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FISCAL IMPACT REPORT

ORIGINAL DATE 02/28/13

SPONSOR Sapient LAST UPDATED _____ HB _____

SHORT TITLE Public Employees Pension Investment Plan SB 562

ANALYST Hanika-Ortiz

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications				

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Municipal League (NMML)
 New Mexico Corrections Department (NMCD)
 Attorney General’s Office (AGO)
 Department of Public Safety (DPS)

No Response Received From

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

Senate Bill 562 (SB 562) adds new sections to and amends the Public Employees Retirement Act to create the “pension investment plan”, whose purpose is to improve the funded status of the PERA funds and provide an incentive for skilled and trained members, who have retired, to return-to-work for the PERA-affiliated public employers, make the applicable employee contributions for that new employment and invest their pension benefits into the PERA funds.

FISCAL IMPLICATIONS

The bill increases employee and employer contribution rates for the various retirement plans. For instance, the employer contribution rates for the State General Member Coverage Plan 3 increases incrementally on an annual basis from 15.09 percent starting FY14 to 19.59 percent after FY16. Employee contributions also change. The bill also increases employee and employer contribution rates for public safety members similarly.

The bill does not include an appropriation for the employer contribution increases.

The bill also provides for an annual fee assessment of 30 percent of earnings on the new investment plan or \$2,500, whichever is greater, for investment services.

SIGNIFICANT ISSUES

The bill enacts 7 new sections of the Public Employees Retirement Act as follows:

- Section 1: states the purpose including providing an incentive for skilled members who retire to return to work with the PERA-affiliated employers;
- Section 2: creates a “pension investment plan”;
- Section 3: enacts a new section to allow reemployed retirees to participate, to require employee and employer contributions and to offer no service credit accrual while reemployed;
- Section 4: allows for investment of deposits by the PERA;
- Section 5: provides for terms of participation including electing to participate within five years but no longer than ten years after retirement, provides for early withdrawals and hardship releases;
- Section 6: assesses an annual service fee of 30 percent of earnings or \$2,500, whichever is greater; and
- Section 7: provides for payments that may be one-time or monthly over 10 years but not more than 30 years.

The bill further amends the Public Employees Retirement Act as follows:

- Section 8: provides new definitions for *pension investment plan*, *pension investment plan account* and *pension investment plan participant*;
- Section 9: clarifies that these participants will not accrue service credit while reemployed;
- Section 10: provides that a municipal-affiliated employer may, by executing a collective bargaining agreement, make contributions on behalf of its employees;
- Section 11: clarifies that the reemployed participant must file an irrevocable exemption from membership and new agreement with the PERA; and
- Sections 12-47: amends contribution rates by member and respective public employer.

ADMINISTRATIVE IMPLICATIONS

The PERA most likely will be required to make modifications to its pension administration system (RIO) to administer the proposed changes.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 26 authorizes the PERA Board to change contribution rates and cost-of-living adjustments.

SB 121 allows retirees to be reemployed as undersheriffs and chiefs-of-police and requires employer and employee contributions.

SB 168 allows retirees to be reemployed as state police, adult correctional and municipal police officers and requires employer and employee contributions.

SB 86 amends the PERA Act's calculation of FAS for determining pension benefits.

SB 25 changes the age and service credit requirements in the Judicial and Magistrate Retirement Acts.

HB 95 amends the Judicial and Magistrate Retirement Acts by delaying and reducing the COLA, decreasing the pension multiplier July 1, 2013 and increasing age and service requirements.

OTHER SUBSTANTIVE ISSUES

Last year, the PERA's unfunded accrued actuarial liability (UAAL) increased from \$4.9 billion to \$6.2 billion and its funded status decreased from 70.5 percent to 65.3 percent. These dramatic changes were due to the recognition of investment losses since 2008, contributions for some that do not support the generous benefit, a compounded COLA awarded annually no matter the rate of inflation and the lack of a minimum retirement age. It is unknown what impact this bill will have on the PERA's UAAL and funded status if passes the legislature and signed by the governor.

AHO/svb