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FISCAL IMPACT REPORT

ORIGINAL DATE 2-19-07

SPONSOR Miera LAST UPDATED _____ HB 1259

SHORT TITLE Educational Retirement Employer Contributions SB _____

ANALYST Aubel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	See narrative	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	See narrative		Recurring	ERA

SOURCES OF INFORMATION

LFC Files

Responses Received From

Educational Retirement Board (ERB)

SUMMARY

Synopsis of Bill

House Bill 1259 annually increases the amount of employer contributions to the Educational Retirement Board by one tenth of a percent starting in July 2007, until the employer's contribution is 14 percent in 2012.

FISCAL IMPLICATIONS

Through Senate Bill 181 (2005) the Legislature increased the employer and employee contributions to address a long standing under-funding of the retirement plan which had severely

threatened its solvency, according to the following schedule:

	Employee	Employer
FY07	7.675%	10.15%
FY08	7.825%	10.90%
FY09	7.90%	11.65%
FY10	7.90%	12.40%
FY11	7.90%	13.15%
FY12	7.90%	13.90%

This Session the Legislative Education Study has proposed giving a 7 percent salary increase to all school employees. Such an extraordinary increase is not built into the standard actuarial assumptions for ERB, creating an unfunded actuarial accrued liability (UAAL).

ERB’s actuaries estimated that the added UAAL due to this proposed salary increase would approximate \$38.8 million. The Legislature may choose to pay this liability “up-front” as a one-time appropriation, or it may be amortized this liability over a period of 30 years by increasing the employer contribution rate by 0.10 percent, which is estimated at a recurring \$2,700.0 million. HB1259 proposes the later course, which would result in the following employer contribution rates:

	Employee	Employer
FY07	7.675%	10.15%
FY08	7.825%	11.00%
FY09	7.90%	11.75%
FY10	7.90%	12.50%
FY11	7.90%	13.25%
FY12	7.90%	14.00%

The actuarial estimates are based on data used to prepare the June 30, 2005 valuation.

SIGNIFICANT ISSUES

In 1998, Article XX, Section 22 of the Constitution of the State of New Mexico was enacted, which now requires that an increase in benefits under the retirement system be adequately funded to preserve the fund’s actuarial soundness. HB 1259 complies with this statute.

Whether the employee bears any of the cost of paying the UAAL that will result from a 7 percent increase in salaries is a policy decision.

The actuarial estimates are based on several assumptions, including an annual 8 percent return on investments. Any significant variation from these assumptions will have a corresponding impact on fund solvency.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to Appropriation in the General Appropriation Act for public education personal services and benefits.

Conflicts with SJM 6, which proposes a moratorium on benefit enhancements.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Any salary increase over the actuarial assumed rate of 5 percent will negatively impact ERA solvency and would be in conflict with the Constitution requirement to properly fund any plan enhancements.

MA/nt