

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website (www.nmlegis.gov) and may also be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 01/24/18

SPONSOR Roch LAST UPDATED _____ HB 85

SHORT TITLE Sick Leave for Educational Retirement Credit SB _____

ANALYST Hanika Ortiz

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		see fiscal impact				education retirement fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
Educational Retirement Board (ERB)

SUMMARY

Synopsis of Bill

House Bill 85 (HB 85) enacts a new section of the Educational Retirement Act to allow members eligible for retirement benefits to pay to have unused sick leave converted to service credit up to a maximum of six days of unused sick leave per year and four quarters of earned service credit. The cost would be the expected value of the benefit under ERB’s current actuarial assumptions.

AMOUNT OF UNUSED SICK LEAVE	AMOUNT OF SERVICE CREDIT THAT CAN BE CONVERTED
38 - 82 days of sick leave	one quarter of earned service credit
83 - 127 days of sick leave	two quarters of earned service credit
128 - 172 days of sick leave	three quarters of earned service credit
173 days or more of sick leave	four quarters of earned service credit

Source: ERB

FISCAL IMPLICATIONS

Although the bill allows the trust fund to recover the actuarial cost from the member, the pension system has no ability to get additional funds from the member after purchase of the additional

service credit if actuarial assumptions change for investment returns or life expectancy. For instance, as of September 30, 2017, the ERB fund earned 5.3 percent over the prior 10 year time period which was less than its investment return assumption of 7.25 percent. This contributed to a decrease in the trust fund's funded ratio (assets/liabilities) and an increase in the amortization period or the number of years the pension system can expect to reach 100 percent funding.

In addition to an unknown impact on the trust fund over the long-term, ERB would incur the cost of reprogramming its pension management software and member schools to reprogram their payroll software systems. The exact costs are unknown. ERB reports its vendor charges \$185 per hour for reprogramming projects and this change could take up to 100 hours to complete.

SIGNIFICANT ISSUES

The Educational Retirement Act currently allows members to purchase service credit for the time they worked in a public school in another state or in an accredited private school in New Mexico.

ADMINISTRATIVE IMPLICATIONS

ERB suggests extending the effective date of the legislation one year to give it time to prepare.

TECHNICAL ISSUES

ERB raised the following:

Section 1, paragraph A (page 2, lines 1-3) allows a maximum limit of converting unused sick leave to earned service credit of “six days of unused sick leave per year of contributory employment”. Yet, section 1, paragraph B (page 2, lines 10-11) provides that one would need thirty-eight to eighty-two days of sick leave to obtain just one quarter of earned service credit. These two provisions may need to be clarified since it appears contradictory to limit the conversion of service credit to six days of sick leave per year, but then require at least thirty-eight days of sick leave to obtain one quarter of earned service credit.

Further, requiring a minimum of 38 days of sick leave to purchase one quarter of earned service credit may cause confusion since an ERB member currently receives one quarter of credit for each calendar quarter in which the member has earnings from regular employment and renders services for a minimum of 16 days. 2.82.4.8 NMAC.

OTHER SUBSTANTIVE ISSUES

ERB notes the opportunity to convert sick leave to service credit may not be uniform for all members if there are differences in sick leave policies for the various educational employers.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

ERB members will not be able to convert sick leave into service credit.

AHO/al