs Committee amendment adds language requiring studies to assess the bill's actuarial impact to ERB and PERA and permit either fund to submit a request a supplemental appropriation to the Second Session of the Fifty-first Legislature in the amount to redress any adverse actuarial effect. The bill also alters the pension contribution shifts from the employer to the employee, as follows:

1. Instead of making the 1.5 percent shift permanent, it extends the shift for only one year through FY12;
2. The additional 1.75 percent shift contemplated under the original bill is altered to apply a 1.25 percent shift for employees making between $20,000 and $50,000 and a 2.25 percent shift for employees making over $50,000.

FISCAL IMPLICATIONS

The amendment would sunset the 1.5 percent employer-employee shift as of July 1, 2012, which means that the approximately $42 million would need to be funded for the increased employer contribution beginning in FY13. The permanent reduction in the state's cost for public pensions is eliminated. The revised estimate from $42.6 million to of $42.2 million is based on more recent data that uses actual salaries excluding those below the $20,000 threshold.

As currently structured, the FY12 general appropriations bill assumes a 1.75 percent contribution shift from the employer to the employee for FY12 valued at $49.7 million as part of the package to balance the state budget. This shift is based on applying 1.75 percent to all employees over $20,000, and valued using the 2009 estimates developed for Laws 2009, Chapter 127, that initiated the original 1.5 percent shift valued at $42.6 million.

The amendment's proposed schedule applies 1.25 percent to employees making over $20,000 to $50,000 (tier 1) and then 2.25 percent for those making over $50,000 (tier 2). Using recent data provided by the State Personnel Office and the ERB FY10 actual data for its employers, it appears the amendment would produce a similar general fund savings, although the breakdown among the three primary employer groups would vary. Additional savings in higher education offset the lower savings attributable to K-12 and state agencies. However, it should be noted that the higher education number might be overstated because a firm general fund percent of total funding sources is lacking and the K-12 percent of 89 percent that was applied for higher education might be high.

Estimated General Fund Savings
(in millions)

Employer Segment	1.75%	Amendment	DIFF
State Employers	$10.4	$10	-0.440
K-12	$25.4	$25.3	-0.158
Higher Education	$13.4	$13.9	0.607
Total	$49.2	$49.2	-

The amendment does not produce an equal match to the 1.75 percent for each employer segment because aggregate salaries for tier 1 and tier 2 are not evenly split in an exact 50:50 ratio for each of the employer segments. For example, the largest discrepancy occurs in the state agency segment, where 15,949 employees with an aggregate salary of $550.1 million in tier 1 compare with 6,112 employees with an aggregate salary of $408.3 million in tier 2. However, the new schedule will produce the same overall general fund savings as applying the 1.75 percent to everyone over $20,000, which is about $500 thousand less than the original estimate of $49.7 million—which is not significant. Employers will need to absorb this difference.

SIGNIFICANT ISSUES

Although the overall fiscal impact of the amendment is not significant, the "tiering" of employees might pose a significant personnel issue. First, the amendment represents a transfer of wealth from those making over $50,000 to those making between $20,000 and $50,000 due to the different shift rates applied to the two groups. Furthermore, as seen in the table below, the benefit to tier 1 group is not commensurate with the detriment accruing to tier 2; for every dollar given up by a tier 2 employee, a tier 1 employee gains about 50 cents.

Estimated Take-Home Pay Under 1.75% and The Amendment 1.25% and 2.25%

	Original Bill: Add 1.75% to 10.67%	Amendment: Add 1.75% <20k≤$50k; Add 2.25% >$50,000	Difference
$30,546 Not Married	790.62	795.32	4.7
$30,536 Married	819.94	827.59	7.65
$55,000 Not Married	1,340.43	1333.02	7.41
$55,000 Married	1,391.73	1,383.26	-8.7
$65,000 Not Married	1,532.10	1,523.33	-10.01
$65,000 Married	1,593.79	1,583.78	-8.77

Source: Administrative Office of the courts

The primary policy issue is whether it is better to apply the same percentage to the entire population over $20,000 based on the concept of an equally shared sacrifice, or whether the desire to reduce the impact for the tier 1 employees is preferable by increasing the impact to the tier 2 employees. A consideration is that the new tier creates another unfair "cliff effect" for those just over the $50,000 mark, reducing their take home pay to less than those making at or just under $50.000. In addition, it is likely to impact employee morale for those making over $50,000 more than if all are being treated equally.

