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FISCAL IMPACT REPORT

ORIGINAL DATE 02/08/11

SPONSOR Neville LAST UPDATED _____ HB _____

SHORT TITLE Public Employee Retirement Plan Changes SB 268

ANALYST Graeser

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY11	FY12		
	(1,300.0)*	Recurring	All state funds

(Parenthesis () Indicate Expenditure Decreases)

* While the aggregate effect of this proposal can be modeled approximately and is shown here, distributing the effect to state agencies and between general fund, other state funds, federal funds and interagency transfers is not feasible at any level of accuracy sufficient for budgeting. The problem is to determine the effect of the hiring freeze on new employment.

Relates to Appropriation in the General Appropriation Act

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		Decreases	Larger Decreases		Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Employees Retirement Agency (PERA)
 Children, Youth and Families Department (CYFD)
 Energy, Minerals and Natural Resources Department (EMNRD)
 New Mexico Corrections Department (NMCD)
 New Mexico Municipal League (NMML)
 Department of Game and Fish (DGF)
 New Mexico Department of Transportation (NMDOT)

SUMMARY

Synopsis:

Senate Bill 268 enacts new PERA retirement benefit plans for state and municipal general members, state police and adult correctional members (but not juvenile correctional members or other hazardous duty employees). The bill enacts new PERA plans for municipal general and public safety (police, fire and detention) members whose employer must adopt the plans to make them effective. The details of those plans concerning retirement eligibility dates, benefit formulas and contribution requirements vary and are set forth in the bill in sections 1 through 30. The benefit changes apply prospectively to persons who were not members or retired members on June 30, 2011 and who are not specifically covered by any other coverage plan. The bill reduces the cost-of-living-adjustment (COLA) for future retirees covered under the new plan.

Specifically the bill amends the PERA Act to provide a second tier of member coverage plans with a reduced benefit structure for new members first hired on or after July 1, 2011, as follows:

State and Municipal General Members (Non-uniformed)

- Retirement with 30 years of service credit and with a minimum age of 55;
- Rule of 85 (age + years of service = 85) eligibility;
- Cost-of-living adjustment (COLA) based on 75% of annual consumer price index (CPI) with a 0% floor and a 3% cap.
- Two retirement-plan options for smaller municipalities to choose from.

Retirement with 30 years of service credit with a minimum age of 55 will be applicable to:

- All state employees not specifically covered by another coverage plan, including, conservation officers employed by Department of Game and Fish; juvenile correctional officers employed by Department of Children, Youth and Families, motor transportation officers and special investigators employed by Department of Public Safety.

State and Municipal Public Safety Members (Uniformed Police and Fire)

- Retirement with 25 years of service credit and with a minimum age of 50;
- Rule of 80 (age + years of service = 80) eligibility;
- Cost-of-living adjustment (COLA) based on 75% of annual consumer price index (CPI) with a 0% floor and a 3% cap.
- Two retirement-plan options for smaller municipalities to choose from.

25 years of service credit with a minimum age of 50 years will be applicable to:

- State Police and Adult Correctional Officers;
- Municipal Police;
- Municipal Firefighters; and
- Municipal Detention Officers.

FISCAL IMPLICATIONS

EXISTING COST ESTIMATES WITH 1.5% SWAP	State General	State Police	Municipal General	Municipal Police	Municipal Fire	Total Payroll
Total Normal Cost*	19.22%	31.26%	17.18%	30.50%	30.68%	20.65%
Employee Contribution Rate	8.92%	9.1%	9.42%	15.62%	15.99%	11.11%
Employer Contribution Rate	15.09%	23.6%	12.10%	18.19%	21.05%	13.95%

IDEAL PLAN COST ESTIMATES	State General	State Police	Municipal General	Municipal Police	Municipal Fire	Total Payroll
Total Normal Cost*	15.28%	29.89%	14.52%	26.42%	24.97%	17.22%
Employee Contribution Rate	5.00%	10.00%	5.18%	10.00%	10.00%	6.02%
Employer Contribution Rate	10.28%	19.89%	9.34%	16.42%	14.97%	11.20%

IDEAL PLAN COST SAVINGS	State General	State Police	Municipal General	Municipal Police	Municipal Fire	Total Payroll
Total Normal Cost*	(3.94%)	(1.37%)	(2.66%)	(4.08%)	(5.71%)	3.43%
Total Employer Cost	(4.81%)	(3.71%)	(2.76%)	(1.77%)	(6.08%)	2.75%

*Total normal cost is the cost for services provided by members in the current year.

The aggregate impact of this bill can be estimated roughly. State general PERA membership for FY10 totaled 20,867 members with average wages of \$41,500, while state police and corrections membership totaled 2,001 with average wages of \$43,900. If new entrants into state employment average about 7% per year at 80% of average members wages, the impact on all state employment would be about \$2.5 million across all state employees and agencies for the first full year, or about \$1.3 million for the first fiscal year. A somewhat more elaborate estimate, as shown below, yields virtually the same estimate.

	State general	State police
total annual wages	866,094,897	87,783,090
total members	20,867	2,001
average annual wages, all members	41,505	43,870
PERA employer savings	-4.8%	-3.7%
Under 5 year participants	7,560	758
All members	20,867	2,001
Average annual entrance	7.2%	7.6%
Salary ratio, unvested employees	78.4%	87.1%
1/2 year hiring	50%	50%
Estimated budgetary savings FY12	(1,183,120)	(107,421)

The fiscal impact of this bill will increase year by year, and PERA solvency will also improve year-by-year.

