

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 7820**  
**BILL NUMBER: SB 556**

**NOTE PREPARED: Jan 24, 2007**  
**BILL AMENDED:**

**SUBJECT: Judges' Pensions.**

**FIRST AUTHOR: Sen. Kruse**  
**FIRST SPONSOR:**

**BILL STATUS: As Introduced**

**FUNDS AFFECTED: X GENERAL**  
**X DEDICATED**  
**FEDERAL**

**IMPACT: State**

**Summary of Legislation:** This bill with respect to both the 1977 and the 1985 Benefit Systems of the Judges' Retirement Fund:

- (1) adds four years of service to the schedule that determines the percentage of salary to which a retiree is entitled (ending at 26 years of service instead of 22 years);
- (2) increases the maximum percentage to 64% after 26 years (instead of 60% after 22 years);
- (3) allows a person serving as a full-time magistrate on July 1, 2007, and requires a person who begins serving as a full-time magistrate after that date and before January 1, 2008, to become a participant in the Judges' 1985 Benefit System;
- (4) allows magistrates who are participants in the Judges' 1985 Benefit System to purchase, at full actuarial cost, service credit for prior service covered by an Indiana Public Employees' Retirement Fund (PERF);
- (5) changes the salary base that is used to determine benefits under the 1985 Benefit System to the salary currently being paid for the last office held by the retiree (instead of the salary that was paid for that office at the time the retiree left service);
- (6) increases the monthly benefit payable to participants, survivors, and beneficiaries of the Judges' 1985 Benefit System under the same conditions as the monthly benefit is increased for participants, survivors, and beneficiaries of the Judges' 1977 Benefit System;
- (7) provides that the changes in the benefit structure of both the 1977 and the 1985 Benefit Systems apply only to persons who retire, become disabled, or die after June 30, 2007 (and their surviving spouses and dependent children);
- (8) authorizes a participant with at least eight years of creditable service in the Judges' Retirement System who is also vested in the Public Employees' Retirement Fund (PERF) to elect to use not more than ten years of PERF service credit to qualify for a retirement benefit from the Judges' Retirement System and waive the

right to a retirement benefit from PERF;

(9) requires the PERF Board to transfer to the Judges' Retirement System the amount credited to the participant's annuity savings account and the present value of the retirement benefit payable at 65 years of age that is attributable to the participant who makes the election;

(10) provides that the PERF service credit may not be used to compute the participant's retirement benefit from the Judges' Retirement System;

(11) establishes the Judges' Defined Contribution Fund (Defined Contribution Fund);

(12) provides that an individual who first begins service as a judge or full-time magistrate after December 31, 2007, is a participant in the Defined Contribution Fund;

(13) provides that the PERF Board shall administer the Defined Contribution Fund;

(14) requires a participant in the Defined Contribution Fund to make contributions equal to 6% of the salary the participant receives for services as judge or magistrate;

(15) allows a participant in the Defined Contribution Fund to make additional contributions not to exceed the maximum allowed under Internal Revenue Code rules;

(16) requires the state to make contributions to the Defined Contribution Fund on behalf of each participant equal to 15% of the salary received by the participant for service as a judge or magistrate; and

(17) makes an appropriation.

**Effective Date:** July 1, 2007.

**Explanation of State Expenditures:** The following summarizes several provisions of the bill. The fund affected is the state General Fund.

State Contribution	Additional 1% (22 to 26 yrs)	Magistrates	1977 COLA for 1985 Plan	All Proposals Combined*
Total State Contribution <b>Increase</b>	\$300,000	\$1,425,000	\$6,100,000	\$8,500,000
Contribution as % of Salary <b>Increase</b>	0.9%	4.2%	17.9%	25.0%
Unfund. Liab. <b>Increase</b> Funded Status <b>Decrease</b>	1,600,000 0.4%	\$9,100,000 2.1%	\$39,100,000 8.2%	\$53,500,000 10.8%
<b>5-Yr Proj. of Benefits</b>				
2007-08 <b>Increase</b>	\$13,000	\$246,000	\$351,000	\$619,000
2008-09 <b>Increase</b>	\$14,000	\$261,000	\$372,000	\$657,000
2009-10 <b>Increase</b>	\$15,000	\$277,000	\$395,000	\$696,000
2010-11 <b>Increase</b>	\$16,000	\$293,000	\$419,000	\$736,000
2011-12 <b>Increase</b>	\$17,000	\$310,000	\$444,000	\$777,000
5-Year Total	\$75,000	\$1,387,000	\$1,981,000	\$3,485,000

(4) *Purchase of Service - Background Information for Purchase of Service Credit:* The bill provides that the purchase of service credits by magistrates must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a contribution for the service

credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of the Judges' Retirement System may wish to purchase service credit and the potential impact to the funds are identified below.

(A) If a member wanted to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current Judges' Retirement service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the Judges' Retirement System. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the Judges' Retirement System.

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary at the time of purchase before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

The fund affected is the state General Fund.

(10) Providing that the PERF service credit may not be used to compute the participant's retirement benefit from the Judges' Retirement System will mean a gain to PERF and a cost to the Judges' Retirement System, the amount of which will included after calculation.

(11) *Establishing a Defined Contribution Plan* - The proposed legislation would "freeze" participation in the 1985 Benefit System (meaning that those members currently in the 1985 Benefit System would remain in the 1985 Benefit System, but there would no longer be any new members after December 31, 2007). The adoption of a defined contribution plan would be available to all new judges and magistrates who first begin service after December 31, 2007.

With the exception of the inclusion of the magistrates, the 15% state contribution level for the new defined contribution plan was designed to make the combined cost of the frozen 1985 Benefit System and the new defined contribution plan fiscally neutral (excluding additional administrative costs) when compared to the current Judges' Retirement System. This is because the normal cost for the frozen 1985 Benefit System is about 15%, so new members under either system would have no discernable cost difference. Note that the unfunded liability under the current Judges' Retirement System would still exist after the effective date of this legislation and would require a high state contribution (as is required now) to fully amortize over time. It should also be noted that the fiscally neutral design applies to the Judges' Retirement System before any other benefit improvements. In other words, the benefit improvements of adding an extra 4 years to the benefit formula and adding the 1977 Benefit System COLA to the 1985 Benefit System represent genuine fiscal impacts.

Finally, there would be fiscal cost impact under the defined contribution plan from the addition of the magistrates since magistrates have not been included in the past. We estimate the salaries for these magistrates to be about \$5.6 M, so including them in the defined contribution plan would create an annual fiscal impact of approximately \$840,000 (15% of \$5.6 M). The fund affected is the state General Fund.

PERF estimates \$1.5 M in administrative costs, with \$1.0 M as a one-time set-up cost and \$500,000 in annual on-going costs. The fund affected is the PERF administrative fund.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Public Employees' Retirement Fund as administrators of the 1977 and the 1985 Benefit Systems of the Judges' Retirement Fund.

**Local Agencies Affected:**

**Information Sources:** Doug Todd of McCready & Keane, Inc., actuaries for PERF and the 1977 and the 1985 Benefit Systems of the Judges' Retirement Fund, 317-576-1508.

**Fiscal Analyst:** James Sperlik, 317-232-9866.

**DEFINITIONS**

**Actuarial Liability** - Sometimes called the unfunded liability, the actuarial liability of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

**Cost-of-Living Adjustment** - An across-the-board increase in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).