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FISCAL IMPACT REPORT

SPONSOR: Boykin DATE TYPED: 02/20/03 HB 657

SHORT TITLE: Educational Retirement Earned Service Credits SB _____

ANALYST: Gilbert

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
			\$0.1 See Narrative	Recurring	Local School Districts

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Response Received From
Educational Retirement Board (ERB)

SUMMARY

Synopsis of Bill

House Bill 657 amends NMSA 1978, § 22-11-17, by allowing provisional members who previously exempted themselves from being members of the Educational Retirement Act (which could be done prior to 1971) to purchase the exempted time.

Significant Issues

This bill would allow provisional members, who revoke their prior exemption to the Educational Retirement Act, to acquire earned service credit for such periods of employment at the employee rates in effect during their time of employment plus interest at an actuarial rate set by the board. Such purchases of service credit must be made before June 30, 2006.

The bill directs that the member desiring to acquire this service to pay both the employer and employee share of the contributions plus interest, unless the employer voluntarily agrees to pay the employee share.

FISCAL IMPLICATIONS

This bill does not contain an appropriation. The 1.75% increase in Educational Retirement Board (ERB) contributions would represent a significant fiscal impact to ERA local administrative units if they elect to pay employee shares of required contributions. In the absence of a general fund appropriation for this purpose, local administrative units would be required to absorb the fiscal impact of this bill.

ADMINISTRATIVE IMPLICATIONS

There will be some additional ERB staff time devoted to providing estimates, research and in otherwise administering this purchase of this earned service credit. It is unknown at this time how much extra work this would entail. Due to IRS code violation, ERB staff will not be taking partial payments nor keeping track of them.

This bill allows payments via periodic payroll deduction through the local administrative units.

OTHER SUBSTANTIVE ISSUES

The IRS does not allow a voluntary pick-up of service purchase; it must be a non-revocable act. Thus, once a member decides to use a payroll deduction, they cannot stop it in the middle of the purchase. However, ERB cannot control local administrative units. Therefore, our tax counsel advised the board that since such a violation could put the plan out of compliance with the IRS code, ERB could not take partial payments. As such, any purchase made to ERB must be done by a lump sum purchase.

CONFLICT

As stated above, for the statute to not conflict with IRS codes, it must not require ERB to take partial payments for service credit.

RLG/prr