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

SPONSOR Cisneros **ORIGINAL DATE** 02/03/12 **LAST UPDATED** **HB**

SHORT TITLE Educational Retirement Employee Contributions **SB** 305

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15		
	Positive			ERB Funding Ratio

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Educational Retirement Board (ERB)

SUMMARY

Synopsis of Bill

Senate Bill 305 amends Section 22-11-21 (A)(5) of the Educational Retirement Act by establishing June 30, 2013 as the end date for the 7.9% contribution rate which became effective July 1, 2008 for members earning twenty-thousand dollars or less. For members earning $20,000 dollars or more SB 305 establishes a .5% increase per fiscal year starting in FY 2014 and continuing to FY 2016 and thereafter. Future contribution rates for members earning greater than twenty-thousand dollars are: July 1, 2013 through June 30, 2014, 9.9%; July 1, 2014 through June 30, 2015, 10.4%; July 1, 2015 through June 30, 2016, 10.9% and; on and after July 1, 2016, 11.3%.

SB 305 establishes a new section of the Educational Retirement Act regarding retirement eligibility. A member who initially became a member on or after July 1, 2012 or who was a member at any time before July 1, 2012 and had been refunded all member contributions, shall be eligible for a Tier type III retirement. Such members may apply for retirement benefits if: (1) they have thirty or more years of earned service credit and are at least 55 years of age; (2) 8 or more years of earned service credit and are 67 years of age or; (3) their age and earned service credits equal eighty and they are at least 55 years of age.

SB 305 amends Section 22-11-30 (H) which addresses the calculation of retirement benefits for a member retired pursuant to Section 22-11-23.1. Retirement benefits for Tier type III members shall be calculated in the same manner as retirement benefits are calculated for members retiring pursuant to Section 22-11-23.1 (Tier II). In addition, Retirement benefits for Tier type III members shall be reduced in accordance with the reduction schedule for members under the Rule of 80 in Tier II.

FISCAL IMPLICATIONS

The incremental contribution rate increases and the minimum retirement age of 55 will positively impact the unfunded accrued actuarial liability of the Fund. The actuarial impact is unknown at this time.

SIGNIFICANT ISSUES

The LFC is acutely concerned about the solvency of both PERA's and ERB's retirement plans.

- Despite the ERB's poor one-year rank, it still remains the only New Mexico fund to rank higher than the 25th percentile for the past five years; all other funds ranked well in the last quartile of their peer groups for the five-year period.

Three-Year Trend of Funded Ratios FY09-FY11

Fund	June 30, 2009	June 30, 2010	June 30, 2011
ERB	67.5%	65.7%	61.6%
PERA	84.0%	78.5%	70.5%

Source: Pension Valuations

- Realizing returns less than the assumed long-term rate adds to the plans' unfunded liabilities. In April, 2011, the ERB decreased the investment return assumption to 7.75 percent, down from 8 percent. As a result the unfunded accrued actuarial liabilities (UAAL) increased by $473 million, bringing the total UAAL for 2011 to $5.9 billion. Additionally, the PERA also decreased its assumed returns from 8 percent to 7.75 percent. The PERA had a substantial increase in its unfunded liability to nearly $5 billion

- Despite large investment gains for FY10 and FY11, both plans show weaker funded ratios – indicators of plan solvency that compare plan assets to pension obligations. Having 80 percent of obligations covered by assets (funded ratio) has traditionally been viewed as a minimum industry indicator of fund health. Neither plan meets that basic metric nor are they improving. Both plans go far beyond the recommended period of time to pay off the UAAL of 30 years established by the Governmental Accounting Standards Board. Both the ERB and PERA sit on an aggregate period that is now infinite, meaning – given all assumptions holding true – the debt would never be paid off for all its plans.

- New Mexico offers a defined pension benefit plan, calculating benefits based on years of service and highest average salary. The benefits include cost-of-living adjustments (COLAs) that accrue automatically and are tied to the Consumer Price Index (CPI) for inflation. In light of the recent recession and continued growth of pension liabilities, many state legislatures are considering modifying contractually vested rights in the name of state solvency. As a sovereign power, a state has the right to adjust any long-term contract that is largely unfair to one party (taxpayers).

The Legislative Council Service hired Buck Consultants in 2010 as an independent actuarial firm to advise the task force. While the firm offered valuable recommendations for improving actuarial methods and assumptions for the PERA and the ERB, the firm found the ERB will become insolvent by 2039 and the PERA by 2058, because assets are not growing as fast as the benefits paid out

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