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

SPONSOR Candelaria **ORIGINAL DATE** 2/3/2020 **LAST UPDATED** 2/13/2020 **HB**

SHORT TITLE Distributions to Judicial Retirement Funds **SB** 122/aSPAC/aSFC

ANALYST Jorgensen

REVENUE (dollars in thousands)

Estimated Revenue				Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23	FY24		
$1,200.0	$1,200.0	$1,200.0	$1,200.0	Recurring	Magistrate Retirement Fund
$1,200.0	$1,200.0	$1,200.0	$1,200.0	Recurring	Judicial Retirement Fund
($900.0)	($900.0)	($900.0)	($900.0)	Recurring	Legislative Retirement Fund
($1,500.0)	($1,500.0)	($1,500.0)	($1,500.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to SB121 and SB123.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Administrative Office of the Courts (AOC)
Public Employees Retirement Association (PERA)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendment to Senate Bill 122 makes technical changes to the language included in SPAC amendment 6. Specifically, the SFC amendment clarifies that PERA and the AOC will determine the funded ratio of the plan at the end of the fiscal year and if that ratio is less than 100 percent, the distribution will continue. Should the funded ratio increase to 100 percent or higher, PERA will notify the Taxation and Revenue Department and the additional distribution from the oil and gas proceeds and pass-through entity withholding tax to the judicial and magistrate retirement funds will cease.

Synopsis of SPAC Amendment

The Senate Public Affairs Committee amendment to Senate Bill 122 strikes language making a $1.2 million annual distribution each to the magistrate and judicial retirement funds until FY26. The amendment adds new language stating that the distribution of $1.2 million per year to each fund should continue until the magistrate and judicial retirement funds are 100 percent funded.

Synopsis of Original Bill

Senate Bill 122 provides for monthly distribution of $100 thousand each to the magistrate retirement fund and judicial retirement fund. SB122 suspends the current $75 thousand monthly distribution to the legislative retirement fund. The provisions of the bill are effective through the close of FY25 at which point the distributions to the magistrate and judicial retirement funds will cease and the distribution to the legislative retirement fund will resume.

The distributions are made pursuant to the Oil and Gas Proceeds and Pass-Through Entity Withholding Tax Act.

SB122 was endorsed by the Investments and Pensions Oversight Committee.

FISCAL IMPLICATIONS

As shown in the revenue table, SB122 creates recurring annual distributions of $1.2 million each for the magistrate and judicial retirement funds. SB122 also suspends an annual distribution of to the legislative retirement fund which reduces revenue by $900 thousand per year. The $1.5 million difference between the new distributions to the magistrate and judicial retirement funds and the current distribution to the legislative retirement fund will be absorbed by reduced revenue to the general fund.

SIGNIFICANT ISSUES

According to PERA:

> For the year ending June 30, 2019, the Judicial Retirement Fund has a funded ratio (plan assets divided by plan liabilities) of 55.1 percent and is projected to become insolvent by the year 2049. For the year ending June 30, 2019, the Magistrate Retirement Fund has a funded ratio of 54.3 percent and is projected to become insolvent by the year 2044.

PERA reports the legislative retirement plan has a funded ratio of 136.9 percent.

PERA's actuaries determine that the Legislative Fund will remain more than fully funded if SB122 is enacted.

Both the judicial and magistrate retirement pension funds are severely underfunded resulting mostly from benefits already accrued. Reform efforts in 2014 lowered pension multipliers from 3.75 percent for current judges to 3.5 percent and 3.25 percent for judges taking the bench on or after July 1, 2014. For magistrate judges, the 2014 reform reduced the pension multiplier for active judges from 5 percent to 3.5 percent and 3 percent for magistrates taking the bench on or after July 1, 2014. The reform also suspended the COLA for judges and magistrates for two of every three years as long as the pension is under 100 percent funded.

The rich retirement benefit offered to judges and magistrates was never paid for resulting in the normal cost of the pension plan, or the amount the pension contribution must equal to pay for the benefit provided, being less than the amount needed to pay the unfunded liability. For judges, the normal cost of the pension is 20.3 percent. The additional amount needed to pay down the unfunded liability over the next 30 years is 27 percent. For magistrates, the normal cost of the current plan is 16 percent and the cost to pay off the unfunded liability is an additional 26 percent. By contrast, PERA's state general plan that covers state workers has a 16 percent normal cost and needs an additional 10.4 percent to pay of the unfunded liability over 30 years.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 121 provides a $47 million appropriation to the judicial and magistrate retirement funds.

Senate Bill 123 increases employer contributions to the judicial and magistrate retirement plans.

CJ/al/rl