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

SPONSOR Trujillo, J

ORIGINAL DATE 01/30/14
LAST UPDATED 01/30/14

HB 216

SHORT TITLE Magistrate Retirement Changes

SB

ANALYST Jorgensen/Hanika-Ortiz

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY14	FY15		
	$5,000.0	Nonrecurring	Magistrate Retirement Act

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
	FY15	FY16		
	$698.1	$698.1	Recurring	Magistrate Retirement Act

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		($64.3)	($64.3)	($128.6)	Recurring	Magistrate Retirement Act
Total		$406.5	$406.5	$813.0	Recurring	General Fund (Courts)

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

SUMMARY

Synopsis of Bill

House Bill 216 appropriates $5 million from the general fund to the Magistrate Retirement Act (MRA) Fund and incorporates the Administrative Office of the Court’s pension reform proposal

endorsed by the interim Investments and Pensions Oversight Committee as follows:
Cost-of-Living Adjustment (COLA)

- Suspends the COLA for all magistrates for two years (July 1, 2014 and July 1, 2015).
- Effective July 1, 2016, provides eligible retirees with a 2 percent compounding COLA if the MRA Fund is at or greater than a threshold of 80 percent.
- Suspends the COLA if the MRA Fund's funded ratio falls below 80 percent. COLA suspensions may be implemented for no more than two consecutive fiscal years.

Increased Employee and Employer Contributions

- Effective July 1, 2014, increases employee contributions 3 percent (from 7.5 percent to 10.5 percent);
- Effective July 1, 2014, increases employer contributions 4 percent (from 11 percent to 15 percent);
- Requires "non-member" contributions during employment for magistrates that have filed an exemption from membership; non-members will receive a refund of contributions, with interest, upon termination of employment.

New Benefit Structure

- Raises age and service for normal retirement 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 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 3.75 percent).
- Increases the pension maximum to 85 percent (from 75 percent).
- Increases the vesting period to 8 years (from 5 years) for magistrates who first take office on or after July 1, 2014.
- Changes survivor benefits to be similar with other PERA member coverage plans.

FISCAL IMPLICATIONS

The appropriation of $5 million contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY15 shall not revert to the general fund.

The revenue table above reflects employer and employee increases of 4 and 3 percent, respectively, resulting in a positive recurring impact to the fund.

The operating budget impact table reflects spending decreases from reducing the COLA and service credit and the negative impact to Court budgets from the employer contribution increase.

SIGNIFICANT ISSUES

The bill has a positive fiscal impact on the MRA Fund. For the year ending June 30, 2013, the MRA Fund was only 58.4 percent funded and had a $22.6 million unfunded liability.

The proposed benefit changes bring the MRA Fund to an 80 percent funded ratio in 2043.

ADMINISTRATIVE IMPLICATIONS

PERA will be required to make modifications to its pension administration system to administer the new benefits under the Magistrate retirement system.

TECHNICAL ISSUES

On page 3, lines 15-22, the definitions of “non-member” and “non-member contributions” may be at odds with IRS rules relating to the ability of a pension plan to defer employee contributions for “non-members” and allow refunds of those “non-member contributions” at a later time.

OTHER SUBSTANTIVE ISSUES

For the year ending June 30, 2013, only 62 percent of eligible magistrates participated in the Fund (41 of the 66 active magistrates).

In 2013, Senate Bill 27 (SB 27) decreased the COLA from 3 percent to 2 percent per year effective July 1, 2013 and established a longer COLA eligibility period. These changes resulted in a decrease of $5.3 million to MRA liabilities and an increase of 5.2 percent to the funded ratio.

ALTERNATIVES

Senate Bill 160 (SB 160) is a similar bill endorsed by the Legislative Finance Committee and incorporates most aspects of the Administrative Office of the Court’s (AOC) pension reform proposal for the magistrates except for the following:

1) Requires all members to be “members” and does not allow a refund of employee contributions if currently collecting both a PERA pension and magistrate salary.
2) Increases the COLA reduction threshold to 100 percent (from 80 percent).
3) Pension factor for service credit after July 1, 2014 is 3 percent (as opposed to 3.5 percent)
4) The final-average-salary is 5 years for service after July 1, 2014 (as opposed to 1 year).
5) A $1 million one-time appropriation in FY15 (as opposed to $5 million).

These proposed benefit changes bring the MRA Fund to a 100 percent funded ratio in 2043.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Existing retirement benefits provided by the MRA will continue for magistrates whether or not the Fund is considered solvent by governmental accounting standards.

AHO/jl