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

SPONSOR	King	**ORIGINAL DATE** / **LAST UPDATED**	02/24/09 / 03/19/09	**HB**	631/aHAFC/aSEC/ aSFC
SHORT TITLE	Educational Retirement Eligibility			**SB**	
				ANALYST	Aubel

ACTUARIAL SOLVENCY

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	**FY10**	**FY11**		
		Indeterminate but Positive	N/A	ERB

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates provisions in CS/CS/573/aHFl#1/aHFl#2/aSEC/aSFC

Relates to or conflicts with HJM 45, HB 79, HB 236, HB 246, HB 271 and companion HB 355, HB 351 and duplicate SB 366, HB 353, HB 453, HB 573, HB 616, HB 648, HB 683, HB 684, HB 721, HB 731, HB 765, HB 798, HB 854, SB 145, SB 231, SB 261, SB 428, SB 476, and SB 499

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
IRIS			$50.0	$50.0	Nonrecurring	ERB

(Parenthesis ( ) Indicate Expenditure Decreases)

*See Fiscal Impact

NOTE: The original analysis has been changed to incorporate comments from the Higher Education Department that were submitted after the original bill was analyzed.

SOURCES OF INFORMATION
LFC Files

Responses Received From (Original Bill)
Educational Retirement Board (ERB)
Higher Education Department (HED)
Department of Finance and Administration (DFA)
Public Education Department (PED)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee Amendment to HB 616/aHAFC/aSEC aligns the bill with House the House Judiciary Committee Substitute for House Bill 573 (as amended), as follows:

- Replaces the retirement eligibility of age 65 and five years of service to age 67 with five years of service credit and
- Adds the exclusion of any lump sum payments made after July 1, 2010 from the salaries used to calculate the pension benefit.

Synopsis of SEC Amendment

The Senate Education Committee Amendment to House Bill 616/aHAFC strikes the HAFC amendments to reinstate the effective date of July 1, 2010.

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee Amendment to House Bill 631 makes the effective date of the bill July 1, 2009.

Synopsis of Original Bill

House Bill 631 amends the Educational Retirement Act to increase the retirement eligibility requirements for new members after June 30, 2010. Specifically, the new requirements would be as follows:

- Minimum of 30 years of service (from 25 years of service) or
- A minimum combination of age and years of serve equal to 80 (from the "Rule of 75").

The eligibility of 65 years of age and five years of service credit remains the same. Currently, the plan reduces pension benefits for those without the current minimum 25 service years of service credit that retire under the "Rule of 75" (combination of yeas and service credit). Under the HB 631, the reductions are maintained but each age threshold is increased by five years. For those age 60-65, the benefit is reduced by 0.6 percent per quarter and for those under 60, the benefit is reduced by 1.8 percent per quarter.

Members "grandfathered" under the current statutory retirement structure are defined as those who either were a member on June 30, 2010 or were a member at any time prior to that date and had not been refunded all member contributions.

The effective date is July 1, 2010.

FISCAL IMPLICATIONS

ERB maintains that HB 631 "will improve the Educational Retirement Fund's actuarial soundness. Retirees are living longer after retirement, meaning that retirees receive benefits for a longer period. This increases the Fund's financial obligations and has adverse actuarial impact.

Over the long term, increased service requirements will allow the Fund to receive additional contributions from members and employers, which in turn can be invested for a longer period before benefits are paid out."

Changing the plan structure will require ERB to change its computer pension system, a non-recurring estimated expense of $50 thousand. Managing a tiered plan implies additional administrative expenses but ERB states that the agency will absorb these costs.

SIGNIFICANT ISSUES

ERB offers a pension plan to public school and higher education employees. As of June 30, 2008, this pension plan had 63,698 active members and 31,192 retirees. The average pension benefit is $18,788 as of June 30, 2008, and the total benefit payroll is about $586 million. Total contributions for FY08 total $496 million, with employer contributions accounting for $286 million of this amount. The average benefit of normal retirees is $19,557 (excluding disability and beneficiaries) -- with a total benefit payroll of about $586 million.

As of June 30, 2008, ERB's funded ratio increased slightly, from 70.5 percent in FY07 to 71.5 percent as of June 30, 2008. However, this calculation is based on an actuarial value of plan assets that is higher than the market value as of the valuation date. If the ratio was calculated using the market value, it would be 67.6 percent. ERB's -6.4 percent performance for FY08 has been compounded by negative returns so far in FY09, which produce a 25 percent decline in fund value to $6.5 billion as of November 30, 2008.