NMCD points out a, perhaps, unintended consequence of changing some corrections employees from the State police corrections plan to a general members plan.

Retiree Health Care (RHC) contributions would increase if this bill were to take effect. For those employees those are that not included as members of an enhanced retirement plan, contributions would increase by 0.252 percent (0.168 percent for employer and 0.084 for employee) for FY 12 and by 0.249 percent (0.166 percent for employer and 0.083 for employee) for FY 13. For those employees those are included as members of an enhanced retirement plan, contributions would increase by 0.312 percent (0.208 percent for employer and 0.104 for employee) for FY 12 and by 0.312 percent (0.208 percent for employer and 0.104 for employee) for FY 13. Those employees, for the NMCD, that would be considered members of an enhanced retirement plan would be the Adult Correctional Officers. All other NMCD employees would be considered as members of a non-enhanced retirement plan. In FY12 costs for the department would increase by \$153.6 thousand and in FY13, there would be an addition \$152.8 thousand.

It is not certain whether the NMCD estimate above applies to all employees, or only to new employees. Current employees who are members of the enhanced retirement plan would be unaffected by the provision of this bill. Only new hires would have changed benefits. This effect, if true, is not included in the appropriations table.

SIGNIFICANT ISSUES

SB 268 repeals Laws of 2009, Chapter 287, Sections 6 through 10 (House Bill 854), introduced without an actuarial study. Current law lengthened the retirement eligibility for general plan members to 30 years but failed to reduce PERA's benefit structure.

PERA also asks, "...whether the proposed reduced benefit structure for future PERA members is sufficient to meet the retirement needs and is sustainable for future generations of public employees?"

NMML believes that the only choices offered to the cities and counties for new employees is the proposed plan or no plan.

PERFORMANCE IMPLICATIONS

In the long term, SB 268 will have a positive impact on PERA's performance measures. PERA will be better positioned to finance its unfunded actuarial accrued liability (UAAL) with the proposed benefit structure and statutory contribution rates within 30 years.

ADMINISTRATIVE IMPLICATIONS

In the short term, PERA will be required to modify its pension administration system to capture a second tier of benefits for future PERA members and the contributing agencies will be required to modify their payroll accounting systems (SHARE or other) to properly deduct and pay employees and employers shares under, in some cases, four separate benefit plans.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to:

SB 87 amends the Public Employees Retirement Act to increase the statutory contribution rates for certain member coverage plans.

SB 88 amends the Judicial Retirement Act and Magistrate Retirement Act to increase statutory contribution rates.

SB 204, reducing the cost-of-living adjustment (COLA) effective July 1, 2011 for all current retirees and active members of PERA, JRA and MRA.

SB248, swapping an additional 1.75% of the state's employer contribution rate to employees for a two-year period.

TECHNICAL ISSUES

The AGO notes that, "...section 6 does not include the phrase 'and who are not specifically covered by another coverage plan.' This language is used in section 1 and 11."

OTHER SUBSTANTIVE ISSUES

From CYFD

It is not clear whether the Hazardous Duty Plan 1 or 2 is being repealed with this language. A legal analysis is suggested to make this determination as the new language does not include any Hazardous Duty Plan, but does address all other plans. Hazardous Duty plan is only addressed with regard to employees hired on or before June 30, 2011, which may imply that only current employees under the plan will continue as such. This is significant because CYFD currently has approximately 350 employees under the Hazardous Duty Plan (Probation Officer and Correction Treatment, or, "Youth Care Specialists" who work in Juvenile Justice facilities). See "Questions" below.

PERA notes the following:

Beginning in 2009, the PERA Board and its actuaries performed a Benefit Adequacy Study that selected between 10 and 20 similar retirement systems based on state population, regional location, size of plan membership, plan coverage (uniformed and non-uniform, social security covered and non-covered) and benefit complexity. The PERA Board looked at a benefit comparison of PERA retirement benefits and the five comparable plans, component by component, such as benefit eligibility, benefit multiplier, FAS period, member contributions, optional forms of payment, and types of purchasable service.

The PERA Board used this Benefit Adequacy Study in conjunction with the Legislature's concerns regarding the sustainability of the retirement system to direct their actuaries to create an "ideal" proposed plan for new hires after a certain date. Senate Bill 268 creates the PERA Board's "ideal" proposed plan with contribution rates determined to cover the long-term cost of the proposed plan based on the data and assumptions used for PERA's June 30, 2009 annual actuarial valuation:

- The Normal Cost for the proposed plans is lower because the benefits provided are reduced;
- Statutory contribution rates are based on more conservative assumptions to reduce the chances that rates will need to be adjusted as a result of adverse fund experience;

ALTERNATIVES

While it might cause difficulties with employees, the changes to the benefit structure could, perhaps, be extended to employees still in the five-year vesting period.

It might be wise to revisit the impact of this bill on the counties and municipalities. At minimum, the bill could offer a delayed effective date for the county and municipal plan to allow the counties, municipalities, NMML and New Mexico Association of Counties time to study the plan and the actuarial study upon which it's based.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Non-uniformed members of PERA hired after July 1, 2010 will have 30-year retirement eligibility without a minimum retirement age; no changes to benefit structure.

Uniformed members of PERA (Police and Fire) will continue to be eligible to retire with 20 years of service credit at any age; no changes to benefit structure.

AMENDMENTS

None proposed.

QUESTIONS

What is the effect of this bill on CYFD correctional employees, Game and Fish conservation officers, Motor Transportation Division officers of DPS and non-uniformed special investigations officers (alcohol investigation officers)? Would these employees lose the right to early retirement and simply be treated as state general members?

LG/bym