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FISCAL IMPACT REPORT

SPONSOR Cervantes/Wirth/ **ORIGINAL DATE** 1/24/22
Munoz/Stewart **LAST UPDATED** 2/9/22 **HB** _____
SHORT TITLE Judicial Retirement Changes **SB** 2/aSFC
ANALYST Jorgensen

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY22	FY23	FY24	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$7,602.1	\$7,602.1	\$15,204.2	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Administrative Office of the Courts (AOC)

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendment to Senate Bill 2 (SB2) amends the short title of the bill, strikes all sections of the bill and replaces them. SB2 as amended would:

1. Add magistrate judges who begin service after July 1, 2022 to the Public Employees Retirement Association general plan 3.
2. Set salaries for supreme court justices equal to those of federal magistrate judges in the State of New Mexico.
3. Remove magistrate judges from a salary formula tied to the salary of other judges and stipulate that magistrate salaries shall be established by the Legislature.
4. Remove appropriations to the judicial and magistrate retirement funds included in the original bill.
5. Removes a retirement benefit enhancement for judicial retirement members included in the original bill.
6. Sets an effective date of July 1, 2022.

Synopsis of Original Bill

Senate Bill 2 (SB2) would increase pension benefits for district and magistrate judges, make direct appropriations to the judicial and magistrate retirement funds, and increase salaries paid to judges and justices. Specifically, the bill would allow appropriations to be accepted by judicial and magistrate retirement funds and appropriates \$35 million to the judicial fund and \$10 million to the magistrate retirement fund.

SB2 increases the service credit multiplier for judges in their first 10 years of service from 3.5 percent per year to 4 percent per year. After 10 years, a judge's service credit multiplier would be reduced back to 3.5 percent. A service credit multiplier is the percent of salary a pension participant earns for each year of service. For example, with a service credit multiplier of 2.5 percent, a retiree with 10 years of service would receive an annual pension benefit of 25 percent of salary. SB2 would allow a judge to receive a pension worth 40 percent of their salary after 10 years of service.

Lastly, SB2 increases the salary of a Supreme Court justice to be the same as a New Mexico federal magistrate judge. Because all judicial salaries follow a formula based on the salary paid to Supreme Court justices, the bill would increase salaries for court of appeals judges and district court judges in addition to justices. SB2 removes the salary calculation for magistrate judges that tie their salary to that of a metropolitan court judge so that the salary increases in SB2 wouldn't apply to magistrate judges.

There is no effective date of this bill. It is assumed that the effective date is 90 days following adjournment of the Legislature.

FISCAL IMPLICATIONS

SB2 would require the salary of a supreme court justice to equal that of a New Mexico federal magistrate judge. According to AOC, federal magistrate judges are paid \$205.5 thousand per year. Statute mandates that judges in the State of New Mexico be paid relative to a Supreme Court justice so that a Court of Appeals judge receives 95 percent the salary of a Supreme Court justice; a district court judge receives 95 percent of the salary of a Court of Appeals judge, and a Metropolitan Court judge receives 95 percent the salary of a district court judge.

Increasing the salary of a Supreme Court justice by \$51.5 thousand, or approximately 33 percent, would result in an added cost of \$7.6 million to courts statewide as shown in the estimated additional operating budget impact table. There is no appropriation in the bill to pay increased salary costs.

The employer retirement contributions for magistrate retirement are currently 15 percent. By changing magistrate judges to the state general plan 3, employer contributions would be increased to 18.2 percent. Without an additional appropriation, the 3.2 percent employer contribution increase would have to be absorbed by the current operating budget. While this will be an increased cost to court budgets, the number of magistrate judges beginning service each year is unknown. Therefore, the additional cost is not included in this analysis.

SIGNIFICANT ISSUES

A federal magistrate judge in New Mexico is currently paid \$205.5 thousand per year and this amount appears to be adjusted for inflation on an annual basis. If the salary provisions of SB2 were enacted, judges would receive automatic pay increases regardless of the financial resources available to the State of New Mexico. This may lead to a situation where judges receive salary increases even in years when state budgets are shrinking.

The employer retirement contributions for magistrate retirement are currently 15 percent. By changing magistrate judges to the state general plan 3, employer contributions would be increased to 18.2 percent. Additionally, the service credit accrued by magistrate judges would fall from 3.5 percent to 2.5 percent, the current service credit for PERA tier 2 members as shown in the table below.

Comparison of PERA Pension Plans

Plan	Employee Contribution	Employer Contribution	Total Contribution	Service Credit Multiplier	Benefit at 25 Years	Funded Ratio
Judicial Retirement	10.5%	15.0%	25.5%	3.5%	85%	53.3%
Magistrate Retirement	10.5%	15.0%	25.5%	3.5%	85%	54.1%
State General	9.9%	18.2%	28.2%	2.5%	63%	60.6%
State Police/Corrections	9.0%	25.6%	34.6%	3.0%	75%	129.1%
Municipal General	10.0%	13.5%	23.5%	2.5%	63%	78.0%
Municipal Police	17.3%	19.0%	36.3%	3.0%	75%	76.2%
Municipal Fire	17.6%	21.8%	39.4%	3.0%	75%	60.9%

The magistrate retirement fund currently receives a \$1.2 million annual distribution from the oil and gas proceeds and pass-through entity withholding tax and docket fee revenue. This funding would continue to flow to the magistrate retirement fund.

The AOC notes that the salary of New Mexico Supreme Court Justices as of July 2021 (\$153,394) ranks 48 out of 55 in the United States based on salaries in other states and territories.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB2 is related to House Bill 110 which provides for direct appropriations to the judicial and magistrate retirement funds.

CJ/acv