LFC Requester:	Jorgensen

AGENCY BILL ANALYSIS
2021 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:

Original X **Amendment** ____
Correction ___ **Substitute** ____

Date 1/28/2021
Bill No: SB42

Sponsor: Mimi Stewart
Short Title: INCREASE ED RETIREMENT CONTRIBUTIONS

Agency Name and Code Number: PED-924
Person Writing John Sena
Phone: 505-570-7816 **Email** John.Sena@state.nm.us

SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY21	FY22		

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23		

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		$18,691.4	$18,691.4	$37,382.8	Recurring	State General Fund - SEG

(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:
Senate Bill 42 (SB42) would implement a four-year phased-in increase of the statutory employer contribution rate to the Educational Retirement Fund from 14.15 percent in FY21 to 18.15 percent in FY25 and after. Similarly, SB42 would implement a four-year, phased-in increase of alternative retirement plan participation contribution rates from 3.25 percent in FY21 to 7.25 percent in FY25 and after. SB42 would repeal sections of law related to the IRS hold harmless contribution limit for members.

FISCAL IMPLICATIONS

SB42 would increase employer contributions to the educational retirement fund from the current rate of 14.15 percent of annual salary in FY21 to 18.15 percent of annual salary in FY25 and after. PED estimates the public schools' Operational fund impact of a single percentage point increase in employer contributions to the educational retirement fund to be $18.7 million for school districts and charter schools. This estimate is based upon using FY20 contributions as reported to OBMS to estimate total salaries. Actual amounts reported to ERB for salaries may differ. This amount does not include amounts for federally funded staff nor higher education and other participants.

SB42 does not contain an appropriation to the SEG to cover the additional employer contribution costs. Similarly, neither the Executive nor Legislative Public School Support requests consider an appropriation for the SEG that includes the costs for increased employer contributions to the Educational Retirement Fund. As such, if SB42 were to become law, the additional costs would need to be absorbed by the employers in their budgets.

SB42 Increase in ERB Employer Contributions Est. SEG Cost Analysis

FY20 Employer's Share Retirement Contributions	$264,482,949.53
Current Employer Contribution Rate	14.15%
Estimated FY20 ERB Operational Fund Public School Employee Salaries*	$1,869,137,452.51
Proposed Contribution Rate FY22	15.15%
Proposed Est. Employer Share Contributions	$283,174,324.06
Est. Dif. in Op. Fund Employer Contributions (to SEG)	**$18,691,374.53**

Source: PED Analysis of OBMS reported Data. *Amounts may differ from ERB calculations of revenues from public schools due to federal staff.

SIGNIFICANT ISSUES

ERB has significant unfunded liabilities impacting state finances. According to the 2020 annual report (for the fiscal year ending June 30, 2020) the ERB has a UAAL of $9 billion and has sufficient assets to pay for 60.4 percent of total liabilities. The increases to both employer contributions by year and alternative retirement plan participants in provided in the table below.

SB42 Proposed Contribution Rates

	Employer Contrib.	ARP Participant
FY21 (Current)	14.15%	3.25%
FY22	15.15%	4.25%
FY23	16.15%	5.25%
FY24	17.15%	6.25%
FY25 and after	18.15%	7.25%

The alternative retirement plan (ARP) is a defined contribution plan offering available to state universities, colleges and junior colleges since 1991 in which participants are non-members of the fund, and contribute the above percentages of earnings to the fund. The election into a defined contribution plan must be made at time of initial hire, otherwise plan participants are ERB defined benefit participants indefinitely.

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

SB42 repeals sections of a recent change to the Educational Retirement Act amending the same section and modifies language around contributions of members under the Internal Revenue Act in Subsection C by clarifying the methodology for revenues that may constitute contributions.

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS