FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Garratt	**ORIGINAL DATE**	1/22/2024
SHORT TITLE	Study Pension Benefit Structures	**BILL NUMBER**	House Memorial 1
		ANALYST	Simon

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		$50.0 to $75.0			Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Duplicates Senate Memorial 4

Sources of Information

LFC Files

Agency Analysis Received From
Public Employees Retirement Association (PERA)
Educational Retirement Board (ERB)

SUMMARY

Synopsis of House Memorial 1

House Memorial 1 (HM1) requests the Legislative Finance Committee (LFC) conduct a study, with the collaboration of the interim Investment and Pensions Oversight Committee and the Bureau of Business and Economic Research at the University of New Mexico, to examine the histories and make recommendations for equalizing the pension benefit structures of the Educational Retirement Board (ERB) and the Public Employees Retirement Association (PERA). The memorial requests findings be reported before the 2025 legislative session.

FISCAL IMPLICATIONS

Memorials do not carry appropriations.

HM1 requests LFC conduct a study, which could have an operating budget impact on the agency. Depending on the study's depth and staff availability, costs associated with the study may be absorbed by LFC. However, if staff availability is limited, a contractor may be required. Contractor expenses can range from $10 thousand to $500 thousand depending on the scope of the study and expertise of the contractor. Additionally, legislative staff typically rely on the pension plans to provide data and actuarial analysis. Although neither ERB or PERA report a fiscal impact of HM1, it may not be possible for LFC to complete without significant assistance of the pension plans or their actuaries. It is unclear if this would impact these agencies operating budget.

The memorial requests LFC collaborate with the Bureau of Business and Economic Research at the University of New Mexico (BBER). BBER previously studied the benefits structure of the ERB. According to ERB staff, that study cost $37,500. However, given the expanded scope of the proposed study—to examine both PERA and ERB—the study could be more expensive. Conversely, the limited time period for completing the study—before the 2025 legislative session—would likely limit costs, although the findings could be less comprehensive.

Although not directly a result of the memorial, HM1 could possibly lead to modifications to pension benefits structures. Pension benefits for member who have reached minimum service requirements for either PERA or ERB are a vested property rights protected by the New Mexico Constitution. As a result, any modification that reduced these benefits for current members could face legal challenges. For this reason, pension modifications are often made only for future employees. The New Mexico Constitution does permit modifications to retirement plans for current employees that "enhance or preserve the actuarial soundness of the affected trust fund."

Additionally, Article XX, Section 22, of the New Mexico Constitution prohibits the Legislature from enacting any law that increases the benefits paid by PERA or ERB 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. As a result, any modifications to the benefits structures of PERA or ERB that increased benefits would likely have a fiscal impact due to the requirement to provide "adequate funding."

SIGNIFICANT ISSUES

Public employees in New Mexico are generally eligible to receive pension benefits from a public pension fund after making required payroll contributions and meeting service requirements set in state law. Two state agencies manage these plans. The Public Employees Retirement Association (PERA) manages pension plans for most state agency employees and employees of local governments, including separate plans for police and correctional officers, firefighters, judges, and magistrate court judges. PERA also manages plans for volunteer firefighters and state legislators. Altogether, PERA manages 31 different retirement plans, with membership based on employer and occupation. The system also manages two tiers of coverage, based on an employee's initial hire date. The Educational Retirement Board (ERB) manages pension plans for employees of school districts, charter schools, regional education cooperatives, institutions of higher education, and state agency employees that are licensed by the Public Education Department. Unlike PERA, ERB manages a single plan with four tiers of coverage, based on an employee's initial hire date.

Pension benefits for both PERA and ERB are based on formulas set in statute. Generally, a retirement benefit is calculated as follows:

"Final Average Salary" * "Pension Factor" * "Service Credit"

However, under current state law, definitions for these terms can vary by plan, both within the different plans of PERA and across plans provided by PERA and ERB. For example, a tier 1 member of PERA's state general plan 3 has a pension factor of 3 percent, compared with pension factors of 2.5 percent for PERA's tier 2 members or a pension factor of 2.35 percent for ERB Tier 3 members and a variable pension factor for ERB Tier 4 members. Additionally, PERA and ERB plans have different rules for applying annual cost of living adjustments, as well as different payroll contribution rates.

Generally, it is the goal of a pension system to have a pension benefit structure that is able to be supported by the contribution rates into the pension system's trust fund. When pension benefits are more generous than the contributions to fund the plan, the plan is left with a "unfunded liability." To be able to fully pay all promised pension benefits to members, plans with unfunded liabilities must make additional contributions to offset the loss of investment earnings the pension fund would otherwise have received if it had been fully funded. The table below shows current contribution rates, for both employers and employees, as well as the total contribution needed to pay off the plan's unfunded liability based on board policy and the number of years the plan's actuaries project it will take to pay off the unfunded liability at the current rate. Notably, two of PERA's plans have plan designs that mean the fund will never be able to pay off the plan's unfunded liability. To fully cover PERA's current benefits design and pay down the plan's unfunded liability over 25 years, PERA's actuaries estimate total contributions to the fund would need to rise by more than 11 percentage points, from 30.2 percent of an employee's salary to 41.5 percent of an employee's salary. Conversely, ERB's plan design is currently expected to generate enough to fund the current costs of the plan and pay off the unfunded liability over 26 years.

Contributions, Liabilities, and Funding Periods for New Mexico Pension Plans as of June 30, 2023

Plan	Total Contributions	Contrib. Needed to Amortize Liability	Unfunded Liability	Time to Full Funding
PERA State General	30.2%	41.5%	$3.4 billion	Infinite
PERA State Police/Corrections	34.7%	34.7%	None	0 years
PERA Municipal General	25.7%	28.0%	$2.1 billion	28 years
PERA Municipal Police	38.4%	47.5%	$982 million	61 years
PERA Municipal Fire	42.8%	58.1%	$921 million	Infinite
PERA Judicial	25.5%	43.8%	$76 million	
PERA Magistrate	25.5%	29.4%	$29.6 million	
ERB	28.9%	28.6%	$9.6 billion	26 years

Source: PERA and ERB Actuarial Valuations

Under current law, plans offered by ERB and PERA become more generous once they reach full funding. Until plans become fully funded, annual cost-of-living adjustments for retired members are paid at a lower rate than they would be if plans were fully funded.

To address pension underfunding, recent legislation has increased contributions rates for both PERA and ERB. Between FY22 and FY24, employer contributions for ERB increased by 4 percentage points, from 14.15 percent of salary to 18.15 percent of salary. Employee contributions to the fund were not increased. For PERA, total contributions to state and municipal plans have increased by a total of 4 percentage points with 2 percent from the employer and 2 percent from the employee. The PERA legislation also reduced annual cost-of-living adjustments for retired members.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HM1 is a duplicate of Senate Memorial 4.

JWS/ss/ne/ss