

<b>LFC Requester:</b>	<b>Simon, Joseph</b>
-----------------------	----------------------

**AGENCY BILL ANALYSIS  
2024 REGULAR SESSION**

**WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO:**

**AgencyAnalysis.nmlegis.gov**

*{Analysis must be uploaded as a PDF}*

**SECTION I: GENERAL INFORMATION**

*{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}*

Check all that apply:  
**Original**        **Amendment**      
**Correction**        **Substitute**   

**Date** 1/25/24  
**Bill No:** SB 63

**Sponsor:** Michael Padilla  
**Short Title:** Public Employee Cost of Living Adjustments

**Agency Name and Code**    366 - PERA  
**Number:** \_\_\_\_\_  
**Person Writing**    Anna Williams  
**Phone:** 505-259-8489    **Email** anna.williams@pera.nm.gov

**SECTION II: FISCAL IMPACT**

**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		
	\$50,000.00	Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

**REVENUE (dollars in thousands)**

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		

(Parenthesis ( ) Indicate Expenditure Decreases)

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

	<b>FY24</b>	<b>FY25</b>	<b>FY26</b>	<b>3 Year Total Cost</b>	<b>Recurring or Nonrecurring</b>	<b>Fund Affected</b>
<b>Total</b>						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:  
 Duplicates/Relates to Appropriation in the General Appropriation Act

**SECTION III: NARRATIVE**

**BILL SUMMARY**

Synopsis:

Effective December 1, 2024, SB 63 amends the Public Employees Retirement Act [NMSA 1978 10-11-118] to change the current cost-of-living adjustment structure for qualified pension recipients to an amount equal to the Social Security and Supplemental Income cost-of-living adjustment.

**FISCAL IMPLICATIONS**

Because SB 63 replaces the current cost-of-living adjustment (COLA) for qualified recipients for the PERA fund and changes it to equal the COLA determined by the federal social security administration for that calendar year it would have a significant impact on the funding status of the PERA fund.

The COLAs for Social Security Administration are based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which means they can vary significantly from year to year. The COLAs over the past four years (2021-2024) were 1.3%, 5.9%, 8.7% and 3.2% respectively.

The actuaries proved a sensitivity of the valuation of future COLAs under the proposed legislation and this sensitivity is based on the sensitivity used in the actuarial valuation of the Social Security Administration.

<b>All PERA Division (excluding Legislative)</b>				
	<b>June 30, 2023 Valuation</b>	<b>Low Inflation</b>	<b>Proposed Legislation</b>	<b>High Inflation</b>
COLA Assumption	1.6%, annually	1.8%, annually	2.5%, annually	3.0%, annually
Unfunded Liability	\$8,142 million	\$8,568 million	\$10,172 million	\$11,439 million
Funded Ratio	67.7%	66.6%	62.6%	59.9%
Amortization Period	53 Years	52 Years	Infinite Years	Infinite Years

PERA's unfunded liability would go from \$8.1 billion to \$10.2 billion excluding the legislative retirement division. Also, PERA's funded ratio excluding the legislative retirement division would decrease from 67.70% to 62.60% and the amortization period would go from 53 years to infinite years. For the legislative division the unfunded liability (asset) would go from \$7.6 million to \$5.2 million and the funded ratio would decrease from 119.6% to 112.5%.

The change in the COLA has a significant impact on the PERA fund, increasing the unfunded liability by more than \$2 billion. The \$50 million annual appropriation provided in the proposed legislation is not sufficient to fund the proposed COLA enhancements. In order for the funding period to remain at 53 years, the minimum annual appropriation would need to be increased to \$218 million, annually, through at least FY 2073.

SB 63 should not have an impact to PERA's operating budget.

### **SIGNIFICANT ISSUES**

The change in the COLA has a significant impact on PERA fund, increasing the unfunded liability by more than \$2 billion. The \$50 million annual appropriation provided in the proposed legislation is not sufficient to fund the proposed COLA enhancements.

### **PERFORMANCE IMPLICATIONS**

SB 63 will not affect PERA's performance measures.

### **ADMINISTRATIVE IMPLICATIONS**

PERA will have to make system modifications to its pension administration system to ensure that the COLA is changed each year to the COLA determined by the federal social security administration. The PERA Board will have to certify the COLA determined by the federal social security administration each calendar year.

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

None

### **TECHNICAL ISSUES**

None

### **OTHER SUBSTANTIVE ISSUES**

Article XX, Section 22, of the New Mexico Constitution prohibits the Legislature from enacting any law that increases the benefits paid by PERA unless adequate funding is provided. That section assigns the PERA board the sole and exclusive power to adopt actuarial assumptions, based on recommendations from an independent actuary. If the proposed legislation does not include adequate funding, it is possible that the proposal does not meet the requirements of that section.

## **ALTERNATIVES**

HB172 sponsored by Representative Joseph Sanchez provides a temporary 2% lump sum non-compounding payment to eligible retired members and provides an appropriation that is sufficient to fund it. This approach can provide eligible retired members temporary relief without negatively affecting PERA funded ratio or amortization period. The payments will be in addition to any compounding COLA members are eligible for.

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

PERA's qualified pension recipients would continue to receive a yearly COLA based on the current COLA structure.

## **AMENDMENTS**

None