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

ORIGINAL DATE 01/27/13
SPONSOR Stewart **LAST UPDATED** ____ **HB** 169

SHORT TITLE Judicial Retirement Contributions **SB** ____

ANALYST Jorgensen

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY13	FY14		
	$2,667.1	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15		
	$2,667.1	$2,667.1	Recurring	General Fund
	($2,667.1)	($2,667.1)	Recurring	Docket Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to SB 25, HB 95

SOURCES OF INFORMATION
LFC Files

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

SUMMARY

Synopsis of Bill

House Bill 169 amends the Judicial and Magistrate Retirement Acts to require employer contributions under the respective retirement plans to be based on a statutory percentage of salary. The current statutory requirements for funding these retirement systems rely substantially on docket fees. Deposit of docket fees into the retirement funds is replaced with provisions transferring docket fees directly to the general fund with corresponding increases to statutory employer contribution rates for both retirement funds. HB 169 is designed to have no general fund impact as a result of the transfer of docket fees. The proposed changes presented in HB 169 have been recommended as an "essential first step" by the PERA's actuary and endorsed by the Investments and Pensions Oversight Committee.

HB 169 provides a $2.6 million non-reverting appropriation from the general fund to the Department of Finance and Administration for distribution in fiscal year 2014 and subsequent years to pay increased employer contributions in courts statewide.

FISCAL IMPLICATIONS

HB 169 appropriates $2,667.1 thousand from the general fund for the increased employer contribution costs and directs the docket fees to the general fund. In FY12, the docket fees generated revenues of $2,667.1 thousand. This bill will be revenue-neutral should the number of case filings remain constant, however, number of cases filed is variable. The PERA has noted that the increased employee and employer contribution rates proposed by HB 169 are insufficient to fund the long-term pension obligations under the retirement system as a percentage of judiciary payroll.

SIGNIFICANT ISSUES

Historically, the PERA's actuaries have indicated that a poor correlation between docket fees and judicial/magistrate payroll exists. The PERA's actuaries have consistently recommended that all employer contributions for both the judicial and magistrate retirement funds be related to payroll. HB 169 addresses this recommendation and is an essential first step to long-term solvency of the Judicial and Magistrate Funds.

For the year ending June 30, 2012, the Magistrate Retirement Fund is 53.21 percent funded and has a $27.2 million unfunded liability. The total actuarially required contribution (ARC) necessary to fund the existing benefits under the magistrate retirement system is 74.29 percent of magistrate payroll, which exceeds existing rates by 42.02 percent of payroll.

For the year ending June 30, 2012, the Judicial Retirement Fund is 51 percent funded and has a $72.4 million unfunded liability. The total actuarially required contribution (ARC) necessary to fund the existing benefits under the judicial retirement system is 59.9 percent of judicial payroll, which exceeds existing rates by 23.68 percent of payroll.

Civil cases, from which docket fees and jury fee revenue supporting judicial retirements are collected, have decreased by 7.7 percent between FY09 and FY12. It is unclear what the status of civil filings will be in FY13, and therefore unknown as to whether there will be a negative, neutral, or positive impact on the general fund should HB 169 become law.

RELATIONSHIP

This bill is related to House Bill 95 and Senate Bill 25 which propose changes to the JRA and MRA as well.

OTHER SUBSTANTIVE ISSUES

According to the AOC, HB 169 addresses the structural deficiency in funding the JRA and MRA by increasing employer contributions while removing the docket fees from contributing to the retirement funds and redirecting that revenue to the general fund. The retirement funds would then be funded wholly from employer and employee contributions, as a percentage of salary. This is a critical step toward the actuarial soundness of the judicial retirement funds. While this requires an appropriation of $2,667.1, that appropriation will be balanced, or nearly balanced by the docket fee revenue going into the general fund. With the FY12 docket fee revenue of $2,667.1, the net impact to the general fund from this bill in FY12 would have been zero

The Magistrate Retirement Fund is currently funded at 53.21 percent. As of June 30, 2012, there are 42 active magistrates in the magistrate plan; there are 85 retired magistrates on retiree payroll. As a mature system, the Magistrate Retirement Fund is expected to see a negative cash flow as the number of members receiving benefit payments exceeds the number of active contributing members in the plan. Additional measures must be taken to reduce the amount of negative cash flow.

CJ/bm