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

SPONSOR Leavell **DATE TYPED** 02/03/05 **HB**

SHORT TITLE Magistrate Retirement Contributions **SB** 201

ANALYST Geisler

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
			$31.9 (see narrative)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	$31.9	See narrative	Recurring	Magistrate Retirement Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates: HB 216

SOURCES OF INFORMATION

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

SUMMARY

Synopsis of Bill

Senate Bill 201 is Legislative Finance Committee (LFC) sponsored legislation which addresses actuarial concerns of the Magistrate Retirement Act (MRA) by providing an increase in the employer contribution of 1.0% during FY 06 and another 1.0% increase during FY 07. The employee (justices and judges) contribution will increase by 1.0% during FY 06 and another 1.0% increase during FY 07.

Significant Issues

As of June 30, 2004, the Magistrate Fund was, for the first time since 1998, less than 100% funded. Required contributions to maintain long term solvency exceed the current statutory contribution rate by 4.05% of payroll. Given the fact that statutory contributions are less than the normal cost of the plan, it is likely that the funded condition of this plan will deteriorate in the absence of future experience gains.

FISCAL IMPLICATIONS

The cost of the increased employer contributions is $39.7 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.

ADMINISTRATIVE IMPLICATIONS

Moderate administrative implications for PERA and AOC to adjust employer and employee payroll contributions.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 216 and Senate Bill 201 are duplicate bills.

OTHER SUBSTANTIVE ISSUES

Additional Actuarial Information on MRA

In aggregate, MRA experience was less favorable than expected, producing an experience loss of for the year ending June 30, 2004. The primary sources of the experience loss were a rate of return on the funding value of assets that was less than the long-range assumption (3.8% vs. 8.0%), losses related to retiree mortality (less benefits were removed than expected) and losses related to new hires (one member came into the plan with 7 years of service). Aggregate experience resulted in a loss of $0.6 million and a reduction in the funding status from 102% to 99%.

Legislation passed in 2003/2004-plan year increased magistrate contributions from 5.0% to 5.5% of salary while increasing payroll by 6%. Pensions are directly related to magistrate payroll. The source of contribution revenues to the Magistrate Fund are 5.5% of salary by magistrates, 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 magistrate payroll. PERA's actuaries recommend that all employer contributions be related to payroll. Although the Magistrate Fund continues to be extremely well funded, the disconnect between contribution revenues and benefits need to be addressed to preserve the long-term health of the Fund. Senate 201 proposes graduated increases in contribution revenue of 1% of salary by magistrates and their employers for each of the next 2 fiscal years is a step in the right direction. For FY 06, magistrates will pay 6.5% of their salary in contributions and their employer will pay 10.0% of salary in contributions. For FY 07, magistrates 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.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

Magistrates covered by the Magistrate Retirement Act will continue to pay employee contributions of 5.5% of salary and the state will continue to make employer contributions of 9% of salary on their behalf to the Fund. Given the fact that statutory contributions are less than the normal costs of the plan, it is likely that the funded condition of this plan will deteriorate in the absence of future experience gains.

GG/lg