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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/18/19

SPONSOR Soules LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Sick Leave for Educational Retirement Credit SB 157

ANALYST Jorgensen

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

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		See fiscal impact				

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Education Retirement Board (ERB)

### SUMMARY

#### Synopsis of Bill

Senate Bill 157 enacts a new section of the Educational Retirement Act to allow members eligible for retirement benefits to pay to have unused sick leave converted to service credit up to a maximum of six days of unused sick leave per year and four quarters of earned service credit. The cost would be the expected value of the benefit under ERB's current actuarial assumptions.

AMOUNT OF UNUSED SICK LEAVE	AMOUNT OF SERVICE CREDIT THAT CAN BE CONVERTED
38-82 Days	One quarter of earned service credit
83-127 Days	two quarters of earned service credit
128-172 Days	three quarters of earned service credit
173 Days or More	four quarters of earned service credit

Source: ERB

## **FISCAL IMPLICATIONS**

ERB states:

ERB would incur the cost of reprogramming its pension management software to account for the purchase of service credit based on the amount of unused sick leave. NMERB employers may also have to reprogram their payroll software systems. The exact cost of reprogramming is unknown. However NMERB's vendor charges \$185 per hour to complete changes to the system and based on past reprogramming projects, it could take up to an estimated 100 hours to complete.

SB157 would not negatively impact the Educational Retirement Fund's actuarial status because the bill provides that the member will pay the actuarial value service credit gained by conversion of unused sick leave. However, the Educational Retirement Fund does take on more risk as a result of the creation of this type of benefit. After receiving payment for the cost of the additional service credit, NMERB would not have the ability to request additional funds from the member to cover excess costs if the benefit becomes more expensive through adverse events such as (1) the plan does not earn its investment return goal of 7.25 percent on the investments or (2) there is a change in actuarial assumptions that lowers the investment return assumption or increases life expectancy. Actuarial assumptions are not static and must change in relation to experience studies and economic data. As recently as 2017, ERB adjusted its actuarial assumptions based on an experience study for a period ending June 2016. The board's funding policy calls for no increases in benefits until NMERB is 100 percent funded.

## **SIGNIFICANT ISSUES**

The Educational Retirement Act currently allows members to purchase service credit for the time they worked in a public school in another state or in an accredited private school in New Mexico.

## **PERFORMANCE IMPLICATIONS**

When identical legislation to SB157 was proposed in a previous legislative session, ERB suggested extending the effective date of the legislation by one year to give it time to prepare.

## **OTHER SUBSTANTIVE ISSUES**

The opportunity to convert sick leave to service credit may not be uniform for all members if there are differences in sick leave policies for the various educational employers.

**CJ/sb**