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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/10/11

SPONSOR     Morales     LAST UPDATED                      HB                     

SHORT TITLE     Certain PED Employees Not ERA Members     SB     355    

ANALYST     Aubel    

### REVENUE (dollars in thousands)\*

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	(\$1,270.3)*	(\$1,315.7)*	Recurring	Educational Retirement Fund
	\$1,448.9	\$1,448.9	Recurring	PERA

(Parenthesis ( ) Indicate Expenditure Decreases)

\* See fiscal impact.

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)\*

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>PED</b>		\$207.6	\$162.3**	\$369.9	Recurring**	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

**\*See fiscal impact.**

Relates to House Bill 133, House Bill 251, Senate Bill 87, Senate Bill 248 and Senate Bill 268  
Relates to Appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Educational Retirement Board (ERB)

#### No Response From:

Public Employees Retirement Association (PERA)

Public Education Department (PED)

## SUMMARY

### Synopsis of Bill

Senate Bill 355 provides a one-time and irrevocable choice for regular Educational Retirement Board (ERB) members employed by the Public Education Department to move from ERB to the Public Employees Retirement Association (PERA).

## FISCAL IMPLICATIONS

ERB provided the following fiscal analysis, which is based on the current statutory rates set to go into effect over FY11 and FY12 and the assumption that all PED employees would make the move to PERA:

There would be a loss of contributions to the Educational Retirement Fund (“the Fund”) from PED employees who elect to move from ERB to PERA and from future PED employees who would have been ERB members. The amount of lost revenue and its actuarial impact is unknown at this time. The amount of revenue loss listed in these columns is based upon \$6,034,906.71 which was the total FY10 salaries of PED employees who are ERB members. This amount does not include contributions of future PED employees who would have been ERB members under the current statutes. Contribution amounts in the future might vary depending upon the amount of the total of employee salaries subject to ERB contributions.

Since PERA retirement benefits are greater than ERB benefits and PERA members contribute less of their salary than ERB members, there would be an incentive for all PED eligible to make this change to do so. ERB will lose contributions of these members under this bill who would be allowed the election to switch their retirement plan membership to PERA. ERB will also lose contributions of future employees of PED who hold a teaching license. These reduced funds will also cause a loss in the opportunity for ERB to invest these contributions. The amount of this loss is not known at this time.

There will be an increase in the PED operating budget because employer contributions for PERA are at a rate of 16.59% of an employee’s salary compared to ERB where the contribution is 13.15% of the employee’s salary in FY12 and 13.9% in FY13.

No actuarial impact analysis was performed for either ERB or PERA.

## SIGNIFICANT ISSUES

ERB describes the bill:

SB 355 allows regular ERB members who were employed by the Public Education Department (“PED”) on June 30, 2011 and held a license issued by PED at the time of the commencement of that employment a one-time option to join the PERA by filing a request to do so by December 31, 2011. The election is irrevocable regardless of the employee’s future employment by the Educational Retirement Board, PED, ERB employers, the Northern New Mexico State School, the New Mexico School for the Deaf, New Mexico School for the Blind and Visually Impaired, the New Mexico Girls School,

the New Mexico Boys School, or the Los Lunas Medical Center. However, the employee would again become an ERB member if in the future they were employed by any other ERB local administrative unit.

SB355 removes the provision that persons regularly employed by PED who hold a license issued by the PED at the time of the commencement of their employment are regular members of ERB. Beginning July 1, 2011, newly hired employees of PED, regardless of whether or not they hold a license, will be regular members of PERA (Section 10-11-3 (A) NMSA 1978).

The primary issue is how the bill will impact ERB pension solvency, which has deteriorated due to poor investment results for FY08 and FY09. While the fiscal analysis assumes all PED members would move to PERA, which would decrease the contributions coming into ERB, such an event would also reduce the future liabilities associated with those employees. Conversely, additional funds would be coming into PERA with the associated increase in liabilities. Without an actuarial analysis performed for both funds, the net impact is indeterminate.

ERB also is concerned that SB 355 “could be followed by other special legislation intended to allow individuals to switch pension plans when it would be in their personal interest. Such legislation, if enacted, cumulatively could have an adverse actuarial effect on the ERB.”

#### **ADMINISTRATIVE IMPLICATIONS**

ERB and PERA would both have to provide benefits under the Reciprocity Act (Section 10-13A-1 *et seq.* NMSA 1978) for those employees who elected to switch from ERB to PERA.

#### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Senate Bill 355 relates to several bills dealing with ERB solvency and state pension contributions.

House Bill 133 delays the scheduled employer contribution increases to reach 13.9 percent by FY17.

House Bill 251 increases the age and service requirements for ERB and certain PERA members.

Senate Bill 87 increases the PERA employer and employee contribution rates by a total of 8 percent over four years.

Senate Bill 248 deals with employer-to-employee contribution shifts and delaying the scheduled employer increase for ERB by two years.

Senate Bill 268 creates a new set of retirement plans for PERA with lower benefits and contributions.

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

Department employees who held licenses at the time of their employment will remain ERB members for the duration of that employment. Future employees of the Department who hold licenses when they are hired will be ERB members as they would be under current statutes.