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

SPONSOR Garcia **DATE TYPED** 2/13/04 **HB**

SHORT TITLE Cost-of-Living Benefit for Education Retirees **SB** SJM 17/aSEC

ANALYST Garcia

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY04	FY05	FY04	FY05		
			Minimal	Non-Recurring	ERA Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates HJM 26, except for amendment.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Public Education Department
Educational Retirement Board (ERB)

SUMMARY

Synopsis of SEC Amendment

The Senate Education Committee Amendment to SJM 17 changes the Educational Retirement Association "provide" a cost-of-living (COLA) benefit increase to "study" a cost-of-living increase benefit for retirees. The amendment stipulates the Educational Retirement Board is to complete a study on a COLA increase, and report its findings by December 31, 2004 to the Legislative Education Study Committee.

Significant Issues

The SEC amendment would require a study of COLA increases instead of stipulating a 3 percent COLA increase. Consequently, the fiscal impact of a study is minimal, from $5 thousand to $50 thousand.

However, according to ERB, the estimated cost to raise the COLA to 3 percent is roughly $119 million in recurring general fund dollars. The following chart is a calculated comparison from

ERB's actuaries, Gabriel, Roeder, Smith & Co.; the chart shows the effect of increasing the COLA to 3 percent or the PERA benefit.

	ERA COLA (2.00% Assumed Average, Deferred to age 65)	PERA COLA (3.00% Flat Increase, 2-Year Deferral)
Unfunded Actuarial Accrued Liability (UAAL)	$1.7 billion	$3.1 billion
Funded Ratio (ratio of assets/liabilities)	81.1%	70.7%
Funding Period (based on 8.65% contribution rate)	78 years	Never
Increase in employer contribution rate needed	Na	5.52%
Total employer contribution rate	8.65%	14.17%
Dollar amount required	NA	$119 million

Synopsis of Original Bill

The memorial requests the Educational Retirement Association (ERA) to provide a 3 percent annual cost-of-living (COLA) benefit increase for ERA retirees.

Significant Issues

1) The greatest issue is the impact on the ERA fund. The fund is facing a 78-year amortization period, which is well above the Governmental Accounting Standards Board (GASB) standard of 30 years. In order to maintain its solvency, the ERA fund will require an increase in contributions from active members regardless of any benefit enhancements. If the ERB were to be required to provide a COLA of 3 percent, solvency would erode even further and at a more rapid pace.

2) The ERB has agreed with the Governor's office to study alternative funding and financing vehicles during the 2004 interim. Furthermore, the LFC subcommittee on Investment Performance and Pension Review has tentatively scheduled examining ERB's solvency problems and benefits in the 2004 interim. At this time, the COLA can be examined as well. These studies will serve to determine the best policy alternatives to deal with ERB's solvency questions as well as benefit enhancements, with possible implementation in the calendar year 2005.

3) According to ERB, SJM 17 would be an increase in benefits to retirees without funding. This could not be done without an increase in additional contributions per Chapter 22 of the Constitution of New Mexico. The ERA fund is unable to provide this benefit increase with the resources it has.

FISCAL IMPLICATIONS

According to ERB, a COLA increase at this time, would severely cripple the ERA fund's ability to sustain the trust fund's level to provide benefits in the long-term. Providing this benefit would require increased employer and employee contributions to support COLA increases for approximately 25,200 retired members.

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 year 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 by the fund to bring the amortization period back down to the GASB standard of 30 years. Consequently, any benefit enhancements into the ERB 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.

D**G/njw:yr**