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

SPONSOR Stewart **DATE TYPED** 02/11/05 **HB** 288

SHORT TITLE Adjust Educational Retirement Cost-of-Living **SB**

ANALYST Geisler

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	**FY06**	**FY05**	**FY06**		
	$126,058.5			Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	**FY06**			
	$126,058.5	See narrative	Recurring	Educational Retirement Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to: SB 181; HB 270
Conflicts with: HJM 5; SJM 18

SOURCES OF INFORMATION
LFC Files

Responses Received From

Educational Retirement Board (ERB)

SUMMARY

Synopsis of Bill

HB 288 proposes to increase the cost of living adjustment (COLA) for retirees covered under the Educational Retirement Act (ERA) to equal the Public Employees Retirement Association (PERA) cost of living adjustment of 3 percent. The bill also seeks to make eligibility for a COLA equivalent in both systems by eliminating the requirement that an ERA retiree be at least 65 years old before receiving a COLA .

Significant Issues

The present COLA is a somewhat complicated formula that says the retiree's annuity will be adjusted by applying an adjustment factor that results in either an adjustment equal to one-half of the percentage increase or decrease of the consumer price index between the next preceding calendar year and the preceding calendar year, except that the adjustment shall not exceed four percent, in absolute value, nor less than two percent, in absolute value. In the event that the percentage increase or decrease of the consumer price index is less than two percent, in absolute value, the adjustment factor shall be the same as the percentage increase or decrease of the consumer price index. HB 288 eliminates the unpredictability in the ERA COLA and makes it equivalent to the PERA COLA.

Furthermore, the retiree may not begin collecting the COLA until they attain the age of 65. The purpose of HB 288 is to obtain parity with the Public Employees Retirement Association (PERA) which allows a COLA three years after retiring with no age requirement.

FISCAL IMPLICATIONS

According to the actuaries, the amount of new money that would be needed each year to fund this increase would be approximately $126,058,500.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill conflicts with HJM 5 and SJM 18 which propose a two year moratorium on all benefit enhancements for both ERA and PERA . HB 270 and SB 181 call for an increase in employer contributions to help meet the ERB funding shortfall without increasing employee retirement benefits. HB 287 proposes to increase the benefits for future retirees to obtain parity with PERA, with a 3% pension factor multiplier.

OTHER SUBSTANTIVE ISSUES

Without the proper funding required as determined by ERB's actuary, such increases in benefits would deplete the fund to such an extent that the fund could not pay retirement benefits as guaranteed by New Mexico statutes. The New Mexico Constitution requires in Article 20 & 22 that any benefit increases must be properly funded.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

The disparity between ERA and PERA pensions will continue.

GG/rs