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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/27/19

SPONSOR Munoz LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Public Employee Retirement Solvency SB 452

ANALYST Jorgensen

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21		
	\$11,173.6	\$22,347.3	Recurring	PERA (employer)
	\$11,173.6	\$22,347.3	Recurring	PERA (employee)

(Parenthesis ( ) Indicate Revenue Decreases)

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

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		\$2,534.7	\$5,069.4	\$7,604.1	Recurring	General
		\$2,275.0	\$4,550.0	\$6,824.9	Recurring	Other State
		\$6,364.0	\$12,727.9	\$19,091.9	Recurring	Local Governments
<b>Total</b>		\$11,173.6	\$22,347.3	\$33,520.9	Recurring	Various

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates, Relates to, Conflicts with, Companion to

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Administrative Office of the Courts (AOC)

New Mexico Attorney General (NMAG)

Department of Finance and Administration (DFA)

Department of Public Safety (DPS)

### SUMMARY

Synopsis of Bill

Senate Bill 452 authorizes the Public Employees Retirement Association (PERA) board to both reduce benefits and increase required contributions for retirement plans created under the PERA Act should the amortization period of the pension plan be longer than 25 years. The amortization period is the projected time it takes for contributions and investment returns to pay down the unfunded liability of the plan given certain assumptions.

The additional powers the board would include

- Ability to “reduce pension benefits for future service credit earned by members”;
- Ability to change retirement eligibility requirements under the PERA Act;
- Ability to increase contribution rates for employees and employers by up to 0.5 percent per year for years for a total maximum increase of 2.5 percent;
- Ability to reduce contribution rates by up to 0.5 percent should a pension plan be funded at over 100 percent, but could not reduce the contribution rate below the current 2019 amounts.

Plans created under the PERA Act include: state general; state police and adult correctional officer municipal general municipal police and municipal fire.

**FISCAL IMPLICATIONS**

Enactment of SB452 could cost public employers \$11.1 million in the first year of implementation and \$22.3 million in the second year of implementation. The figures shown in the revenue table assume the board would increase both employee and employer contributions to the PERA fund equally. By FY24, the board may have increased employer contributions by 2.5 percent, costing PERA-affiliated employers \$55.9 million per year as shown in the table below.

<b>Total Annual Cost of Employer Contribution Increase by Coverage Plan</b>					
Employer Increase	State General	Municipal General	Municipal Police	Municipal Fire	Total
0.5%	4,809.7	\$4,643	\$1,066	\$655	<b>\$11,173.6</b>
1.0%	9,619.4	\$9,287	\$2,131	\$1,310	<b>\$22,347.3</b>
1.5%	14,429.0	\$13,930	\$3,197	\$1,965	<b>\$33,520.9</b>
2.0%	19,238.7	\$18,573	\$4,262	\$2,620.39	<b>\$44,694.5</b>
2.5%	24,048.4	\$23,217	\$5,328	\$3,275	<b>\$55,868.2</b>

The state general plan receives approximately 53 percent of employer contributions from the general fund. The impact to the general fund is shown below:

<b>State Costs by Source</b>			
<b>Employer Increase</b>	<b>General Fund Share</b>	<b>Other Funds Share</b>	<b>Total</b>
0.5%	2,534.7	2,275.0	<b>4,809.7</b>
1.0%	5,069.4	4,550.0	<b>9,619.4</b>
1.5%	7,604.1	6,824.9	<b>14,429.0</b>
2.0%	10,138.8	9,099.9	<b>19,238.7</b>
2.5%	12,673.5	11,374.9	<b>24,048.4</b>

The estimated additional operating budget impact table breaks out the employer cost of the first two years of implementation of SB452 assuming the board exercises its full authority to increase employer contribution rates for plans that do not fully amortize the pension liability in under 25 years. The cost to the general fund over the first two years is \$7.6 million while other state funds account for \$6.8 million. Local governments will incur \$19.1 million in additional costs in this scenario.

The costs of increases to contributions for the state police and adult correctional officers was not included in the analysis because the plan is currently funded at 130 percent.

### **SIGNIFICANT ISSUES**

SB452 increases the PERA board’s authority to set contribution rates and make plan design changes without legislative input. However, the bill raises concerns about intergenerational equity as it authorizes cost controls that only affect active and future members by either increasing contributions or reducing benefits. The bill does not provide the board authority to make changes to the cost-of-living adjustment awarded to current retirees. As written, the legislation affects only current and future workers, not retirees.

The Attorney General’s Office points out that public retirement plans create a property interest vesting that matures when an employee fulfills the conditions for retirement. SB452 authorizes changes to retirement eligibility requirements without regard to whether an employee has vested, which may violate the constitution.

SB452 authorizes the PERA board to reduce pension benefits prospectively but does not place any limits on the type or magnitude of the reductions. Under the provisions of SB452, the PERA board would be able to reduce the service credit multiplier to zero.

The largest driving factor in the amortization period is the investment return assumption, currently set at 7.25 percent. The higher the investment return assumption is set, the shorter the amortization period becomes. Allowing the board to make benefit reductions based on the amortization period may create an assumption to choose a more aggressive return assumption to improve the health of the plan on an actuarial basis.

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

House Bill 501 increases contributions to the Educational Retirement Board (ERB) and PERA funds by 0.5 percent.

The General Appropriations Act of 2019 includes language appropriating funds for a 0.5 percent pension increase for PERA and ERB contingent on passage of authorizing legislation.

CJ/gb