ADMINISTRATIVE IMPLICATIONS

All computer systems are already set up with the $20,000 demarcation. To add another one at $50,000 for a short period is placing a burdensome and expensive obligation on the pension systems and all employers. Not only is it expensive to change the pension IT systems (about $25,000 because the systems are "hard coded" and it is not a simple matter of changing software), all the employers would need to follow suit at additional expense and staff resources. In addition, ERB and PERA have testified that changing contributions leads to confusion on the part of employers and requires staff resources for outreach and education as well as following up to correct errors. This is particularly true for ERB because the calculation of the salary is not based on a straight 2088 hour year and each school district has to implement the change. An additional $25 thousand is added to the operating costs to account for this administrative change.

Synopsis of Original Bill

Senate Bill 248 makes three primary changes for pension contributions for state employee plans administered by the Public Employees Retirement Association (PERA) and the Educational Retirement Board (ERB):

1. Makes the two-year 1.5 percent contribution shift implemented for FY10 and FY11 a permanent contribution shift from the employer to the employee for those employees making more than $20,000;
2. Makes a one-year contributions shift of 1.75 percent from the employer rate to the employee rate for those making more than $20,000; and
3. Delays the two remaining 0.75 percent increases for ERB, currently scheduled for FY12 and FY13, to FY14 and FY15.

FISCAL IMPLICATIONS

1.5% Contribution Shift

Laws 2009, Chapter 127 (House Bill 854) made a temporary contribution shift of 1.5 percent from the employer rate to the employee rate for those state employees making more than $20,000 in FY10 and FY11. Based on 2009 compensation information, this action was projected to save about $42.6 million general fund each fiscal year as part of a solvency package to address revenue shortfalls. This bill would make the 1.5 percent shift permanent for both ERB and PERA members.

The LFC and Executive budget recommendations do not fund the extra 1.5 percent employer currently set in statute, which is based upon the contribution shift sunset date of June 30, 2011. Thus, if this or similar legislation to amend current statute is not passed and signed by the governor, additional general fund appropriations of about $42.6 million would need to be made to cover the added cost to employers for paying the extra 1.5 percent pension contributions, increasing the budget deficit for FY12. Alternatively, if the Legislature chose not to fund the statutory rates set for July 1, 2011, the agencies and educational entities would need to reduce operating budgets elsewhere to absorb the added costs.

This general fund amount would be recurring as long as the employer statutory rate is set higher than the FY10 levels by the 1.5 percent. If this bill is enacted, the savings would be made permanent and there would be no fiscal impact from the FY11 operating levels going forward. The bill would permanently reduce the cost of pension plans to plan sponsors.

1.75% Temporary Contribution Shift

The bill also makes a one-year 1.75 percent contribution shift from the employer to the employee for FY13 for employees making more than $20,000. The preliminary general fund savings based on the 1% Compensation Table and prior assumptions regarding employees >$20,000 is approximately $49.7 million, which would be non-recurring.

Delaying the ERB Employer Contribution Increase

Laws 2005, Chapter 273 implemented a schedule of employee and employer contribution increases to improve the funded status of the ERB fund, including a seven-year annual incremental increase of 0.75 percent for ERB employers ending at a final rate of 13.9 percent in FY12. It should be noted that Senate Bill 181, as originally drafted, implemented a four-year schedule of 0.75 percent increases ending at in FY09 at 11.65 percent. The additional 3 percent employer contribution, going from 8.65 percent to 11.65 percent, met ERB's actuarial recommendation designed to address solvency concerns at that time. A House Floor Amendment increased the schedule an additional three years to a final 13.9 percent, presumably to add a "cushion" for the educational plan to improve funded status.

