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

SPONSOR Beffort **ORIGINAL DATE** 01/31/06 **LAST UPDATED** 2/9/06 **HB**

SHORT TITLE Increase Educational Retirement Contributions **SB** 541

ANALYST Geisler

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	1,239.5	9,772.5	Recurring	Educational Retirement Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to: SB 206, SB 300 and HB 100

SOURCES OF INFORMATION
LFC Files

Responses Received From
Educational Retirement Board (ERB)

SUMMARY

Synopsis of Bill

Senate 541 seeks to improve the actuarial solvency of the Educational Retirement Fund by increasing member contributions to the fund as follows: FY 2007, from 7.75 percent to 7.8 percent; FY 2008, from 7.825 percent to 8.2 percent; on or after July 1, 2008, from 7.9 percent to 8.6 percent.

FISCAL IMPLICATIONS

This bill will improve the actuarial position of the ERB by providing for increased contributions from current employees. The chart below shows how the contribution rates will change and the additional revenue:

Fiscal Year	Member Contribution Rate under Current Law (SB 181)	Member Contribution Rate under SB 541	Additional Revenue from SB 541 (000's)
FY 2007	7.750%	7.8%	$1,239.5
FY 2008	7.825%	8.2%	$9,772.5
FY 2009 and thereafter	7.90%	8.6%	$18,991.0

When the contribution rate increase is fully phased-in during FY 09, it will bring in $18.9 million more in recurring revenue.

ERB's actuaries project that employee contribution rate increases in SB 541 will improve ERB's solvency as follows:

- ERB will reach the 80% funded ratio at the end of FY17, two years earlier than currently projected.

- ERB will have a funding period of 25.2 years to amortize its unfunded actuarial liability at the end of FY11, an improvement over the current projection of 29.2 years at the end of FY11.

- The actuarially required contribution (ARC) would decrease from 12.86% to 12.20% of payroll in FY12. The ARC represents the required employer contribution to pay benefits for current employees and to amortize the unfunded actuarial liability (UAAL) within 30 years.

SIGNIFICANT ISSUES

The higher employee contributions implemented by SB 541 will improve ERB's solvency but will lead to a reduction in teacher take home pay. The ERB annual payroll deduction for a teacher earning $40,000 would be $3,440 under SB 541, an increase of $220 over the current rate for FY09 in statute.

According to ERB's actuary, ERB in FY05 had one of the highest employee contribution rates of any teacher pension plan before the increases in SB 181 and additional increases proposed by SB 541. ERB's actuary also notes that the existing contribution rate for ERB employees correlates to a better benefit structure than many other teacher pension plans. However, ERB's benefit structure is less generous that the state employees retirement plan in NM (PERA). Educational employees currently contribute 7.675% in FY06, compared to the state employee contribution rate of 7.42% of pay.

ADMINISTRATIVE IMPLICATIONS

ERB notes that there may be some administrative issues with carrying out other aspects of this bill due to ERB's current retirement information systems. There would be some cost to reprogram the system.

OTHER SUBSTANTIVE ISSUES

SB 181 passed during the 2005 session will increase employer contributions to ERB over seven years at a cost of approximately $150 million. The employer contribution rate will increase .75 per year, which will take the contribution rate from 8.65% in FY05 to 13.90% in FY12. Employee contributions will increase .075 per year, which will take the contribution rate from 7.6% in FY05 to 7.90% in FY09. With these contribution increases it is anticipated that ERB will meet the 80% funded ratio actuarial benchmark by FY19 and will meet the 30 year GASB standard for amortization of the UAAL by FY11. However, it is important to note that these actuarial projections are dependent on important assumptions on teacher pay growth, rate of retirements, and 8% investment return holding firm.

RELATIONSHIP

SB 206 relates as it seeks to improve ERB actuarial solvency by changing the retirement eligibility rule for new hires starting in FY07 by moving to a rule of 80 (years of service + member age) from the current rule of 75. SB 300 and SB 100 seek to improve ERB actuarial solvency by changing the rules of the retiree return to work program.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

Current contribution levels would remain in place. The employer & employee contribution increases implemented in SB 181 during the 2005 session will fix ERB's underfunding issue, assuming actuarial assumptions on demographics, teacher pay, and investment return hold.

GG/mt