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## FISCAL IMPACT REPORT

SPONSOR Jennings DATE TYPED 2/10/04 HB \_\_\_\_\_

SHORT TITLE Educational Retirement Board Soundness SB SJM 65

ANALYST Gilbert

### APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY04	FY05	FY04	FY05		
			NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to SJM 17, SB 460, HJM 26

### SOURCES OF INFORMATION

LFC Files

No Response From

Educational Retirement Association (ERA)

### SUMMARY

#### Synopsis of Bill

Senate Joint Memorial 65 asks the Educational Retirement Board (ERB) to develop a plan to restore its pension fund to a state of actuarial soundness and to report its findings and recommendations to the Legislative Education Study Committee and the Legislative Finance Committee prior to the first session of the forty-seventh legislature.

#### Significant Issues

Due to a downturn in the equity markets and ERA's poor investment fund performance, they no longer meet the Governmental Accounting Standards Board (GASB) 30-year funding period benchmark for public pension funds. The most recent actuarial study for the ERA fund reflects an unfunded actuarial liability period of 78 years, which is likely to increase in future years due to unrealized fund losses.

The Executive and Legislative Finance Committee (LFC) have recommended additional FY04

BAR language to allow the ERB to request budget increases from other state funds for up to \$100 thousand for the purpose of contracting for a study outlining options for achieving actuarial soundness for the ERB fund. Such funding is contingent on review by the Secretary of the Department of Finance and Administration (DFA), and approval by the State Board of Finance and LFC. The study is to be completed and recommendations made to the DFA and the LFC by September 1, 2004.

### **RELATIONSHIP**

Both SJM 17 and HJM 26 request the Educational Retirement Board to consider a cost-of-living increase to retirees.

Senate Bill 460 appropriates \$40 million from the general fund to the Educational Retirement Board (ERB) for expenditure in fiscal year 2005 and subsequent fiscal years. It also amends §22-11-21 NMSA 1978, to increase the percentage of retirement contributions from both employees and employers by 1% of member salary, effective July 1, 2004. As a result, ERA employee contributions would go from 7.6% to 8.6%, and the employer contributions from 8.65% to 9.65%.

### **OTHER SUBSTANTIVE ISSUES**

The ERB needs additional assets to meet GASB actuarial standards. The increased contributions contained in this bill will potentially address this problem, but to determine the exact impact an actuarial study must be completed.

**RLG/dm:lg**