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FISCAL IMPACT REPORT

SPONSOR Hochman-Vigil/ Roybal Caballero **ORIGINAL DATE** 1/30/22
LAST UPDATED 2/10/22 **HB** 94/aHAFC
SHORT TITLE Judicial Retirement Changes **SB** _____
ANALYST Jorgensen

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY22	FY23	FY24	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		See Fiscal Implications			Recurring	Judicial Retirement Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB92, HB110, and SB2

SOURCES OF INFORMATION

LFC Files

Responses Received From

Administrative Office of the Courts (AOC)
Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee amendment to House Bill 94 strikes the \$35 million appropriation to the judicial retirement fund.

Synopsis of Original Bill

House Bill 94 (HB94) amends the Judicial Retirement Act to allow direct appropriations to be made to the judicial retirement fund and appropriates \$35 million from the general fund to the judicial retirement fund.

HB94 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. HB94 would allow a judge to receive a pension worth 40 percent of their salary after 10 years of service.

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

Increasing the benefit accrued by judges without increasing contribution rates will have a negative impact on the funded status of the judicial pension fund. The cost of the benefit enhancement is not known and not reflected in this analysis.

SIGNIFICANT ISSUES

According to the 2021 valuations of the PERA plans, the judicial and magistrate retirement plans pay the greatest benefits and are the worst funded of all plans under PERA 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%

Currently, no PERA pension plans offer a variable rate service credit multiplier as contemplated by HB94. However, Educational Retirement Board plans do have a variable rate service credit multiplier which works in the opposite way as HB94; in the ERB plan, the service credit multiplier is increased over time to provide added incentive for teachers to remain in the classroom. HB94 provides the largest benefit at the beginning of a career and then reduces it after 10 years.

PERA notes that a \$35 million appropriation to the judicial retirement fund would allow the plan to achieve full funding by 2036. As of the 2021 valuation, the judicial retirement fund was not anticipated to reach full funding until 2062.

RELATIONSHIP

Relates to

- HB92, magistrate retirement changes (includes \$10 million appropriation);
- HB110, makes an appropriation of \$35 million to the judicial retirement fund and \$10 million to the magistrate retirement fund; and
- SB2, judicial and magistrate retirement changes.