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

		ORIGINAL DATE	01/30/14		
SPONSOR	HJC	**LAST UPDATED**	02/11/14	**HB**	216/HJCS
SHORT TITLE	Magistrate Retirement Changes			**SB**	
				ANALYST	Jorgensen/Hanika-Ortiz

REVENUE (dollars in thousands)

Estimated Revenue			**Recurring or Nonrecurring**	**Fund Affected**
	FY15	**FY16**		
	$291.6	$698.1	Recurring from employee and employer contribution increases	Magistrate

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	**FY16**	**3 Year Total Cost**	**Recurring or Nonrecurring**	**Fund Affected**
	($79.2)	($79.2)	($158.4)	Recurring from benefit reductions	MRA
	$0.0	$406.5	$406.5	Recurring to the Courts for employer contribution increases	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

SUMMARY

Synopsis of Bill

House Bill 216 as substituted by the House Judiciary Committee amends the Magistrate Retirement Act (MRA) 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, 2015, increases employer contributions 11 percent to 15 percent

<u>Mandatory Membership</u>

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

<u>New Benefit Structure</u>

- Raises age and service requirements for magistrates who became members:
  - Before July 1, 2014; any age and 24 years of service credit, 60 years with 15 years of service credit or 65 years (from 64 years) with 5 years of service credit
  - On or after July 1, 2014; any age and 24 years of service credit, 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 5.0 percent) for active magistrates and to 3.0 percent for new magistrates and prorates the 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 magistrates
- Changes survivor benefits for new magistrates 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 Magistrate Fund. For the year ending June 30, 2013, the Magistrate Fund was only 58.4 percent funded and had a $22.6 million unfunded liability.

As reflected in the tables, the bill will provide an additional $291.6 thousand in revenue from the increase in employee contributions beginning FY15 and an additional $406.5 thousand from the increase in employer contributions beginning FY16. In addition, the Magistrate Fund will experience a decrease in recurring expenditures from reducing 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 Magistrate Fund received $511 thousand in revenue from docket fees in FY13, an increase of about 10 percent, or $50 thousand, over FY12.

SIGNIFICANT ISSUES

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

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

The proposed changes to the benefit structure will enable the Magistrate Fund to reach a 90 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, DUPLICATES

Duplicates SB 160/SJCS, amending the Magistrate Retirement Act

Relates to House Bill 33, amending the Judicial Retirement Act

OTHER SUBSTANTIVE ISSUES

For the year ending June 30, 2013, only 41 of 66 magistrates (62 percent) participated in the MRA plan. Mandatory membership is a strong driver of the solvency of any defined benefit plan.

ALTERNATIVES

The funded ratio grows 3 percent for every quarter of a percent decrease in the multiplier. To enable the Fund to move closer to a 100 percent funded ratio, the legislature may want to consider lowering the multiplier to 3.25 percent or less for active magistrates and require those magistrates retired under another state retirement system to make nonrefundable working retiree contributions, as is required from other state employees returning-to-work after retirement.

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 Magistrate Fund continues to decline, more severe benefit cuts may be required in the future.

AHO/jl:svb