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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/14/06

SPONSOR Altamirano LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Educational Retirees Returning to Work SB 714

ANALYST Geisler

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	\$1,750.0	\$1,750.0	Recurring	Educational Retirement Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with HB 100, SB 300

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Educational Retirement Board (ERB)

Public Education Department (PED)

### SUMMARY

#### Synopsis of Bill

Senate Bill 714 provides new requirements for members retired under the Education Retirement Fund who wish to participate in the return to work program while still drawing retirement benefits. On or after July 1, 2006, only public school teachers or instructors in post-secondary educational institutions would be allowed to retire and return to work without suspending retirement benefits. Also the bill would require that if any return to work member's earnings total \$30,000 or more during a calendar year, the member shall make contributions to the fund beginning in the month following the month that his earnings reach that amount. Note that currently the employer contribution is required for return to work retirees.

Educational retirees that have returned to work prior to July 1, 2006 can continue in their current status.

## **FISCAL IMPLICATIONS**

ERB's actuaries have reported that there has not been a negative actuarial impact on the ERB fund from the return to work program to date. A preliminary estimate of the fiscal impact is that it would provide an additional \$1.75 million to \$2 million in revenue yearly to the educational retirement fund.

## **SIGNIFICANT ISSUES**

The ERB has approximately 67,200 active members and 27,200 retired members. Approximately 960 members (or 3% of retirees) are participating in the return to work program. A study last year showed that about 70% of the return to work retirees are teachers.

There is concern that the current system, which allows retirees to return to work without any income limitations after sitting out year, is encouraging earlier retirements, which may have a long term negative impact of the solvency of the ERB fund. There can also be a public perception problem of a system which allows a member to receive both a salary and a pension.

The original intent of the legislation was to help alleviate the teacher shortage by enticing retired teachers to return to the classroom. The program was developed with the aid of ERB's actuaries who stated that the program would be actuarially neutral if retirees were required to wait one year from retirement before returning to ERB employment. It was thought this would prevent large numbers of members from retiring earlier than normally contemplated to take advantage of a double stream of income.

Any provision that entices a member to retire earlier than normal means the fund will have to pay out retirement benefits longer than was actuarially expected, thus having a negative effect on the fund. As noted above, ERB's actuaries have indicated that the RTW program has had no negative actuarial effect on the ERB fund. That means that so far the program has not been a financial burden to ERB. This, of course, could change in the future. There is a concern among some that there will be continued attempts to change ERB's RTW program to shorten the waiting period from one year to 90 days as provided for by the Public Employees Retirement Association. This and other possible proposed changes could easily have a negative actuarial effect on the fund.

## **PERFORMANCE IMPLICATIONS**

The Department of Education notes that the return to work program has contributed significantly to addressing New Mexico's teacher shortage since 2001. Enacting any provisions that would curtail or discourage teachers from returning to work while drawing retirement benefits would impact the gains made in addressing this shortage. While this bill does limit somewhat the financial incentive for return to work, it does not appear so significant as to significantly discourage teachers from participating in the program.

## **ADMINISTRATIVE IMPLICATIONS**

ERB may incur some costs to change their software to reflect the change in statute and some administrative resources to deal with member questions.

**CONFLICT**

House Bill 100 and Senate Bill 300 will phase out the current return to work programs for public and educational retirees as of July 1, 2006. Return to work retirees employed before July 1, 2006 will not have their status changed.

**ALTERNATIVES**

Consider broadening the bill criteria to allow all educational employees to participate, which the current statute allows.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

The current return to work program will continue until its statutory sunset date of January 1, 2012.

GG/yr