Table A – Laws 2005, Chapter 273 (Senate Bill 181)

Fiscal year	Employee Contribution Rate	Employer Contribution Rate	Incremental Change in Employer Rate
FY05	7.6%	8.65%	
FY06	7.675%	9.4%	0.75%
FY07	7.75%	10.15%	0.75%
FY08	7.825%	10.9%	0.75%
FY09	7.9%	11.65%	0.75%
FY10	7.9%	12.4%	0.75%
FY11	7.9%	13.15%	0.75%
FY12	7.9%	13.9%	0.75%

In the 2006 session, the Legislature attempted to prefund one of the 0.75 percent increments for FY07, but the extra $19.3 million general fund appropriation was vetoed as noted in the LFC 2006 Post Session Report:

> "GAA included an extra $19.3 million ($13.6 million for public schools and $5.7 million for higher education) to double the employer contribution increase planned for FY07. Doubling the contribution increase in FY07 would have eliminated the need for a contribution increase in a future year when the state could have less funding available than this year… However, the governor vetoed this extra funding."

The funding shortfall foreseen in 2006 came to pass in 2010 when Laws 2010, Chapter 67, (Senate Bill 91) delayed the 0.75 percent employer increase scheduled for FY11 to FY12 due to budget concerns.

The FY12 LFC budget recommendations for K-12 and higher education do not include this 0.75 percent increase and do not fund it. Thus, if this or a similar bill is not enacted, between $18 million (89% GF estimated per the 1% Table applied to the ERB $2.7 billion reported salary for FY10) and the $19.3 million general fund (appropriated per HB2 in 2006) would need to be appropriated to education entities to cover the added cost - or they would need to absorb the cost by making reductions elsewhere in their budgets for FY12. The next scheduled 0.75 percent increment, valued at another $18-$19.3 million for FY13, would make the cumulative impact around $55 million for the two-year period.

These general fund amounts would be recurring as long as the employer statutory rate is set higher than the FY10 levels by the 0.75 percent in FY12 and another 0.75 percent in FY13. If this bill is enacted, the savings for FY12 and FY13 would be non-recurring as the schedule resumes in FY14. Senate Bill 248 will provide a recurring $40 million revenue to ERB FY15 going forward and means a recurring cost to the general fund of about $36.0-$38.6 million for FY15 forward.

Incorporating the first part of the bill that makes the 1.5 contribution shift permanent, the final

ERB-affiliated employer contribution rate in FY15 for employees making $20,000 or less would be 13.9 percent and the final rate for employees making over $20,000 would be 12.4 percent.

Combined Fiscal Impact

If SB248 or similar legislation does not pass, other options to reduce costs or increase revenues will be needed to offset about $43 million for the sunset of the 1.5% swap in FY12, about $19 million to fund the 0.75% ERB contribution increase, and almost $50 million in new general fund savings due to not using the added 1.75% shift as part of the state solvency package for FY12. This totals about $112 million.

DOT and NMCD provided specific fiscal impacts related to their respective agencies (in thousands) from paying 3.25 percent less than statute requires in FY12 (1.5% plus 1.75%) and 1.5 percent in FY13:

Agency	FY12	FY13	Total Savings	Funds
DOT	($3,198.1)	($1,475.6)	($4,673.7)	All funds
NMCD	($2,557.6)	($1,200)	($3,757.6)	All funds/95% GF

Impact to Employees

PERA notes the employee rates under the bill, as follows:

> For State General Plan 3 members, the increase in the employee contribution rate from 7.42 percent to 10.67% represents a 44% increase in employee contributions. For State Police and Adult Correctional Officer Plan 1 members, the increase in the employee contribution rate from 7.6 percent to 10.85% represents a 43% increase in employee contributions. For Hazardous Duty Plan 2 members, the increase in the employee contribution rate from 4.78% to 8.03% represents a 68% increase in employee contributions.

