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FISCAL IMPACT REPORT

ORIGINAL DATE 02/07/13

SPONSOR Roch LAST UPDATED _____ HB 96

SHORT TITLE Educational Retirement Sick Leave SB _____

ANALYST Daly

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	\$110.0*	\$70.0*	\$180.0*	Recurring	Educational Retirement Fund

(Parenthesis () Indicate Expenditure Decreases)

*These figures represent known costs. Other costs which are as yet undetermined may result in increased costs. See Fiscal Implications.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Educational Retirement Board (ERB)
 Children, Youth & Families Department (CYFD)
 Public Education Department (PED)
 Higher Education Department (HED)

SUMMARY

Synopsis of Bill

House Bill 96 (HB 96) would allow ERB members to convert unused sick leave into earned service credit for the purpose of retirement eligibility and calculating retirement benefits. Converted sick leave could only be used for retirement eligibility purposes after a member had attained the minimum contributory employment necessary to be eligible for retirement (that is, the member has vested) or to add to total earned service credit for purposes of calculating the retirement benefits of a member already eligible for retirement. A maximum of six (6) days of unused sick leave for each year of employment could be converted. A day of sick leave is defined in HB 96 to be eight hours of sick leave. Payments made to ERB members for unused sick leave would not be eligible for conversion.

Unused sick leave eligible for conversion would be limited to four quarters of earned service credit. The conversion schedule would be: 38 to 82 unused sick leave days – one (1) quarter of service credit; (2) 83 to 127 unused sick leave days - two (2) quarters of service credit; (3) 128 to

172 unused sick leave days - three (3) quarters of service credit; and (4) 173 or more unused sick leave days - four (4) quarters of service credit.

ERB members wanting to convert unused sick leave would have to obtain verification of their unused sick leave from their employer. Those members would have to pay the actuarial present value of the benefit attributable to the conversion of the member's unused sick leave to make the conversion. This cost, in addition to the time and manner of payments, would be determined by the ERB.

HB 96 would be effective July 1, 2013.

FISCAL IMPLICATIONS

The ERB reports it would have to upgrade the IRIS software system that handles member benefit administration. The ERB and its software vendor are in the process of a multi-year program to develop and implement a total revision of the system. If enacted, the July 1, 2013 effective date of HB 96 would result in the ERB having to develop two sets of software to implement the proposed legislation: one program for the current system and a new program for the revised system when it goes on line. These costs are estimated as: FY 2014 - \$80,000 and FY 2015 - \$70,000. In addition, an actuarial study would be required to determine the impact on the Educational Retirement Fund (the "Fund") of allowing such conversions. Actuarial studies normally cost between \$20,000 and \$60,000. For purposes of this FIR, the ERB estimates this cost to be \$30,000 in FY 2014. Thereafter, the ERB's actuaries would have to periodically update the factors to insure that they remain accurate. In addition, the ERB advises it would expend considerable staff resources to develop the specifications for the software that the vendor would write and to test that software to insure that it functioned properly; those costs are not estimated but would be substantial. In addition, those staff resources would not be available for other, on-going agency program activities. The ERB concludes that its operating budget would have to be increased to cover at least the external costs of \$180,000 shown above.

Additionally, the HED points out that HB 96 may reduce the payout of sick leave balances to its employees who are members of the ERB. And the CYFD notes that teachers earn nine days of sick leave annually and are allowed to carry over unused sick leave from one year to another with no cap on the total number of accumulated sick leave hours acquired, so a teacher conceivably could accumulate sufficient sick leave to convert it to a full year of service credit.

SIGNIFICANT ISSUES

The ERB cautions:

Allowing members to convert sick leave days into earned service credit would result not only in higher benefit amounts but also may result in member retirements occurring earlier than they otherwise might. Either of these factors should have an adverse impact on the unfunded actuarial accrued liability ("UAAL") of the Fund. The ERB would have to commission an actuarial study to confirm this. As no data would be available from New Mexico, data would have to be estimated based on the experience of other educational retirement funds with similar programs. Data from non-education retirement programs might not provide a sufficiently similar experience to be useful in attempting to

determine the impact that the proposed sick leave conversion program might have on the Fund. In addition, after the proposed program was implemented, the ERB would periodically have to review the actuarial assumptions on which it was operating to insure that they were, and remained, accurate.

The ERB advises that it does not know whether the purchase cost, the six day per year and the four quarters of earned service credit limits on sick leave that could be converted will be sufficient to limit any negative actuarial impact on the Fund.

However, it is not clear why Subsection E's requirement that a member pay the actuarial present value of the benefit attributable to the conversion of the member's sick leave, the amount to be paid and the time and manner of the payment is to be determined by the ERB, would not protect the Fund from any negative actuarial impact.

The ERB also notes that payment of the actuarial present value of the benefits attributable to the authorized conversion will not cover the costs to the ERB of developing, implementing, and managing the proposed program. In addition to internal costs, those costs include charges for software development and actuarial fees. The ERB asks that it be allowed to charge an additional fee to cover those costs. Otherwise, the Fund would be required to bear the additional cost of that would result if HB 96 is enacted.

PERFORMANCE IMPLICATIONS

The ERB advises that depending upon the cost and usage of the proposed sick leave conversion program, an additional staff person might be required to assist with administering the program and other, currently existing ERB programs.

ADMINISTRATIVE IMPLICATIONS

With the continued growth of the number of active and retired members that the ERB serves and the increase in the number of schools that the ERB must work with as the number of charter schools increase, the ERB comments that it is short of staff to administer its current programs. The proposed program could exacerbate this issue.

AMENDMENTS

The ERB suggests HB 96 be amended to allow the ERB to determine and charge a fee in addition to the actuarial present value of the benefit attributable to the conversion of the sick leave to cover the costs of developing, implementing and managing the proposed program.

MD/svb