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## FISCAL IMPACT REPORT

ORIGINAL DATE 1-22-07

SPONSOR Smith LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Return to Employment for Certain Retirees SB 184

ANALYST Aubel

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	NFI			Educational Retirement Board

(Parenthesis ( ) Indicate Revenue Decreases)

Conflicts with SB 310, HB 179, HB 313  
Relates to SB 86

#### SOURCES OF INFORMATION

LFC Files

Response Received From  
Educational Retirement Board (ERB)

No Response From  
Public Education Department (PED)

#### SUMMARY

##### Synopsis of Bill

Senate Bill 184 would amend the Return to Work (RTW) provisions of the Educational Retirement Act by accelerating the sunset date of the RTW program from January 1, 2012 to June 30, 2008.

Educational retirees who have returned to work prior to July 1, 2008 would continue in their current status.

## **FISCAL IMPLICATIONS**

ERB noted that the latest actuarial report indicated there were no actuarial ramifications from the current RTW program on the ERB fund to date and, therefore, does not anticipate any fiscal impact due to actuarial experience if SB 184 is enacted.

However, ERB conceded that the RTW program is difficult to administer, and ending the program earlier may free up those resources allocated its administration, thereby reducing the operating budget allocated to RTW by an indeterminate amount. These resources would be redirected toward other operating activities.

## **SIGNIFICANT ISSUES**

ERB has approximately 62,000 active members, 29,500 retired members, and approximately 925 members in a RTW status. Many ERB employers have used the RTW program to fill hard to replace positions. This bill would most likely reduce new entrants into the RTW program.

The original intent of the RTW legislation for ERB was to alleviate the teacher shortage by enticing retired teachers to return to the classroom. The program was developed with the aid of ERB's actuaries who stated that the program would be actuarially neutral if retirees were required to wait one year from retirement before returning to ERB employment. It was thought this would prevent large numbers of members from retiring earlier than normally contemplated to take advantage of a double stream of income.

Any provision that entices a member to retire earlier than normal means the fund will have to pay out retirement benefits longer than was actuarially expected, thus having a negative effect on the fund. As noted above, ERB's actuaries have indicated that the RTW program has had no negative actuarial effect on the ERB fund. That means that so far the program has not been a financial burden to ERB. This, of course, could change in the future. There is a concern among some that there will be continued attempts to change ERB's RTW program to shorten the waiting period from one year to 90 days as provided for by the Public Employees Retirement Association. This and other possible proposed changes could easily have a negative actuarial effect on the fund.

## **PERFORMANCE IMPLICATIONS**

In the past the Department of Education has noted that the RTW program has contributed significantly to addressing New Mexico's teacher shortage since 2001. Enacting any provisions that would curtail the ability of retirees to return to work would impact the gains made in addressing this shortage. It is important to note that other strategies to increase and retain the teacher pool have recently been implemented, such as the 3-tier salary schedule and the teacher mentor program.

There would be no significant implications for ERB's performance measures.

## **ADMINISTRATIVE IMPLICATIONS**

As stated above, ending RTW early may free up administrative resources.

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Senate Bill 184 conflicts with Senate Bill 310, which effectively ends the current RTW program by June 30, 2007, one year earlier than Senate Bill 184, and substitutes a more limited program commencing July 1, 2007.

Senate Bill 184 conflicts with House Bill 313, which is the duplicate bill of Senate Bill 310.

Senate Bill 184 conflicts with House Bill 179, which reinstates a \$25 thousand earnings limitation and retains the current sunset date of January 1, 2012.

Senate Bill 184 is related to Senate Bill 86, which involves RTW legislation for the Public Employees Retirement Association.

All bills have provisions to grandfather RTW retirees prior to the date of enactment contained in the respective bills.

**TECHNICAL ISSUES**

Senate Bill 184 would amend Section 22-11-25.1 NMSA 1978.

**ALTERNATIVES**

Several alternatives have been proposed, including maintaining the RTW program but reinstating earnings limitations that would trigger suspension of pension benefits to discourage earlier-than-anticipated retirements; ending the current version of RTW and replacing it with a version targeted at those hard-to-fill vacancies; and keeping the RTW program for ERB but changing it for PERA.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

The current return to work program for ERB will continue until its statutory sunset date of January 1, 2012.

**POSSIBLE QUESTIONS**

1. How has the RTW program impacted employee morale and upward mobility of the active work force?

MA/csd