ERB also provides the contribution schedule as outlined by SB 248:

> SB 248 shifts an additional 1.75% of the retirement contribution from employer to employees for those earning over $20,000/year for both ERB retirement plans and some PERA retirement plans for FY12. Under SB 248, for the ERB, the employee contribution rate would be 11.15% of salaries in FY12, and would return to 9.4% in FY 13. Under SB 248, employer contributions rates would be as follows: FY12 – 9.15% (rather than 13.15% as scheduled under current statute); FY13 - 10.9% (rather than 13.9% as under current statutes); FY14 - 11.65% (rather than 13.9%); and, FY15 and later - 12.4% (rather than 13.9%). Under SB 248, employer contributions would not reach 13.9%, as they would under current statute. For employees earning over $20,000/year, SB 248 makes permanent the 1.5% contribution shift from employer to employee that began in July 2009 and was scheduled to end June 30, 2011.
>
> SB 248 does not adjust employee contributions for employees earning $20,000/year or less; however, it does change employer contribution rates for those employees. The FY12 employer contribution for employees earning $20,000/year or less would be 12.4%, rather than 13.15% as under current statute; the FY13 employer contribution would 12.4%, rather than 13.9%; and the FY14 employer contribution would be 13.15%, rather than 13.9%. Starting FY15, the employee contribution rate would be the same under both SB 248 and current statute.

The fiscal impact to employees of an additional 1.75 percent contribution shift will be offset by the 2011 reduction in the federal social security tax of -2 percent. Assuming normal pretax deductions, the 18-month impact is minimal when compared with the baseline salary as of December 2010. (See Attachment A for the detail of an average PERA salary employee.)

Salary	Change in Net Wages Compared to Baseline				Cumulative Change as Pct of Salary
	Jan - Jun 2011	Jul - Dec 2011	Jan - Jun 2012	Cumulative	
30,000	208.26	-2.00	-210.26	-4.00	-0.01%
41,505	300.42	9.52	-290.90	19.04	0.05%
60,000	392.56	24.53	-368.02	49.07	0.08%
100,000	672.96	59.58	-613.38	119.16	0.12%

SIGNIFICANT ISSUES

Senate Bill 248 is an LFC-sponsored bill balancing state solvency with ERB pension solvency.

State Solvency

The current estimated state revenue shortfall for FY12 ranges from the LFC projection of about $215 million to the executive's projection, based on differing assumptions, of $410.2 million. This shortfall will require additional solvency measures for FY12 to balance the state's budget as required by the New Mexico Constitution. This bill would prevent an increase in this budget shortfall by extending the 1.5 percent contribution shift, saving about $43 million general fund, and by delaying the ERB 0.75 employer contribution increase for two years, saving about $19 million in FY12 and $40 million in FY13. This bill will help shrink the deficit by the estimated $49.7 million from the 1.75 percent employer-employee contribution shift for FY12. Savings to the general fund when compared with statute total $112 million.

Pension Solvency

The actuarial impact of the contribution changes, and from delaying the ERB contribution increase for two years, is noted by ERB and PERA, as follows:

ERB:

> The ERB believes that SB 248 will have a negative actuarial impact on the Educational Retirement Fund (the "Fund") by decreasing combined employee and employer contributions in FY12-14 and because employee contributions for those earning over $20,000 will not reach 13.9%. In addition, there could be a smaller negative actuarial impact as a result of shifting contributions from employers to employees. Employer contributions are not refundable; however, employee contributions are refundable. This could affect the Fund by increasing the payment made to ERB retirees who die before the pension benefits they receive equal contributions they made to the Fund and to members who die before they begin receive pension benefits.
> There also will be some cost for the ERB to reprogram its retirement software program, and for employers to do the same. The cost to the ERB is expected to be incremental and largely, if not entirely, borne within ERB's maintenance system for its software.
>
> 2-2-2011 REVISION – ERB's outside actuaries determined that if increases in employer contributions are delayed as SB 248 provides, the Educational Retirement Fund would reach a 72.1% funding level and have an unfunded actuarial accrued liability of $14.228

billion in 30 years.

PERA:

As PERA contribution rates are considered in the budget discussions, it is important to point out that increases to employee contributions **have an associated increase in the Plan's liability due to the corresponding increase in expected future refunds of contributions**. As a rule of thumb, roughly 5% of the increase in employee contributions is needed to satisfy this increase in the Plan's liabilities. Therefore, a 1.00% of payroll employee contribution impacts funding the same as approximately a 0.95% payroll employer contribution. The current shift of 1.5% of payroll from the employer statutory contribution rate to the employee required contribution rate results in approximately 0.08% of payroll increase to the actuarially required funding. This again may not seem like a significant impact to the Plan for the short-term, however using the State General Division Plan to illustrate, the approximate 0.08% shortfall in funding resulting from the shift adds approximately $725,000 to the unfunded actuarial accrued liability each year it is in effect. The current two-year shift of 1.5% of payroll will require in total approximately $5 million in additional contributions over the next 30 years and represents nearly 20% of the total amount of the contributions shifted. An increase to the amount of contributions shifted from employers to employees or extending the period the shift is in effect further exacerbates the decline in the funded status of PERA.

