F I S C A L   I M P A C T   R E P O R T

SPONSOR Varela **DATE TYPED** 02/02/05 **HB** 205

SHORT TITLE Judicial Retirement Contributions **SB**

ANALYST Geisler

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			150.1	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	150.1	150.1	Recurring	Judicial Retirement Fund
	100.1	100.1	Recurring	Judicial Retirement Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates: Senate Bill 246

SOURCES OF INFORMATION

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

SUMMARY

Synopsis of Bill

House Bill 205 is Legislative Finance Committee sponsored legislation that addresses actuarial problems of the judicial retirement fund by providing for graduated increases in employer and judge contribution levels. The bill will increase the judges contribution by 1% in both FY 06 and FY 07 and the employer contribution by 1.5% in both FY 06 and FY 07.

House Bill 205 amends the PERA Act to create a new retirement benefit structure for judges (district court, metropolitan court or court of appeals) and justices (supreme court) who first become members on or after July 1, 2005. The new plan provides for a moderate decrease in normal retirement eligibility by providing a minimum age (55) and years of service (16), and provides a straight 3.75% pension factor for all years of service.

Significant Issues

PERA's actuarial study of June 30, 2004 illustrated a continued contribution under-funding of employer/employee contributions to the judicial retirement fund. A contribution level equivalent to 47% of payroll would be required to cover the normal costs of the program as well as amortize the unfunded actuarial liability within the 30 year period established by the Governmental Accounting Standards Board (GASB) However, total statutory contributions are only 33% of payroll, a shortage of 14% in the contribution level. House Bill 205 begins to address this shortfall by providing a 5% increase in judge/employer contributions and by developing a new retirement plan for future judges which will be less expensive. PERA estimates the changes proposed by HB 205 will reduce the shortfall from 14% to 4.92%.

FISCAL IMPLICATIONS

The cost of the increased employer contributions is $150.1 thousand in FY 06 and will increase in future years based on salary increase. Neither the LFC or executive recommendation included funding for increased employer contribution in their respective FY06 recommendations, but it will be included in the FY 07 budget request if the bill passes. The increased employee contributions will provide an additional $100 thousand during both FY 06 and FY 07 to the fund.

ADMINISTRATIVE IMPLICATIONS

Moderate administrative implications for PERA and AOC, particularly in keeping track of justices/judges elected pre 7/1/05 and post 7/1/05 for payroll contribution purposes.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 246, also sponsored on behalf of the Legislative Finance Committee, is identical to House Bill 205.

OTHER SUBSTANTIVE ISSUES

Recent History of Contribution Levels

Legislation passed in 2003/2004-plan year that increased judge contributions from 5.0% to 5.5% of salary. Pensions are directly related to judicial payroll. The source of contribution revenues to the Judicial Fund are 5.5% of salary by judges, 9.0% of salary by employers and a portion of docket and jury fee revenue. Historically, there is a poor correlation between docket fee revenue and judicial payroll. PERA's actuaries recommend that all employer contributions be related to payroll. The disconnect between contribution revenues and benefits needs to be addressed to preserve the long-term health of the Fund. House Bill 205 proposes graduated increases in contribution revenue of 1% of salary by judges and their employers for each of the next 2 fiscal years is a step in the right direction. For FY06, judges will pay 6.5% of their salary in contributions and their employer will pay 10.0% of salary in contributions. For FY07, judges will pay

7.5% of their salary in contributions and their employer will pay 11.0% of salary in contributions. These are positive steps toward stabilizing the relationship between contribution revenues and benefits.

Comparing Current Judicial Retirement Benefits vs HB 205 proposed Benefits

CONTRIBUTIONS:

CURRENT:	5.5% of salary by judge 9% of salary paid by employer $38 from Civil Docket Fees
PROPOSED:	FY06 6.5% of salary by judge FY06 10.5% of salary paid by employer FY07 7.5% of salary by judge FY07 12% of salary paid by employer $38 from Civil Docket Fees

ELIGIBLITY FOR RETIREMENT:

CURRENT:	Age 64 with 5 or more years of judicial service Age 60 or older with 15 or more years of judicial service Early Retirement: Between the ages of 50 – 60 with 18 years of service credit
PROPOSED:	Age 64 with 5 or more years of judicial service Age 55 or older with 16 or more years of judicial service No Early Retirement

CALCULATION FOR ANNUAL PENSION:

CURRENT:	37.5% of FAS plus 3.75% of FAS for each year of service in excess of 5 years Maximum is 75% of FAS (salary received during the last year in office) Early Retirement: Applicable between ages 50-60 Pension equal to 70% of FAS plus reduction factor for each year between age 50-60
PROPOSED:	3.75% of FAS for each year of service; maximum is 75% of FAS (salary received during the last year in office)

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

The continued under-funding of the JRA plan may place the plan in a critical actuarial unfunded status requiring substantial funding to make solvent.

AMENDMENTS

PERA suggests the following technical correction:

Page 3, line 2, after "July 1, 2005," delete the remainder of the paragraph and replace with "the amount of pension is equal to three and seventy-five one hundredths of one-twelfth of the salary received during the last year in office multiplied by credited service. The amount of pension shall not exceed seventy-five percent of the salary received during the last year in office."

GG/lg