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FISCAL IMPACT REPORT

SPONSOR: Lujan DATE TYPED: 01/24/01 HB 29
 SHORT TITLE: Amend Educational Retirement Benefits SB _____
 ANALYST: Eaton

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	FY02	FY01	FY02		
		NFI			

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

Educational Retirement Association (ERA)
 State Personnel Office (SPO)

SUMMARY

Synopsis of Bill

This bill provides for an increased multiplier, which results in increased retirement benefits, for educational employees in the public schools, universities, colleges and some state agencies in New Mexico. The current multiplier is 2.35% which results in a retirement benefit that is 58.75% of a member's highest five-year average salary after 25 years of service, and 70.5% after 30 years of service.

The bill changes the multiplier for years after 25 by .03% per year to a maximum of 2.5% at 30 or more years of service credit. The Educational Retirement Board has approved this bill after a year of study and consultation with education groups, and after conducting an actuarial study. The actuarial study concluded that the cost of this program would be minimal at worst (.26% of payroll), and may actually slightly reduce the total cost of retirement benefits in the future.

The bill becomes effective with retirements as of July 1, 2004. This three-year delay is required to prevent an exodus of educational employees. If the bill were to become effective immediately, the ERB actuary stated that a large percent of active ERA members who currently have over 25 years of service would opt to retire immediately and thus exacerbate the active member shortage rather than help solve it. There will undoubtedly be a larger than normal number of retirements on July 1, 2004

if the bill is enacted. However, by that time a number of ERA members will have extended their careers long enough for replacements to be trained and available.

The text of the bill references "for a member age sixty or over". This language is required by the federal pension plan qualifications as a normal retirement age. In the ERA plan, the normal retirement age is sixty years. However, ERA section 22-11-23A(3) states that "a member under sixty years of age acquiring twenty-five or more years of ...service-credit may retire.....as if the member were sixty years of age." The increased multiplier will be available to members who have more than twenty-five years of service.

Significant Issues

The most significant issue of this bill is the shortage that has challenged New Mexico educational institutions. The ERB actuary concludes that the retirement incentive contained in this bill would increase an educational employee's retirement benefit by 30% if the employee works 30 years rather than retires after 25 years.

The ERA reports that this bill would promote longer careers for educators and would reduce the vacancies in educational institutions until the problems of the shortages are solved. The bill would also reduce the turnover in administrative and support positions, as current ERA members have an incentive to work longer in their careers.

FISCAL IMPLICATIONS

There is no appropriation required for this bill. The costs, if any, can be absorbed by the Educational Retirement Fund.

ADMINISTRATIVE IMPLICATIONS

The ERB reports that in order to be effective, the ERB staff must publicize the incentive. To do this, the ERB will require sufficient funds to communicate this to eligible members around the state.

JBE/ar:prr