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FISCAL IMPACT REPORT

SPONSOR Jennings DATE TYPED 02/09/04 HB _____

SHORT TITLE Change Educational Retirement Contributions SB 460

ANALYST Gilbert

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY04	FY05	FY04	FY05		
	\$40,000.0		Significant	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to SJM 17 and HJM 26

SOURCES OF INFORMATION

LFC Files

Response Received From

Department of Finance and Administration (DFA)

New Mexico Corrections Department (NMCD)

New Mexico Public Education Department (PED)

No Response From

Educational Retirement Association (ERA)

SUMMARY

Synopsis of Bill

Senate Bill 460 appropriates \$40 million from the general fund to the Educational Retirement Board (ERB) for expenditure in fiscal year 2005 and subsequent fiscal years.

This bill also amends §22-11-21 NMSA 1978, to increase the percentage of retirement contributions from both employees and employers by 1% of member salary, effective July 1, 2004. As a result, ERA employee contributions would go from 7.6% to 8.6%, and the employer contributions from 8.65% to 9.65%.

Under this bill, ERA benefits remain unchanged. The increased funding is intended to reduce the ERA unfunded actuarial liability, thus improving the financial integrity of the fund.

Significant Issues

Due to the ERA's poor investment fund performance, they no longer meet the Governmental Accounting Standards Board (GASB) 30-year funding period benchmark for public pension funds. The most recent actuarial study for the ERA fund reflects an unfunded actuarial liability period of 78 years, which is likely to increase in future years due to unrealized fund losses.

The appropriation and added contributions provided by SB 460 will assist ERA in reducing its unfunded actuarial liability funding period. However, even with increased funding, ERB investment fund performance must improve in comparison to its peers.

The Executive and Legislative Finance Committee (LFC) have recommended additional FY04 BAR language to allow the ERB to request budget increases from other state funds for up to \$100 thousand for the purpose of contracting for a study outlining options for achieving actuarial soundness for the ERB fund. Such funding is contingent on review by the Secretary of the Department of Finance and Administration (DFA), and approval by the State Board of Finance and LFC. The study is to be completed and recommendations made to the DFA and the LFC by September 1, 2004.

FISCAL IMPLICATIONS

The appropriation of \$40,000.0 contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of fiscal 2005 shall not revert to the general fund.

The Public Education Department (PED) higher education and public schools would see expenditures increase by 1% of salaries for all ERA members. Neither PED nor the schools would be able to absorb the increase without a corresponding increase in their appropriations.

Since the New Mexico Corrections Department (NMCD) is considered a "local administrative unit", the NMCD would have to pay a higher percentage to the ERB for all ERA members. This would increase in the NMCD's expenditures.

Based on the FY 05 budget request, this bill would mean an increase to the NMCD of approximately \$36,742 $\{(\$3,672,362 \times 9.65\% = \$354,383) - (\$3,672,362 \times 8.65\% = \$317,659)\}$.

RELATIONSHIP

Both SJM 17 and HJM 26 request the Educational Retirement Board to consider a cost-of-living increase to retirees.

OTHER SUBSTANTIVE ISSUES

The ERB needs additional assets to meet GASB actuarial standards. The increased contributions contained in this bill will potentially address this problem, but to determine the exact impact an actuarial study must be completed.

RLG/lg:yr:njw