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FISCAL IMPACT REPORT

SPONSOR	<u>Roybal Caballero/Stefanics</u>	LAST UPDATED	<u>3/14/2025</u>
		ORIGINAL DATE	<u>2/1/2025</u>
SHORT TITLE	<u>Magistrate Judge Retirement Changes</u>	BILL	<u>House Bill</u>
		NUMBER	<u>183/aHFI#1</u>
		ANALYST	<u>Simon</u>

REVENUE* (dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
Magistrate Employer Contributions		\$375.1	\$386.4	\$397.9	\$409.9	Recurring	Magistrate Retirement Fund
Magistrate Employee Contributions		\$330.9	\$340.8	\$351.0	\$361.6	Recurring	Magistrate Retirement Fund
Total		\$706.0	\$727.2	\$749.9	\$771.5		

Parentheses () indicate revenue decreases.

Numbers may not sum due to rounding.

*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Court Budgets		\$375.1	\$386.4	\$761.5	Recurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Duplicates Senate Bill 151, Relates to Senate Bill 138

Sources of Information

LFC Files

Agency Analysis Received From

Administrative Office of the Courts (AOC)

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of HFI #1 Amendment to House Bill 183

The House Floor amendment #1 to House Bill 183 (HB183) includes technical and clarifying changes. The amendment replaces the term “years of service” with “years of service credit” to standardize the term with other sections of law that use the term “years of service credit.” Further, the amendment adopts a revision recommended by the Public Employees Retirement Association (PERA) to ensure changes made to the calculation of the maximum pension amount

are made only for future earned service credit and the bill does not apply to service credit that has already been earned.

Synopsis of Original Bill

House Bill 183 would increase retirement benefits for magistrate court judges. The bill reduces the number of years a magistrate must serve before qualifying for a benefit from eight years to five years for those retiring over age 65, increases the multiplier used to calculate pension benefits from 3 percent to 3.5 percent, and increases the maximum pension benefit from 85 percent of salary to 100 percent of salary.

To fund these increases and improve the stability of the magistrate retirement fund, the bill would increase employer contributions from 15 percent of salary to 19.24 percent of salary and employee contributions from 10.5 percent of salary to 14.74 percent of salary.

The effective date of this bill is July 1, 2025.

FISCAL IMPLICATIONS

The bill would increase benefits paid to members of PERA covered by the Magistrate Retirement Act. Article XX, Section 22, of the New Mexico Constitution prohibits the Legislature from enacting any law that increases the benefits paid by PERA unless adequate funding is provided. That section assigns the PERA board the sole and exclusive power to adopt actuarial assumptions, based on recommendations from an independent actuary.

In addition to benefits increases, the bill also includes additional revenue to the magistrate retirement fund. Actuarial analysis provided by PERA indicates that increased revenue would offset the cost of the benefit increase and improve the actuarial condition of the fund. While PERA expects the unfunded liability to increase slightly, the contribution rate needed to meet the board's funding policy would change from a funding deficit of 1.64 percent to a surplus of 4.41 percent. PERA's actuaries expect the fund to reach full funding in 25 years, below the 30 year amortization period considered best practice. The current amortization period is 67 years.

Analysis from the Administrative Office of the Courts (AOC) does not calculate the fiscal impact of the bill but notes contributions will rise for both magistrates and the courts. Similarly, analysis from PERA does not project anticipated revenue should the bill pass. Total magistrate salaries were estimated from state personnel records as of January 1, 2025, with an increase of 4 percent applied for FY26, based on the Legislative Finance Committee's recommendation for the General Appropriation Act. PERA's actuaries assume annual payroll growth of 3 percent and this assumption was used to project salary increases from FY27 through FY29. The table below includes calculations based on these assumptions.

Fiscal Impact of House Bill 183: Contributions to the Magistrate Retirement Fund

Position	FTE	FY26 Estimate* Salaries	Current Employer	HB183 Employer	Diff.	Current Member	HB183 Member	Diff.
Magistrate Judge	67	\$8,846,796	\$1,327,019	\$1,702,124	\$375,104	\$928,914	\$1,259,784	\$330,870

*Adjusted from current salaries based on the LFC recommendation for FY26.