Any further reduction in employer contributions will negatively impact the PERA, MRA and JRA Funds. Employee and employer contribution rates are statutory by member coverage plan. Rates of separation from active membership are used to measure the probabilities of active members terminating that status and requesting a refund of their employee contributions. Rates of withdrawals of active members differ among the demographics of the employee groups. Conversely, employer contributions are nonrefundable and remain with the respective retirement funds. If the total contributions are kept the same, but some of the contributions are shifted from employer to employee, the amortization period for that plan will increase. For the most part, the increase should be small. However, the more poorly funded a group is, the bigger the impact will be (such as in the Judicial Fund). In addition, the closer the normal cost is to the total contributions coming in, the greater the impact will be (such as in the Magistrate Fund).

The ERB contribution proposal under Senate Bill 265 essentially makes the 1.5 percent permanent for employees making over $20,000 and adds another 0.5 percent for all ERB-affiliated employees. The proposal also increases the employer rate to 13.9 percent for all employees over six years.

ADMINISTRATIVE IMPLICATIONS

Both ERB and PERA have pension information technology systems that would need to be updated to reflect the contribution changes. Prior fiscal analyses from PERA have indicated a $25,000 fiscal impact from making system changes. ERB assumes the cost would be covered under the current maintenance contract. It is reasonable to assume a similar cost to ERB.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Conflicts with House Bill 133, Senate Bill 87, Senate Bill 88 and Senate Bill 265. All these bills provide alternative contribution schedules.

Relates to House Bill 142, which would have ERB return-to-work employees pick up the employee portion of the contribution.

OTHER SUBSTANTIVE ISSUES

The existing 1.5% contribution swap is the subject of pending litigation in the Second Judicial District Court in the matter of AFSCME Council 18 et. al. vs. State of New Mexico, et. al, Case No. CV-2009-7148. The AOAG provides the following analysis regarding the potential impact pursuant to this case:

> There is a pending lawsuit stemming from the passage in 2009 of HB 854, which introduced the first 1.5% contribution shift. The State district court presiding over the case has dismissed nearly all of the claims raised by the plaintiffs, but the plaintiffs' takings claim has survived. Importantly, if the plaintiffs are successful on that claim, they would be entitled to the payment of damages as compensation for the taking. What this means for the State is that it might have to pay to all people employed by the State between 2009 and 2011 (or any portion thereof) the difference between what those employees actually paid into their retirement accounts pursuant to HB 854 and what they would have paid if HB 854 had not passed. In other words, a damage award would erase any savings the State realized from the passage of HB 854. Such an award would also establish sufficient precedent to entitle State employees to the same type of award from the increased contribution shift that SB 248 mandates

PERA notes that its board opposes SB 248: "The PERA Board Resolution No. 11-02 specifically establishes the PERA Board's opposition to any legislation proposing statutory contribution rate swaps between employers and employees that do not comply with the Board's Benefit Policy and Contribution Policy adopted in 2008. SB 248 is a budget measure to save General Fund monies; conversely, it will have a negative impact on the solvency of the PERA, JRA and MRA Funds."

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The current statutory contribution rates for state PERA and ERB plans would require an estimated combined $62 million expenditure for FY12 to pay for the sunset of the 1.5 percent employer-employee contribution shift and the ERB 0.75 percent employer incremental increase currently scheduled. This would either increase the projected revenue shortfall by this amount, require affected plan sponsors make cuts elsewhere in their budgets to absorb the cost, or a combination. The opportunity to reduce the cost of the pension plans to sponsors by permanently shifting the 1.5 percent to employees would be lost. Other options to reduce the budget shortfall by almost $50 million for FY12 by temporarily shifting the employer to the employee by 1.75 percent would need to be explored, which could lead to furloughs, salary reductions, or layoffs. Other alternatives to meet the budget crisis if this bill is not enacted could mean reduced critical services or increased taxes.