ERB is a defined benefit plan, which provides a monthly annuity payment for the retiree based on years of service, final average salary, and a pension-calculation factor established by the Legislature. ERB is a mature plan, meaning that contributions made into the plan are less than the benefits being paid out. In order to maintain solvency, actuaries estimate that the earnings on fund investments must average 8 percent over the long term. Looking forward, new market conditions increase the uncertainty of achieving the 8 percent actuarial return on investments for the pension plans.

ERB provides the additional relevant issues:

> As noted, HB 631 is expected to have a positive effect on the Educational Retirement Fund. Increasing the retirement eligibility criteria now protects the Fund, reducing the possibility that other measures would be needed in the future to protect the Fund. If other measures were to become necessary, they should be less drastic because of the increased service requirement.
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> As ERB's retirement benefits are not capped (e.g., there is no maximum on the retirement benefit that members can earn), members who retire with 30 years of service will have a larger retirement. By way of example, members who retire with 25 years of service have a monthly pension benefit equal to 58.75% of final average salary. Members retiring with 30 years of service will have a monthly pension benefit equal to 70.5% of final average salary. The ERB does not anticipate that this will counteract the beneficial effect of increasing the retirement eligibility criteria.

As many, if not most, educational pension plans require members to have for more than 25 years service credit to retire, increasing New Mexico's requirement should not adversely affect New Mexico's ability to recruit educators.

NEW COMMENTS: The Higher Education Department provides the following comments:

HB631 substitute would benefit higher education institutions to the extent that it improves economic viability of ERB. Also, delaying retirement may benefit students and research by retaining seasoned instructors and researchers. However, evaluation of the bill should include the following considerations:

1. Delaying the retirement age might negatively impact the ability of New Mexico higher education institutions to recruit competitively for faculty and staff. A 2006 study of faculty salaries found that faculty at New Mexico universities were paid 19% less than at peer institutions depending on rank.
2. Delaying retirement will reduce employment opportunities for young scholars.
3. Delaying retirement will increase faculty and staff costs for institutions as they will pay end-of-career salaries rather than entry-level salaries for staff in the final five years of their careers.
4. Delaying ERB retirement would encourage incoming faculty to switch to alternative retirement plans. Though this will have a long-term zero impact on ERB financial viability, it would have the short-term impact of reducing revenues to the fund.

There may be additional cost to institutions in the long run as senior faculty would remain five years more, paid at the top of their salary scale, rather than being replaced by newly-hired, younger faculty who are generally paid at entry levels.

ADMINISTRATIVE IMPLICATIONS

ERB will have to modify the IRIS software used to manage members retirement account. In addition, the agency will have to develop new operating procedures and materials to deal with the new service requirements and to explain those new requirements to new members and to employers. ERB does not anticipate these will present substantial problems for the agency.

HED notes that institutions would need to track the difference in employment dates to be able to plan for retirements.

RELATIONSHIP

House Bill 631 relates or conflicts with the following bills:

HJM 45 – Public Employee & Education Solvency Plans Study
HB 65 – Legislative Retirement Contributions
HB 79 – Public Employee Retirement Info Disclosure
HB 236 – Pera Service Credit Purchase (Expands Service Credit Purchase)
HB 246 – Pera Return To Work For Certain Employees
HB 271/Hb 355 – Reopen Municipal Employee Retirement Plan 4
HB 351/Sb 366 – Retiree Health Care Fund Contributions
HB 525 – Alternative Educational Retirement Plans

HB 573 – Adjustment Of Retirement Plans
HB 616 – Public Retirees Returning To Work
HB 648 – Judicial Retirement From General Fund
HB 683 – Retired Public Employee Returning As Sheriff
HB 684 – Congressional Employee Nm Service Credit
HB 721 – Educational Retirees Returning To Work
HB 731 – Session Employee Pera Credit Purchases
HB 765 – Public Employees Returning To Work
HB 798 – New Pera Member Eligibility
HB 854 – Pera Member & State Contribution Changes
SB 145 – Eliminate End Date For Return To Work
SB 231 – Pera Eligibility For Mutual Domestics
SB 428 – Retiree Health Definitions & Contributions
SB 499 – Motor Transportation Officer Retirement

ALTERNATIVES

Several bills relating to this matter could be reconciled and rolled into one omnibus bill, such as HB 573.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Eligibility requirements would remain the same. The actuarial and financial issues presented by retirees living longer after retirement will not be addressed. Other steps may be required in the future to ensure that the ERB fund remains sound, and a delay could result in more drastic steps being required than otherwise would unfold under this bill.

MA/mc:svb