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

SPONSOR: Garcia DATE TYPED: 1/31/03 HB

SHORT TITLE: Increase Educational Retirement Multiplier SB 169

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
	($157,000.0)	($157,000.0)*	Recurring	Educational Retirement Trust Fund

(Parenthesis ( ) Indicate Revenue Decreases)

** Based on Salaries and benefits paid to ERA members*

Relates to:

SB 174, Amend Educational Retirement Act

SB 136, Educational Retirement Benefits

SB 283, Allow Return to Employment in Education

HB 22, Educational Retirement Benefits

SOURCES OF INFORMATION

LFC files

Responses Received From

Educational Retirement Board (ERB)

SUMMARY

Synopsis of Bill

Senate Bill 169 amends Sections 22-11-21, 22-11-30, and 22-11-31 NMSA 1978 (Educational Retirement Act) to provide Educational Retirement Association (ERA) members with retirement benefits similar to those currently received by Public Employees Retirement Association (PERA) members.

Under this bill, the annual service credit multiplier would increase from 2.35% to 3.00%. Therefore, the new retirement benefit calculation would be the years of service credit multiplied by a member's final average salary and then multiplied by the service credit multiplier (3%). This would enable ERA members to retire with an annual annuity payment equivalent to 75% of their final average salary after 25 years of service credit. Currently, ERA members only receive 58.75% of their final average salaries for the same service. This bill also imposes a cap of 80% of final average salary on ERA benefits: currently there is no cap.

Additionally, SB 169 changes the final average salary computation period from an average of the highest paid <u>five</u> consecutive years to an average of the highest paid <u>three</u> consecutive years of service credit.

To fund this increase in benefits, ERA contributions for employers will increase from 7.6% to 16.59% of each member's annual salary. Employee contributions will remain at 7.6%.

FISCAL IMPLICATIONS

ERB indicates that an increase of $157,000.0 per year in recurring contributions from employers is needed to fund the increased retirement benefits provided by this bill. This funding would be derived from employer contributions increasing to 16.59% of employee salaries. Out year increases would be determined by current benefit paid to ERA member. Therefore, the base cost of $157.0 million would increase proportionally with salary increases.

TECHNICAL ISSUES

Although ERA does not reference a formal actuarial study regarding the impact of this bill, it appears that with the increased employer contributions, SB 169 <u>would not</u> violate the Constitution of New Mexico, Article XX, §22(E), which prohibits modifications to public employment retirement systems that do not enhance or preserve the actuarial soundness of the affected trust fund (see discussion on ERB's UAAL under Other Substantive Issues).

OTHER SUBSTANTIVE ISSUES

<u>Actuarial Valuation</u>. 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 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 of $68 million for normal operation of the fund.

SN/prr