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## FISCAL IMPACT REPORT

**SPONSOR** Ortiz y Pino **ORIGINAL DATE** 03/02/11  
**LAST UPDATED** \_\_\_\_\_ **HB** \_\_\_\_\_  
**SHORT TITLE** Public Employee Service Credit Purchases **SB** 498  
**ANALYST** Aubel

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>		\$15.0		\$15.0	Non-Rec	PERA

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB 251, SB 87 and SB 204.

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Public Employees Retirement Association (PERA)

### SUMMARY

#### Synopsis of Bill

Senate Bill 498 increases the “air time” a vested member of PERA can purchase from one year to five years. “Air time” is unearned service credit for which no actual work time is associated.

### FISCAL IMPLICATIONS

PERA provides the following fiscal implications of the bill:

Senate Bill 498 requires the member to pay the actuarial present value for the time purchased. As a result it is properly funded as required by Article XX, Section 22 of the New Mexico Constitution.

PERA’s actuaries will be required to create actuarial calculation tables at a cost of \$15,000 for determining the cost of airtime purchase agreements.

### SIGNIFICANT ISSUES

PERA provides the following background information:

In 2004 the PERA Act was amended to allow for the purchase of one year of additional

service credit commonly referred to as “air time.” The availability of air time provides a remedy for PERA members who miscalculate their retirement date or did not earn service credit for any given month during their career and still desire to retire on a specific retirement date. Currently, PERA processes approximately 30 air time purchases per month.

All other service credit under the PERA Act must be earned either through employment with a public employer or military/prisoner of war service. Air time is not tied to any employment or service requirement. Increasing the years of air time service credit available for purchase may open the door to allow future requests for arbitrary purchase of time.

The primary issue is whether to allow a PERA member to purchase five years of service credit for time that is not tied to any service requirement. While the purchase price is actuarially neutral, the potential for people to retire earlier than they would have otherwise would negatively impact the fund by reducing the number of years the employee is paying into the fund and increasing the number of years the retiree would be drawing upon the fund.

The current retirement eligibility for most PERA employees is 25 years or less. As PERA explains, the bill would allow members to retire with significant less than the current minimum years of service:

SB 498 would operate to allow a PERA member in 20-year plan who purchases the maximum service credit under this proposal to retire with 15 years of actual service to his or her employers. If combined with purchased military service credit, SB 498 would allow a PERA member to retire after performing 10 years of actual service.

SB 498 will effectively provide a 20-year retirement plan for all existing PERA members with sufficient resources to exercise their option to purchase service credit, regardless of their member coverage plan.

## **ADMINISTRATIVE IMPLICATIONS**

PERA notes the following administrative impact:

The administrative impact on PERA will be in calculating the actuarial present value and processing the requests for added service credit. PERA processes approximately 30 air time purchase transactions per month. PERA assumes that increasing the years of service credit available for purchase under the PERA Act will increase the number of air time purchases.

## **RELATIONSHIP**

Senate Bill 498 conflicts or relates to the following pension bills addressing pension solvency:

House Bill 251 establishes a minimum age requirement of 55 (with a “safe harbor” for those eligible to retire by FY17) and reduces the PERA cost-of-living adjustment (COLA);

Senate Bill 87 increases contribution rates for five PERA plans; and  
Senate Bill 204 reduces the PERA COLA.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Vested PERA members will continue to be able to purchase up to one year of air time so they can retire on a specific date.

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