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

SPONSOR Vigil **DATE TYPED** 2/2/04 **HB** 171

SHORT TITLE Educational Retiree Service Credit Purchases **SB**

ANALYST Garcia

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
		Significant – See Narrative	Recurring	ERB Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
Public Education Department (PED)
Educational Retirement Board (ERB)

SUMMARY

Synopsis of Bill

The bill amends a paragraph and a subparagraph of Section 22-11-34 NMSA 1978 of the Educational Retirement Act. The amendment to Paragraph (3), Subsection A of Section 22-11-34 NMSA 1978, would permit a member (i.e., an employee who comes under the provisions of the Educational Retirement Act) to purchase service credit by reason of service in the United States military or commissioned corps of the public health service. Specifically, the amendment would require the service credit to be purchased by the member by December 31, 2004, or within three years after the date of the member's employment following service. This amendment opens a one-time opportunity for all Educational Retirement Act members to purchase this service credit no later than December 31, 2004.

Significant Issues

1) The cost to purchase military service represents a small part of the cost to provide the years of

retirement. With the purchase being within the first three years of employment, there are many years of investing to cover the cost of service. However, the bill, according to ERB, opens up the purchase of this service at the end or middle of a member's career at a lower cost. Without the years of compound investing, ERB will not receive the funding necessary to pay for the military service granted. Thus, the ERB Fund has additional liabilities it must fund in the future that will not be fully paid for by the purchase.

2) According to ERB, military service has been a career choice with the advent of a volunteer military over the past thirty years. ERB is concerned that other careers will seek to be able to purchase service credit at a low cost. Many of the educators and support staff had careers and jobs prior to joining an education employer. ERB has received requests to purchase service credit without any previous work (this is called air-time), or with some other government service such as federal employment, state, or city employment in other states. To open up military service would bring many requests for other service purchases.

3) Currently, ERB allows service purchases for service in public schools and universities in other states. The price to purchase such service is at "actuarial cost." This actuarial cost is the present value of the total cost to the ERB Fund for the purchase of the service. With this cost there is no additional liability to the ERB Fund. All service credit purchases for the education retirement system are available at actuarial cost.

4) According to ERB, the bill violates the New Mexico constitution, Article 20 §22, as it is providing benefits without funding those benefits.

FISCAL IMPLICATIONS

According to ERB, the costs of enacting the bill are high and will create additional liabilities to the ERB Fund, which is already experiencing a significant solvency problem. The bill will encourage other groups to seek subsidized service credit purchases and contribute to the further erosion of the ERB Fund.

ADMINISTRATIVE IMPLICATIONS

Enacting the bill will likely result in a surge of requests for calculations and counseling. This may require additional temporary staff.

TECHNICAL ISSUES

The amendment to Subparagraph (d), Paragraph (4), Subsection A of Section 22-11-34 NMSA 1978, merely substitutes "public education department" for "state board" where a reference is made to accreditation of a private school or institution of higher learning in New Mexico.

OTHER SUBSTANTIVE ISSUES

The June 30, 2003 actuarial valuation of the fund has indicated ERB has an unfunded actuarial accrued liability (UAAL) of $1.7 billion. The amortization period, or the amount of years it takes to fully fund the liabilities, has jumped to 78 years. The Governmental Accounting Standards Board (GASB) has set a standard of 30 years for pension funds. In addition, due to a smoothing process involved in the actuarial valuation, ERB's actuaries have indicated the fund is also due to recognize an additional $500 million in investment losses in the near future, which roughly amounts to a $2.4 billion UAAL estimate in the next year. The ERB actuaries expect the amortization period for the fund next to reach never. Meaning, at current funding and benefit levels, the fund will never be fully funded.

Furthermore, the actuaries have calculated that roughly an additional $110 million in recurring money is required into the fund to bring the amortization period back down to the GASB standard of 30 years. Consequently, any benefit enhancements into the ERA system will further erode the solvency of the fund and detract from the ability of the ERB to get a handle on its enormous unfunded liability.

DG/njw