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DRAFT FISCAL IMPACT REPORT

ORIGINAL DATE 01/19/14
 SPONSOR HJC LAST UPDATED 02/11/14 HB 33/HJCS
 SHORT TITLE Judicial Retirement Changes SB _____
 ANALYST Jorgensen/Hanika-Ortiz

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
	FY15	FY16		
	\$907.3	\$907.3	Recurring from employee and employer contribution increases	Judicial

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	(\$198.0)	(\$198.0)	(\$396.0)	Recurring from benefit reductions	JRA
	\$461.3	\$461.3	\$922.6	Recurring to the Courts for employer contribution increases	GF

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of HJC Substitute

House Bill 33 as substituted by the House Judiciary Committee amends the Judicial Retirement Act (JRA) to improve solvency, as follows:

Cost-of-Living Adjustment (COLA)

- Suspends the COLA for FY15 and FY16
- In FY17, provides a 2 percent COLA if the Fund is at or greater than 100 percent
- Suspends the COLA if the funded ratio falls below 100 percent; however, COLA suspensions may be implemented for no more than two consecutive fiscal years

Employee and Employer Contributions

- Effective July 1, 2014, increases employee contributions 7.5 percent to 10.5 percent

- Effective July 1, 2014, increases employer contributions 12 percent to 15 percent

Mandatory Membership

- Requires all judges and their employers to make contributions
- Requires those judges who are retired from another state system to make refundable working retiree contributions during their terms as judge
- Suspends the COLA for judges who are retired from another state retirement system for the duration of their terms as judge

New Benefit Structure

- Raises age and service requirements for judges who became members:
 - Prior to July 1, 2005; 60 years with 15 years of service credit or 65 years (from 64 years) with 5 years of service credit
 - July 1, 2005 – June 30, 2014; 55 years with 16 years of service credit or 65 years (from 64 years) with 5 years of service credit
 - On or after July 1, 2014; 60 years with 15 years of service credit or 65 years with 8 years of service credit
- Beginning July 1, 2014, lowers the pension multiplier to 3.5 percent (from 3.75 percent) for active judges and 3.25 percent for new judges and prorates future service credit for those active members for a “blended” pension benefit
- Increases the final average salary calculation to 5 years (from one year)
- Increases the pension maximum to 85 percent (from 75 percent)
- Increases the vesting period to 8 years (from 5 years) for new judges
- Changes survivor benefits for new judges who first take office on or after July 1, 2014 to a survivor benefit that is similar to other PERA member coverage plans

FISCAL IMPLICATIONS

The bill has a positive fiscal impact on the Judicial Retirement Fund. For the year ending June 30, 2013, the Judicial Fund was 55.7 percent funded and had a \$63.7 million unfunded liability.

As reflected in the tables, the bill will provide an additional \$446.1 thousand in revenue from the increase in employee contributions and an additional \$461.3 thousand from the increase in employer contributions beginning FY15. In addition, the Judicial Fund will experience a decrease in recurring expenditures from provisions that reduce the COLA and service credit.

The PERA noted in its analysis that the bill does not address the fundamental issue of financing employer contributions through the use of docket fees. According to the most recent actuarial valuation, the Judicial Fund received \$2.2 million in revenue from docket fees during FY13.

SIGNIFICANT ISSUES

The bill requires both employee and employer contributions from previously nonparticipating judges. Historically, judges who have previously retired under any other state system were excluded from membership under the JRA. Further, any judge could exempt themselves from membership within 30 days of first taking office. The bill will require these few previously excluded judges to make refundable (with interest) employee contributions.

Unlike the current return-to-work provisions for retired state employees, “working retiree” judges can collect both a pension and a salary and their contributions are refundable.

The proposed changes to the benefit structure will enable the Judicial Fund to reach a 100 percent funded ratio in 30 years. According to the American Academy of Actuaries, plans should have the objective of accumulating assets equal to 100 percent of a relevant pension obligation.

ADMINISTRATIVE IMPLICATIONS

PERA will be required to make modifications to its pension administration system.

RELATIONSHIP

Relates to HB 216/HJCS and SB 160/SJCS, amending the Magistrate Retirement Act

OTHER SUBSTANTIVE ISSUES

For the year ending June 30, 2013, only 3 of the 124 active judges did not participate in the JRA plan. Mandatory membership is a strong driver of the solvency of any defined benefit plan.

ALTERNATIVES

The legislature may want to consider requiring working retiree judges to comply with PERA’s return-to-work rules for state employees that include nonrefundable employee contributions.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The judicial retirement plans will continue to provide a more generous pension benefit than what is currently provided to public employees, public safety employees and teachers. As the Fund continues to decline, more severe benefit cuts and cash infusions may be required in the future.

AHO/jl:ds