MA/bym:mew

Attachment A

Analysis Isolating Impact of Pension Swap vs. Federal Social Security 2% Tax Reduction

2%	Reduction in Social Security Payroll Tax, effective Jan 2011 - Dec 2011
1.75%	Proposed PERA swap, effective Jul 2011 - Jun 2012
41,505	Average NM State Employee Salary
106,800	Wage Cap on SS Deductions

Federal social security reduction for CY2011.
LFC recommendation proposes 1.75% PERA swap.
Income effect for unmarried individuals

	FY2011		FY2012	
	Baseline Jul - Dec 2010	Jan - Jun 2011	Jul - Dec 2011	Jan - Jun 2012
Gross	**20,753**	**20,753**	**20,753**	**20,753**
PERA Rate	8.92%	8.92%	10.67%	10.67%
PERA Deduction	1,851.12	1,851.12	2,214.29	2,214.29
Pre-Tax Medical Ins	2,000	2,000	2,000	2,000
FICA Gross	**18,752.50**	**18,752.50**	**18,752.50**	**18,752.50**
SS Rate	6.2%	4.2%	4.2%	6.2%
Medicare Rate	1.45%	1.45%	1.45%	1.45%
SS Deduction	1162.66	787.61	787.61	1,162.66
Medicare Deduction	271.91	271.91	271.91	271.91
Taxable Wages	**15466.81**	**15841.86**	**15478.69**	**15,103.64**
Federal Tax Rate of Excess	15%	15%	15%	15%
Federal Taxes	2,107.52	2,163.78	2,109.30	2,053.05
NM Tax Rate of Excess	4.9%	4.9%	4.9%	4.9%
NM Taxes	618.12	636.50	618.71	600.33
Net	**12,741.17**	**13,041.58**	**12,750.68**	**12,450.27**
Compared to Baseline		**300.42**	**9.52**	**-290.90**
Cumulative Impact				**19.03**

Attachment B: 1.5% permanent, 1.75% 1 year – then sunsets

Employee and Employer Contribution Rates – By Plan

State General Plan 3 – PERA*

Annual Salary	Employee Rate	Employer Rate	Total
Current: July 1, 2009- June 30, 2011			
$20,000 or less	7.42%	16.59%	24.01%
Over $20,000	8.92% (+1.5%)	15.09% (-1.5%)	
July 1, 2011-June 30, 2012 (FY12)			
$20,000 or less	7.42%	16.59%	24.01%
Over $20,000	10.67% (+1.75%)	13.34% (-1.75%)	
July 1, 2012 (FY13 forward)			
$20,000 or less	7.42%	16.59%	24.01%
Over $20,000	8.92% (-1.75%)	15.09% (+1.75%)	

ERB

Annual Salary	Employee Rate	Employer Rate	Total
Current: July 1, 2009- June 30, 2011			
$20,000 or less	7.90%	12.40%	20.30%
Over $20,000	9.40% (+1.5%)	10.9% (-1.5%)	
July 1, 2011-June 30, 2012 (FY12)			
$20,000 or less	7.90%	12.40%	20.30%
Over $20,000	11.15% (+1.75%)	9.15% (-1.75%)	
July 1, 2012-June 30, 2013 (FY13)			
$20,000 or less	7.90%	12.40%	20.30%
Over $20,000	9.40% (-1.75%)	10.90% (+1.75%)	
July 1, 2013-June 30, 2014 (FY14)			
$20,000 or less	7.90%	13.15%	21.05%
Over $20,000	9.40%	11.65% (+0.75%)	(+0.75%)
July 1, 2014 (FY15 forward)			
$20,000 or less	7.90%	13.90%	21.80%
Over $20,000	9.40%	12.40% (+0.75%)	(+0.75%)

*The bill makes similar changes in contribution rates for the following PERA plans: State Police and Adult Correctional Officer Plan, State Hazardous Duty Member Plan, Judicial Retirement Plan, and Magistrate Judge Plan.