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## FISCAL IMPACT REPORT



SPONSOR: Cordova DATE TYPED: 02/06/02 HB 357

SHORT TITLE: Amend Educational Retirement Act SB \_\_\_\_\_

ANALYST: Gilbert

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	FY03	FY02	FY03		
	\$ 156,000.0		\$ 156,000.0	Recurring	Educational Retirement Trust Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	\$ (156,000.0)	\$ (156,000.0)	Recurring	Educational Retirement Trust Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to: SB 144

### SOURCES OF INFORMATION

LFC Files

Response Received

Educational Retirement Association (ERA)

### SUMMARY

#### Synopsis of Bill

House Bill 357 amends Sections 22-11-21, 22-11-30, and 22-11-31 NMSA 1978 (Educational Retirement Act) to provide Educational Retirement Association (ERA) members with retirement benefits similar to those currently received by Public Employees Retirement Association (PERA) members.

Under this bill, the annual service credit multiplier would increase from 2.35% to 3.00%. Therefore, the new retirement benefit calculation would be the years of service credit multiplied by a member's the final average salary and then multiplied by the service credit multiplier (3%). This would enable ERA members to retire with an annual annuity payment equivalent to 75% of their final average salary after 25 years of service credit. Currently, ERA members only receive 58.75% of their final average salaries for the same service. This bill also imposes a cap of 80% of final average salary on ERA benefits: currently there is no cap.

Additionally, HB 357 changes the final average salary computation period from an average of the highest paid five consecutive years to an average of the highest paid three consecutive years of service credit.

To fund this increase in benefits, ERA contributions for employers will increase from 7.6% to 16.59% of each member's annual salary. Employee contributions will remain at 7.6%.

### Significant Issues

According to the ERA, this bill would result in ERA retirees receiving approximately 30% higher annual retirement payments, which is equivalent to that received by PERA members, assuming comparable service credit and final average salaries.

### **FISCAL IMPLICATIONS**

An increase of \$156.0 million per year in recurring contributions from employers is needed to fund the increased retirement benefits provided by this bill. This funding would be derived from employer contributions increasing to 16.59% of employee salaries.

ERA states that without the additional contributions provided by this bill, there would be an adverse impact on the actuarial soundness of their trust fund.

### **ADMINISTRATIVE IMPLICATIONS**

Passage of this bill would require ERA to revise their board rules and procedures.

### **OTHER SUBSTANTIVE ISSUES**

Although ERA does not reference a formal actuarial study regarding the impact of this bill, it appears that with the increased employer contributions, HB 357 would not violate the Constitution of New Mexico, Article XX, §22(E), which prohibits modifications to public employment retirement systems that do not enhance or preserve the actuarial soundness of the affected trust fund.

ERA points out that most teachers would not continue employment beyond 26 years and 8 months of service: the time frame where maximum benefits (80% of FAS) are earned. Therefore the current teacher shortage could be aggravated.