LFC Requester:	Joseph Simon

AGENCY BILL ANALYSIS
2024 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO:

Analysis.nmlegis.gov

{Analysis must be uploaded as a PDF}

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:
Original X **Amendment** ____
Correction ____ **Substitute** ____

Date January 24, 2024
Bill No: HB 222

Sponsor: Rep. Harper & Rep. Lara
Short Title: EDUCATIONAL RETIREES RETURNING SALARY CAP

Agency Name and Code Number: Educational Retirement Board 35200
Person Writing David Archuleta
Phone: (505) 476-6152 **Email** david.archuleta@erb.nm.gov

SECTION II: FISCAL IMPACT

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		
-0-	($900.0)	($900.0)	Recurring	ERB Trust Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	-0-	($900.0)	($900.0)	($1,800.0)	Recurring	ERB Trust Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to: N/A

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:
House Bill 222 would increase the maximum annual salary for persons who return to work

for a local administrative unit under the fifteen thousand dollars ($15,000) per year salary cap program from $15,000 to thirty thousand dollars ($30,000) per year.

FISCAL IMPLICATIONS

The current "less than $15,000" salary cap program does not require payroll contributions from retirees in that program. Thus, the Educational Retirement Board actuary advises that increasing the maximum salary from $15,000 to $30,000 would likely result in movement of some payroll from contributory to noncontributory at a cost to the retirement plan. It is expected that the increase to the limit would primarily result in increased utilization of the program by the current $15,000 group as well as some movement from the 36 month program to usage of this program.

Assuming that this movement reduces the contributory payroll by $3 million per year, the change would result in a loss of approximately $900,000 per year in contributions. This amount does not change the current funding period of 26 years. However, it would result in a loss of $23 million in cashflow over the funding period ($900,000 x 26) and would change the unfunded liability by $64 million over the funding period [includes 7% interest (ERB's assumed discount rate) on the $900,000 shortfalls].

SIGNIFICANT ISSUES

The Educational Retirement Act currently allows retirees under the Act to return to employment under three options. A retiree can: (1) work under .25 FTE; (2) earn a maximum annual salary under fifteen thousand dollars ($15,000); or (3) have unlimited income, but work a maximum of 36 consecutive or non-consecutive months. This amendment would increase the maximum salary under program (2) to thirty thousand ($30,000).

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

Currently, ERB receives 18.15% of active member payroll from employers and 10.7% from employees which is expected to be sufficient to pay ERB's normal cost and to eliminate ERB's unfunded actuarial accrued liability (UAAL) over a period established in the funding policy set by the Board of Trustees. The current Board of Trustees funding policy aims to eliminate the UAAL by June 30, 2049 (26 years from June 30, 2023). The amortization period, also referred to as the funding period, is the number of years expected to be required to completely eliminate the UAAL, assuming that ERB's experience exactly follows all the actuarial assumptions.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) was 63.5% as of June 30, 2022, and is 62.9% as of June 30, 2023. During the last fiscal year, the UAAL increased from $8.8 billion to $9.6 billion. The funded ratio based on the market value of assets was 64.3% as of June 30, 2022, and is 63.1% as of June 30, 2023.

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS