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FISCAL IMPACT REPORT

SPONSOR Fischmann ORIGINAL DATE 02/23/09
LAST UPDATED _____ HB _____
SHORT TITLE Educational Retirement Service Credits SB 623
ANALYST Hoffmann

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		\$0.1*		\$0.1	Nonrecurring	ERB

(Parenthesis () Indicate Expenditure Decreases)

Senate Bill 623 duplicates House Bill 453

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)

Higher Education Department (HED)

Educational Retirement Board (ERB)

SUMMARY

Synopsis of Bill

Senate Bill 623 amends Sec. 22-11-34 (A) (3) NMSA 1978 to change the requirements purchasing credit for prior military service. The bill does not change the service credit granted to members pursuant to Sec. 22-11-34 (A) (2) who interrupted their employment with an educational employer to serve and returned to their employment within 18 months of discharge; those members will continue to be granted free service credit.

Senate Bill 623 will allow members to purchase up to five years of service credit after completing five years of ERB employment (after five years employment members are vested in the pension fund). Members would pay the combined employer and employee contribution rate (approximately 20.3%, increasing to 21.8% on July 1, 2011) times the average annual salary for the preceding five years for each year of service credit purchased. The current cost is 10.5% average annual salary. If a member who later asked for a refund of contributions would not be entitled to that portion of the payment equal to the employer's share of the contribution. Full lump sum payment must be made to ERB within sixty days of the date ERB informs the member

of the cost of purchasing the service credit. The bill eliminates the requirement that purchases be made within three years of initial employment. This provides members more flexibility and opportunity to save the funds necessary to purchase the service credit.

The proposed requirements for purchasing ERB service credit would be similar to PERA's requirements if SB 623 is enacted. The cost of purchasing the service credit would be closer to the actuarial cost of providing the benefits than the amount currently charged.

FISCAL IMPLICATIONS

Senate Bill 623 makes no appropriations.

According to ERB, Senate Bill 623 would require a member to pay an amount closer to the actuarial cost of providing the service credit. The exact benefit to the Educational Retirement Fund is unknown at this time. The number of veterans who will purchase service credit may increase as veterans begin post-military careers. There would be an undetermined cost incurred on a one-time basis due to required changes to the ERB's IRIS retirement information system.

The HED states that Senate Bill 623 would have no fiscal impact on higher education institutions. The cost of buying additional years toward retirement would be borne by the employee, who would pay the employee's and the employer's share of payments for those years.

SIGNIFICANT ISSUES

ERB states that some of its members have not been able to purchase military service credit because they did not submit a request to make the purchase within the first three years of employment with an ERB employer as required by the current statute. Senate Bill 623 would expand the time period in which service credit can be purchased. The bill also helps maintain the soundness of the retirement fund as the cost of purchasing service credit will be closer to actuarial cost. This benefits all members of the Fund.

ADMINISTRATIVE IMPLICATIONS

The ERB will need to make a change to their retiree information system to adjust for the changes in the requirements for the purchase of military service

DUPLICATION

House Bill 453 is a duplicate of Senate Bill 623.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The ERB says that members purchasing credit for military service would have to make the purchase within the first three years of employment. The cost charged would continue to be substantially below the cost of providing the related benefits.