

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7820

BILL NUMBER: SB 556

NOTE PREPARED: Feb 16, 2007

BILL AMENDED: Feb 15, 2007

SUBJECT: Judges' Pensions.

FIRST AUTHOR: Sen. Kruse

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill:

- (1) establishes the Judges' Defined Contribution Fund;
- (2) provides that an individual who first begins service as a judge after December 31, 2007, is a participant in the Defined Contribution Fund;
- (3) provides that the Public Employees' Retirement Fund (PERF) Board of Trustees shall administer the Defined Contribution Fund;
- (4) requires a participant in the Defined Contribution Fund to make contributions equal to 6% of the salary the participant receives for services as a judge;
- (5) allows a participant in the Defined Contribution Fund to make additional contributions not to exceed the maximum allowed under Internal Revenue Code rules; and
- (6) 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.

Effective Date: July 1, 2007.

Explanation of State Expenditures: (Revised) (1) *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.

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.

The fund affected is the state General Fund.

(Revised) PERF estimates \$600,000 in administrative costs, with \$400,000 as a one-time setup cost and \$200,000 in annual ongoing 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.