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| LFC Requester: | Sunny Liu |
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**AGENCY BILL ANALYSIS
2019 REGULAR SESSION**

WITHIN 24 HOURS OF BILL POSTING, EMAIL ANALYSIS TO:

LFC@NMLEGIS.GOV

and

DFA@STATE.NM.US

{Include the bill no. in the email subject line, e.g., HB2, and only attach one bill analysis and related documentation per email message}

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply: Date 1/20/19
Original **Amendment** **Bill No:** SB157
Correction **Substitute**

Sponsor: Sen. William Soules **Agency Code:** 924
SICK LEAVE FOR EDUCATIONAL **Person Writing** Daniel Manzano
RETIREMENT CREDIT **Phone:** 505-670-3820 **Email** Daniel.Manzano@state.nm.us
Short Title: _____

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---------------|--------------------------|---------------------------|-----------------------------|
| FY19 | FY20 | | |
| | Indeterminate (Negative) | Recurring | Educational Retirement Fund |
| | | | |

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Nonrecurring | Fund Affected |
|-------------------|------|------|---------------------------|---------------|
| FY19 | FY20 | FY21 | | |
| | | | | |
| | | | | |

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY19 | FY20 | FY21 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|--------------|-------------|-------------|-------------|------------------------------|--------------------------------------|--------------------------|
| Total | | | | | | |

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

SB 157 amends the Educational Retirement Act to allow members eligible for retirement benefits to pay to have unused sick leave converted to service credit up to a maximum of six days of unused sick leave per year and four quarters of earned service credit. The cost would be the expected value of the purchased service credit under ERB's current actuarial assumptions.

FISCAL IMPLICATIONS

SB 157 allows ERB members eligible to retire to convert days of sick leave (Where 8 hours of sick leave equals one day), in the following manner:

- 38 to 82 days of sick leave allows purchase of one quarter (three months) of service credit;
- 83 to 127 days of sick leave allows purchase of two quarters of service credit;
- 128 to 172 days of sick leave allows purchase of three quarters of service credit; and
- 173 or more days of sick leave allows purchase of four quarters (a year's worth) of service credit.

SB 157 creates an incentive for employees to not use accrued sick leave near the end of their career and instead continue to serve the education system at this time when their skills are most valuable to the school districts, charter schools and Universities as employer.

However, reducing the retirement age increases the burden placed on the Educational Retirement Fund, the Educational Retirement Board (ERB's) defined benefit pension fund, to provide benefits to current and future retirees. As such, the provisions of SB 157 increase the unfunded actuarially accrued liability of the fund. Without an actuarial study, it is difficult to determine the exact amount of the negative impact, or even the costs of purchased service credits to eligible member retirees.

Policy makers must weigh the benefits of SB 157 in creating incentives for ERB contributing employees to not unnecessarily draw down accrued sick leave at the end of a career against the costs that will be borne by the ERB pension fund, and ultimately current and future ERB members and employers, for expanding access to early retirement.

SIGNIFICANT ISSUES

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

The effective date of July 1, 2019 will be overly burdensome on the ERB trustees and staff to commission an actuarial study, create a new sick leave conversion process, promulgate administrative rules, educate members and amend current applications already in process. The timing of the effective date is especially burdensome as the majority of retirements are processed by ERB staff beginning in May and running through August. PED questions whether the ERB staff could enact the provisions of SB 157 in the time frame given.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

ERB is seeking consideration of additional sustainability measures in this same Legislative session to address the growing UAAL of the pension fund. That bill, SB14, makes numerous structural changes to the benefit to reduce the growing UAAL as benefits being drawn down are not able to be addressed by any prudent investment decision making alone. ERB's investment returns consistently rank well in measures of risk-adjusted return and in comparison to other similarly situated pension plans. The sustainability issue for the ERB fund is largely the result of retirement benefits being paid out faster than the fund can generate revenues from contributions or compounding investment returns. SB 157 would appear to grow the UAAL in its current format because you increasing access to benefits earlier in the retirees life and benefits will be provided for a longer time frame.

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

Because the provisions of SB 157 will have a negative impact on the funded ratio of an already strained Educational Retirement Fund (fund), the sponsor may consider other options that allow ERB members to allow to convert sick leave to earned service credit, while minimizing impacts the Fund. For example, one policy option maybe to have the deferred sick leave liability accrued by school districts and charter schools paid to the fund on the Employer's behalf to partially offset the additional long term costs of a prolonged retirement benefit, in addition to the payment made by the member.

Another alternative for consideration is to work constructively, perhaps via a PED workgroup, LESC study, senate memorial or other process, with ERB's actuary to determine the cost of the proposal in SB 157 to help address the embedded tension between creating a good government policy designed to create a better incentive structure for sick leave and negatively impacting future retirement benefits for current and future ERB members. If a cost study was completed, policy makers would be able to better determine if the conversions proposed by SB 157 of the amount of sick leave to service credit are a "fair trade" between the member and the fund.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The Educational Retirement Fund's unfunded actuarially accrued liability will not grow, but ERB members will not have an incentive structure at the state level for not drawing down accrued sick leave.

AMENDMENTS