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

SPONSOR: Heaton DATE TYPED: 3/12/03 HB 22/aHLC/aSEC

SHORT TITLE: Educational Retirement Benefits SB

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
	NFI			

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to:
SB 136, Educational Retirement Benefits
SB 169, Increase Educational Retirement Multiplier
SB 174, Amend Educational Retirement Act
SB 136, Educational Retirement Benefits

SOURCES OF INFORMATION

LFC files

Responses Received From
Educational Retirement Board (ERB)

SUMMARY

Synopsis of SEC Amendment

The Senate Education amendment allows ERA members who:

- are retired prior to January 1, 2001;
- are now reemployed with a local administrative unit;
- have not suspended service since retirement,

to continue employment without suspending retirement benefits. It basically grandfathers in those who are already retired under the Return-to-Work program.

Synopsis of HLC Amendment

The House Labor and Human Resources Committee amendment requires that summer or other scheduled breaks not be included as part of the 90-day lay out requirement.

Synopsis of Original Bill

House Bill 22 amends the "Return to Work" provision in the Educational Retirement Act, which passed in the 2001 legislative session (Laws 2001, ch. 283, § 2.), to allow retirees retired prior to January 1, 2001 to return to employment with a school district without the loss of their respective retirement benefits. The retirees are prohibited from employment as an employee or contractor by a school district for at least 90 days prior to reemployment and must be previously retired for a minimum of 12 months.

Significant Issues

According to ERB, the 90 day layout period is required by IRS regulations and cannot be part of a break or vacation period. The layout period must be consistent with a resignation, termination and rehire.

FISCAL IMPLICATIONS

ERB does not note a fiscal impact

OTHER SUBSTANTIVE ISSUES

Actuarial Valuation. The unfunded actuarial accrued liability (UAAL) calculation is used to help assess a pension fund's status and progress toward accumulating the assets needed to pay benefits as due. It is the difference between total actuarial liabilities and the total actuarial value of assets. The funding period (or amortization period) is measured in years and is the time it takes to finance the unfunded actuarial liabilities under the current funding policy. General Accounting Standards Board (GASB) Statement No. 25 states amortization periods for UAALs should not exceed the estimated total service life of the employee group. GASB believes that period, for most employee groups, is not more than 30 years.

As the below table illustrates ERB's funding period now stands at 27.2 years, up from last year's funding period of 12.5 years. The increased funding period is due in part to a combination of higher salaries and investment losses. ERB's percent funded declined from 91.9 percent to 86.8

percent as of June 30, 2002, while the UAAL increased from 652 million to $1,152.8 million.

Actuarial Valuation

Year Ended June 30	UAAL (In Millions)	Funding Period (In Years)	Percent Funded
1999	$ 983.10	16.7	86.0%
2000	$ 624.80	8.2	91.6%
2001	$ 652.00	12.5	91.9%
2002	$ 1,152.80	27.2	86.8%

At the end of FY02 ERB's actuarial report deferred $1.58 billion in investment losses. This equates to approximately $395 million in losses being absorbed the Educational Retirement Fund (ERF) for each of the next four years. Based on the ERF value of $5.6 billion, the fund will need to return 7 percent to maintain its current value not to mention the long-term actuarial growth assumption of 8 percent.

Compounding ERB's investment and liability losses are cash-flow constraints with it being it being a mature fund. Designation as a mature fund is defined as paying out more in benefits than the fund receives in contributions from its members. ERB received $328.6 million in FY02 contributions, while paying $396 million in benefits and refunds. Therefore there was a net loss in the fund of $68 million for normal operation of the fund.

TECHNICAL ISSUES

The original "Return to Work" legislation was designed to induce teachers to return to the classroom to help ameliorate the teacher shortage in New Mexico. The one-year layout requirement served two purposes (1) to meet IRS regulations and (2) keep the legislation fiscally neutral.

SN/prr