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

SPONSOR Stewart **DATE TYPED** 02/01/05 **HB** 287

SHORT TITLE Increase Future Educational Retiree Benefits **SB**

ANALYST Geisler

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
	$45,103.4		See narrative	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to: HB 288
Conflicts with: HJM 5, SJM 18, SB 181, HB 270

SOURCES OF INFORMATION

LFC Files
Educational Retirement Board

SUMMARY

Synopsis of Bill

HB 287 proposes to increase the benefits for future retirees covered under the Educational Retirement Act (ERA). The present monthly retirement benefit for public school employees under the (ERA), who retires at age 60 or over is 2.35 percent of the retiree's average annual salary multiplied by his number of years of service credit divided by 12. This bill would increase the benefit factor as follows: on or before June 30, 2006, 2.465 percent; on or after July 1, 2006, 2.6 percent; on or after July 1, 2007, 2.775 percent; on or after July 1, 2008, 2.85 percent; and on or after July 1, 2009, 3.0 percent. This bill appropriates $45.1 million in general fund (recurring) to the Educational Retirement Fund for carrying out provisions of the bill.

Significant Issues

This bill seeks to create parity between the two state retirement plans when it comes to the calculation of the monthly benefit. ERB asserts that educational employee retirement benefits under the ERA have substantially lagged behind the benefits earned by state employees under the Public Employees Retirement Association (PERA). PERA employees in the main state plan currently contribute 7.42 percent of their salary while receiving a benefit that is based upon a multiplier of 3.0, while ERA employees contribute 7.6 percent of their salary, but are entitled to only 2.35 as a multiplier to determine retirement benefits.

However, the actuarial position of the fund has deteriorated and ERB has requested the legislature provide for a increase in the employer contribution rate to stabilize the fund. Enhancing the benefit would increase current costs and increase ERB's actuarial shortfall.

FISCAL IMPLICATIONS

According to the actuaries, the amount of new money that would be needed each year to fund these increases is equivalent to a 6.3% increase in the employer contribution. For example in FY 06, the new money needed is $45.1 million, while in FY 07 the amount needed for that year would be the recurring $45.1 million, plus an additional $46.2 million for a total of $92.3 million. This bill appropriates only the $45.1 million per year, which would fall significantly short of the amount required as determined by ERA's actuary. The funding shortfall over the first five years would be approximately $31.3 million.

The fund is currently experiencing a funding shortfall of over $2.4 billion to meets its liabilities under the current set of benefits. The amounts as stated above include correcting this current shortfall--an increase in the employer contribution of .75 for ten years and an additional employer contribution amounts needed to cover the increased benefits proposed under the bill. This bill does not indicate or direct that the employer contributions must be increased, but ERB believes an increase must be included in statute to fund the proposed increase in retirement benefits.

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 ERA funding shortfall without increasing employee retirement benefits. HB 288 proposes to increase the ERA cost-of-living adjustment for retirees.

TECHNICAL ISSUES

ERB believes the bill would need to be amended to articulate the employer's increase in contribution in statute.

OTHER SUBSTANTIVE ISSUES

Without the proper funding required as determined by ERA'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/lg