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## FISCAL IMPACT REPORT

SPONSOR: Cordova DATE TYPED: 02/14/01 HB 602  
 SHORT TITLE: Amend Educational Retirement Act SB \_\_\_\_\_  
 ANALYST: Eaton

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	FY02	FY01	FY02		
	>88,910.3			Recurring	General Fund
	positive*			Recurring	General Fund

\*Estimates for higher education increased expenditures were not available at the time of the writing of this report. FY02 estimate (\$88.9 million) based on FY00 salary figures provided by the State Department of Education.

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates Senate Bill 105

### SOURCES OF INFORMATION

Educational Retirement Board (ERB)

### SUMMARY

#### Synopsis of Bill

This bill amends the Educational Retirement Act (ERA) to increase retirement benefits for ERA members to equal retirements benefits provided by the Public Employees Retirement Association's (PERA) plan for the State of New Mexico employees. The increased benefits are in three areas:

1. The retirement multiplier moves to 3% from the current 2.35%;
2. The calculation of the final average salary changes from using the highest five (5) consecutive years to using the highest three (3) consecutive years, resulting in an increased retirement benefit;
3. An increase in the cost of living adjustments (COLA) to 3% the third year of retirement.

Another major change in the ERA is in Section 22-11-30H(1) that limits ERA members to 80% of their Final Average Salary (FAS). Currently, the ERA does not have a limit on the percentage of FAS.

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The IRS limit is 100% of final salary based upon employer's contributions. The eighty-percent limit would be at 26 years and eight months.

In order to fund the increased benefits, the bill amends the contributions that ERA employers make to the Educational Retirement Board (ERB), the state agency charged with the administration of the ERA. The bill changes the employers' contribution to 16.59% from the current level of 8.65%, for an increase of 7.94%, of all ERA members' payroll.

### Significant Issues

The ERA members have complained for a number of years about the vast differences between the ERA and the state PERA retirement benefits. This bill would bring equity between New Mexico's educational employees and state employees with regards to contribution to retirement, and benefits received by members and retirees. Public schools and higher education are funded from state revenues (mostly general fund)

### **FISCAL IMPLICATIONS**

The ERA Fund incurs an unfunded liability at the beginning of the program, however, the liability is decreased over time. This is the case with every benefit increase enacted to the ERA. The ERB estimates the ERA would be within GASB and federal guidelines for funding if this bill is enacted. The precise calculations would be done when the actuarial study is performed to calculate the proper contribution rate.

According to a State Department of Education report, New Mexico Public Schools had budgeted salaries of \$1,031,615,595, comprising 67.2 percent of total expenditures (\$1,535,470,907) in FY00 (ATTACHMENT A). An increase in retirement contributions of 7.94 percent, as proposed in this bill, would increase recurring appropriations needed going forward for public schools.

A (very) cursory estimate using assumptions for annual salary increases, the estimated recurring appropriation from the general fund in FY02 would be \$88.9 million dollars for the public school portion. Estimates based on higher education salaries were not available at the time of the writing of this report.

### **ADMINISTRATIVE IMPLICATIONS**

The Educational Retirement Board (ERB) report that there would be some increased communications required short term, but long term they may need some increase in staff.

JBE/ar