Source: State Personnel Records

Overall, LFC estimates the bill would increase contributions to the magistrate retirement fund by \$705 thousand, or 31.3 percent, in FY26. Employer contributions would increase by an average

of \$5,600 per current member and member contributions would increase by an average of \$4,900. The bill does not include an appropriation and analysis from AOC notes the increased employer contributions will be paid “without additional general fund appropriations,” suggesting courts currently have sufficient funds within their budget to cover the estimated \$375 thousand in payments. Separately, the judicial branch has submitted a request for a \$13.6 million appropriation from the general fund for compensation increases for judicial branch employees earning less than \$100 thousand per year and it is unclear why the court has not already deployed the \$375 thousand available to partially address this issue.

SIGNIFICANT ISSUES

Pension benefits from PERA’s magistrate retirement fund are calculated by multiplying a member’s salary against a multiplier set in state law by the number of years of service credit a member has accrued. Currently, the multiplier for the magistrate retirement fund is set at 3 percent, meaning for each year of service credit the member’s benefit increases by 3 percent of salary. So, for example, a member with 10 years of service credit would receive 30 percent of their salary. Salary is calculated based on the average of the amount earned during the member’s highest paid five consecutive years, typically at the end of the member’s career.

HB183 would increase pension benefits for magistrate judges by 14.3 percent by increasing the multiplier from 3 percent to 3.5 percent. So, for example, under HB183, pension amounts would increase from 30 percent of salary to 35 percent of salary for a member with 10 years of service.

HB183 would also increase the maximum allowable benefit, which is currently capped at 85 percent of salary. The bill would increase the cap to 100 percent, in line with recent changes made to the PERA fund for other public employee plans. Analysis from PERA notes members would be required to work a longer period before becoming eligible for the higher benefit. According to PERA’s most recent financial report, the magistrate retirement fund had 86 active retirees, with 35 who earned less than 10 years of service credit, 36 who earned at least 10 years but less than 20 years, and 15 who earned 20 years or more of service credit. The average monthly benefit, as of June 30, 2024, was \$3,606.

HB183 would decrease the minimum amount of service credit needed before a member is eligible for a benefit payment. Members who do not reach the minimum service credit requirement are eligible to receive a refund of their contributions to PERA plus interest but are not eligible for pension benefits. Since July 2014, new members must serve for eight years to qualify for a benefit at age 65; the bill would lower that to five years. Members whose service began before July 2014 need five years of service before becoming eligible and current law allows members with more years of service to retire at a younger age. Data from PERA’s financial report indicates 20 of the 86 active retired members, or about 23 percent, served between five years and nine years. It is likely most of these members began their service prior to July 2014 and likely needed only five years of service to qualify. It is unclear what percentage of members whose service began after 2014 have completed at least five but less than eight years of service, but the change could increase the number of members eligible for a pension benefit. PERA’s analysis does not address the potential fiscal impact of this change.

Analysis from AOC indicates the bill addresses the persistent underfunding of the magistrate retirement fund. As of June 30, 2024, PERA reported total liabilities of the magistrate retirement

fund \$65.4 million and total assets of \$34.3 million for a funded ratio of 52.4 percent. With current contribution rates, PERA's actuaries expect the unfunded liability to be paid off in 67 years, above the board's target of 25 years. Fund stability could be improved if the additional contributions included in the bill fully offset the benefits increase proposed and provide the fund with additional resources to pay off the unfunded liability earlier.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 183 duplicates Senate Bill 151. House Bill 183 relates to Senate Bill 138, which would eliminate a \$1.2 million per year distribution to magistrate retirement fund from tax proceeds that would otherwise be directed to the general fund.

OTHER SUBSTANTIVE ISSUES

Section 1 of the bill would amend the section of law creating the magistrate retirement fund to include appropriations among the funding sources that could be deposited in the fund. Analysis from PERA notes this language is consistent with typical fund language.

In analysis of the original bill, PERA noted the increase in pension benefits does not appear to apply to only future service, which could increase costs to the fund. House Floor Amendment #1 clarifies that the increase would only apply to future earned service credit (Item #3 of House Floor Amendment 1), eliminating this concern.

Additionally, in analysis of the original bill PERA noted the maximum allowable benefit does not clearly indicate if previously earned service credit can be applied to this new limit, allowing members who have already reached the 85 percent cap to claim additional pension benefits for credit they have already earned. Similar legislation for other PERA members enacted in 2024 included a temporary provision indicating the increase applied only to future earned service credit. In other words, a member near retirement would need to work additional years to earn additional service credit. House Floor Amendment #1 included an applicability section, similar to that included in the 2024 legislation for other PERA members, noting the increase only applies to future earned service credit (Item #4).

JWS/hj/sgs