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

SPONSOR: Carraro DATE TYPED: 3/7/03 HB

SHORT TITLE: Educational Retirement Benefits SB 136

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
		Uncalculated but substantive.	Recurring	Educational Retirement Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to

HB 22, 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 Bill

Senate Bill 136 seeks to create an immediate (no layout period) Return-To-Work (RTW) program for educational employees who have twenty-eight (28) years of service and holds a bachelor's degree plus forty-five credit hours or a master's degree.

Significant Issues

As SB 136 is currently written there are two major problems:

- It is in violation of the Internal Revenue Code of the United States in that there is no required break of service between retirement and RTW.

- It does not require a one-year layout period as required in Section "22-11-25.1". According to the Educational Retirement Board's (ERB) actuary, without the one-year layout period there would a substantial cost to the Educational Retirement Fund. The exact cost would have to calculated by the ERB's actuary. A rough estimate would be in the tens of millions of dollars on a recurring basis. With this cost component, the bill will become unconstitutional for increasing a benefit without sufficient funding.

FISCAL IMPLICATIONS

ERB does not note a fiscal impact but notes that it would be significant.

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.

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