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FISCAL IMPACT REPORT

SPONSOR Cordova DATE TYPED 02/02/04 HB HM7

SHORT TITLE Retirement Parity to Attract Teachers SB _____

ANALYST Garcia

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY04	FY05	FY04	FY05		
			\$157,722.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Educational Retirement Board June 30, 2003 actuarial report

Public Employees Retirement Association June 30, 2003 actuarial report

Responses Received From

Public Education Department

Public Employees' Retirement Association

Responses Not Received From

Educational Retirement Board

SUMMARY

Synopsis of Bill

The bill asks the State of New Mexico to move toward parity in retirement benefits between members of the Educational Retirement Association and the Public Employees Retirement Association to attract and retain teachers statewide.

Significant Issues

1) PERA retirement system contains 29 member coverage plans with varying levels of benefits. The actual retirement benefits paid under each of these member coverage plans are a function of

House Memorial 7 -- Page 2

the applicable benefit factor, salary and years in service. The bill lacks specificity concerning the benefit level or coverage plan the Education Retirement Act seeks parity with.

2) The following chart shows the differences in benefits between ERA members and PERA members. For PERA, the chart shows a comparison of all PERA members, which includes state and municipal employees; whereas state only includes state employees.

	ERA	PERA
Number of Active Members	62,614	43,958 (total PERA) 20,820 (state only)
Total Payroll	\$2,032.5 million	\$1,437.3 million (total PERA) \$704.4 million (state only)
Average Active Member Pay	\$32,460	\$32,698 (total PERA) \$33,837 (state only)
Employer Contributions	\$179.1 million	\$213.7 million (total PERA) \$126.7 million (state only)
Statutory Contribution Rates (employer) (employee)	8.65% 7.60%	16.59% (state only) 7.42% (state only)
Number of Retired Members	24,085	19,630 (total PERA) 10,386 (state only)
Total Benefits Paid	\$396.1 million	\$349.1 million (total PERA) \$186.0 million (state only)
Average Benefits	\$16,445	\$17,784 (total PERA) \$17,917 (state only)
Unfunded Accrued Actuarial Liability	\$1,748.5 million	\$244.8 million (total PERA) \$667.0 million (state only)
Amortization Period GASB standard (30 years)	78 years	17 years (total PERA) 35 years (state only)

Source: June 30, 2003 actuarial reports for PERA and ERB

3) As the chart above depicts, ERA and PERA members roughly contribute the same amount in employee contributions, but PERA employer contributions are 7.94 percent higher than ERA. However, only 54 percent of PERA employer contributions are derived from the state's general fund. This amounts to roughly 8.95 percent of the total contribution rate of 16.59 percent, with the remaining 7.64 percent from other funds and federal funds. On the other hand, the 8.65 percent employer contribution for ERA is derived almost entirely from the state's general fund.

4) The chart also shows that ERA and PERA active members have roughly similar average salaries. However, when comparing days or hours worked between the ERA and PERA members, ERA active members average salary is much higher based on average hours worked per year.

5) Average benefits for ERA retirees, despite the difference in employer contributions between the ERA and PERA, is roughly \$1.3 thousand below the average PERA retiree and \$1.5 below the state retiree. In taking into account average hours worked per retiree, the benefits may be on par.

6) It can be noted that public school systems are having difficulty retaining senior teachers and quality teachers. Improving retirement benefits for teachers may create a greater incentive for current quality teachers and potential teachers to stay in the profession.

FISCAL IMPLICATIONS

In order to bring ERA members to parity with PERA members in retirement benefits, it would be necessary to increase the ERA employer contribution rate. Currently, PERA members (state only) have a total contribution rate of 24.01 percent and ERA has a contribution rate of 16.25 percent. Since employee contributions among the two associations are roughly the same, increasing employer contributions in ERA is likely the mechanism for parity. Consequently, the employer contribution increase would be 7.76 percent. This increase in the employer contribution rate multiplied by a \$2.03 billion payroll amounts to roughly \$157.7 million in recurring general fund dollars.

OTHER SUBSTANTIVE ISSUES

The June 30, 2003 actuarial valuation of the fund has indicated ERB has an unfunded actuarial accrued liability (UAAL) of \$1.7 billion. The amortization period, or the amount of years it takes to fully fund the liabilities, has jumped to 78 years. The Governmental Accounting Standards Board (GASB) has set a standard of 30 years for pension funds. In addition, due to a smoothing process involved in the actuarial valuation, ERB's actuaries have indicated the fund is also due to recognize an additional \$500 million in investment losses in the near future, which roughly amounts to a \$2.4 billion UAAL estimate in the next year. The ERB actuaries expect the amortization period for the fund next to reach never, which means at current funding and benefit levels, the fund will never be fully funded.

Furthermore, the actuaries have calculated that roughly an additional \$110 million in recurring money is required into the fund to bring the amortization period back down to the GASB standard of 30 years. Consequently, any benefit enhancements into the ERA system will further erode the solvency of the fund and detract from the ability of the ERB to get a handle on its enormous unfunded liability.

A rough estimate of moving the ERA contribution rate to the PERA rate would cost \$157 million. Regardless of the benefit increase and the state paying roughly \$157 million for the benefit, the ERA fund will still have serious solvency problems.

DG/dm:njw