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**F I S C A L   I M P A C T   R E P O R T**



SPONSOR: Heaton      DATE TYPED: 01/18/02    HB 38

SHORT TITLE: Educational Retirement Benefits      SB \_\_\_\_\_

ANALYST: Neel

**REVENUE**

| Estimated Revenue |             | Subsequent Years Impact | Recurring or Non-Rec | Fund Affected             |
|-------------------|-------------|-------------------------|----------------------|---------------------------|
| FY02              | FY03        |                         |                      |                           |
|                   | (\$5,062.0) |                         | Recurring            | Education Retirement Fund |

(Parenthesis ( ) Indicate Revenue Decreases

**SOURCES OF INFORMATION**

LFC Files  
Educational Retirement Board (ERB)

**SUMMARY**

House Bill 38 amends the Educational Retirement Act (ERA) to increase the retirement multiplier from 2.35 percent for all years of service, in increments of three-tenths of one percent per year of service for every year worked beyond 25 years, to be capped at 30 years (26 years - 2.38 percent, 27 years - 2.41 percent, 28 years - 2.44 percent, 29 years- 2.47 percent, and 30 + years - 2.5 percent). Provisions of HB 38 become effective July 1, 2002 with retirement beginning July 1, 2004.

**FISCAL IMPLICATIONS**

According the ERB, its actuaries state that because of the losses to the education retirement fund (ERF) during the past year, the funding period of the ERF has increased to 30 years in 2004 and will exceed 30 in 2005.

Therefore, ERB states that it cannot absorb the additional \$5.0 million per year required in HB 38. An identical bill was passed during the 2001 session, but was vetoed by the Executive.

In 2001, ERB's actuaries estimated the cost associated with provisions included in HB 38 would be .26 percent of payroll and therefore could be absorbed by the ERF without increased contributions from either the employee or employer.

According to ERB, HB 38 would increase benefits by approximately 30 percent for ERA members retiring with 30 years and a multiplier of 2.5 percent. The increase in benefits paid through HB 38 is offset by the decrease in the number of years ERA would fund retirees and the increased contributions by retirees over the additional five years required to qualify for the increased multiplier.

#### **ADMINISTRATIVE IMPLICATIONS**

While HB 38 would take effect on July 1, 2002, members would be required to accumulate at least one year of earned service credit on or after July 1, 2004 in order to be eligible for the increased multiplier. Therefore, retirements with the increased multiplier will begin July 1, 2004.

#### **OTHER SUBSTANTIVE ISSUES**

In 1957, the Legislature enacted the ERA to provide the education community with a vehicle for retirement. According to the ERB, as of June 2000, there were 60,090 members covered under ERA by 119 actively contributing employers. The employers include public school districts, higher education institutions, special schools such as the New Mexico Boys' School and other state agencies. The Act also created the ERB, which administers a multi-employee retirement fund for New Mexico's education community. Management of the ERB is vested in a board of seven members. According to information provided by the ERB, the market value of the retirement fund was approximately \$6.6 billion as of June 30, 2001, with an annual payroll for its beneficiaries of \$1.8 billion.

#### **POSSIBLE QUESTIONS**

Is increasing the retirement benefits for teachers the most efficient mechanism to retain and recruit quality teachers?

SN/ar/njw