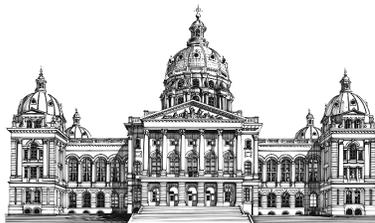

Iowa Legislative Fiscal Bureau

Dennis Prouty
(515) 281-5279
FAX 281-8451



State Capitol
Des Moines, IA 50319
December 4, 2002

Judicial Branch Retirement Fund

ISSUE

This *Issue Review* examines the Judicial Branch Retirement Fund.

AFFECTED AGENCIES

Judicial Branch

CODE AUTHORITY

Sections 602.1610, 602.1611, and 602.9104(4)
Code of Iowa

BACKGROUND

Prior to the 1994 Legislative Session, the State contributed the equivalent of 3.0% of a judge's salary to the Judicial Retirement Fund. The cost was paid from the Judicial Branch's operating budget. In addition to the 3.0% State contribution, judges contributed 4.0% of their individual salaries to the Fund. Also, at this time, the Code of Iowa required certain filing fees be deposited into the Fund.

During the 1994 Legislative Session, significant changes were made. To ensure that the Fund would be actuarially sound within 12 to 15 years, the State share was modified based upon the 1994 actuarial report and was determined to be 23.7% of base salaries. In 1994, covered payroll was \$13.3 million and 23.7% of that figure was \$3.2 million. The 23.7% contribution rate was codified in Section 602.9104(4)(b), Code of Iowa.

In FY 2001, the Judge's contribution rate was increased from 4.0% to 5.0% in Senate File 2411 (FY 2002 Public Retirement Systems Act).

Court revenues are now deposited into the General Fund instead of being deposited into the Judicial Retirement Fund. The Judicial Retirement Fund is financed with Fund earnings as well as employer and employee contributions based upon the individual base salaries of judges that are covered by the system rather than court revenues.

SENIOR JUDGES

The mandatory retirement age for a Judge is 72 years of age and the mandatory retirement age for a Senior Judge is 78 years of age. Eligibility for retirement is either six years of service as a judge and 65 years of age or 25 years of service. The basic retirement benefit is computed as the average salary for the last three years of service multiplied by 3.0%, multiplied by years of service, which equals an annual benefit not to exceed 60.0% of the judge's average salary over the last three years of service. A Senior Judge's retirement benefit is computed as the current salary of an active judge, multiplied by 3.0%, multiplied by the years of service prior to retirement, which equals an annual benefit not to exceed 60.0% of the current salary for an active judge. Effective July 1, 1994, the calculation for the Senior Judge annuity was changed to provide the Senior Judge with an increase of 75.0% as opposed to 100.0% of any increase in salary for active judges and the total increase in their pension benefits may not exceed 45.0% during their tenure as a Senior Judge.

Senior Judges work 13 weeks per year or 25.0% of the year. Currently, Senior Judges receive an annual salary of approximately \$6,300, plus health insurance benefits for the Senior Judge and their spouse, which may continue to the age of 78, if the Senior Judge completes at least six years of service as a Senior Judge. Senior Judges also receive an increase in their pension benefit in an amount not to exceed 45.0% at the rate of 75.0% of the increased salary for full-time judges each year. Senior Judges are paid out of the Judicial Branch operating budget, while benefits are funded from the Judicial Retirement Fund.

As of June 30, 2001, there were 138 retirees and beneficiaries receiving benefits, six terminated members entitled to, but not yet receiving benefits, 140 fully vested current members, and 46 non-vested active judges covered by the Plan.

The Iowa Senior Judge Program has been in operation since 1983. There are approximately 35 retired judges in the Program, including twenty-six Senior Judges that work at the district court level, five that work at the Court of Appeals level, and four that work at the Supreme Court level. The monthly annuity cost for Senior and Retired Judges is \$197,000. The annual annuity cost for all Senior and Retired Judges is approximately \$2.4 million.

2000 LEGISLATIVE ACTION

During the 2000 Legislative Session, the General Assembly passed House File 2554 (FY 2001 Judicial Branch Appropriations Act), which increased the appropriation to the Judicial Branch Retirement Fund by \$4.5 million, an increase of \$297,000 compared to the FY 2000 estimated net appropriation in order to finance the Fund at 23.7% of covered payroll.

2001 LEGISLATIVE ACTION

During the 2001 Legislative Session, the General Assembly passed Senate File 527 (FY 2002 Judicial Branch Appropriations Act), which notwithstanding Section 602.9104(4)(b), Code of Iowa, and decreased the employer's contribution rate to the Judicial Retirement Fund from 23.7% to 16.6% for FY 2002. The Fund was appropriated \$3.2 million; a decrease of \$1.3 million compared to the FY 2001 estimated net appropriation. House File 759 (FY 2002 Deappropriations Act) decreased the appropriation to the Fund by approximately \$138,000, and reduced the contribution rate to 15.9%. Senate File 2304 (FY 2002 Deappropriations Act) decreased the appropriation to the Fund by an additional \$31,000, and reduced the employer percentage to 15.2% for FY 2002. Thus, the appropriation to the Judicial Retirement Fund in FY 2002 was \$3.0 million.

When the Fund is actuarially sound, Section 602.9104(4)(b), Code of Iowa, requires that the State will contribute an amount equal to that necessary to keep the Fund sound. The July 1, 2000, actuarial report stated that the required annual employee contribution rate, as a percentage of pay, was 16.6%. The July 1, 2001, actuarial report stated that the required annual contribution rate, as a percentage of pay, was 18.7%. The Judicial Branch request for FY 2003 was to notwithstanding the employer contribution rate and reduce the rate from 23.7% to 18.7% to match the rate shown on the actuarial report. The State Combined Annual Financial Report (CAFR) reflects a funded ratio of 82.4% for July 1, 2001, compared to the July 1, 2000, funded ratio of 87.4%. The lower funded ratio is due to the lower than expected rate of return on investments. Also, effective July 1, 2001, the basic retirement annuity was increased from 56.0% to 60.0% of a Judge's average annual salary for the last three years of service.

CURRENT SITUATION

During the 2002 Legislative Session, the General Assembly passed House File 2627 (FY 2003 Second Omnibus Appropriations Act), which notwithstanding Section 602.9104(4)(b), Code of Iowa, and decreased the employer's contribution rate to the Fund from 23.7% to 9.9%, and provided an appropriation of \$2.0 million. This was a decrease of \$1.0 million (32.9%) compared to the appropriation in FY 2002.

In addition, House File 2532 (FY 2003 Public Retirement System Changes Act) permitted current Associate Probate Judges and the seven Associate Juvenile Judges who participate in the Judicial Retirement System to participate in the Senior Judge Program. The Judicial Branch estimated this would have no immediate impact on the Judicial Retirement System and minimal impact in the future. The retention of four Senior Judges, instead of one full-time judge, would save the Judicial Branch approximately \$27,000 each year.

Covered payroll for FY 2003, as of July 1, 2002, is estimated to be \$20.6 million. The July 1, 2002, actuarial report stated that the required annual employer contribution rate, as a percentage of pay, was 20.2%. The funded ratio shown in the actuarial report for July 1, 2002, is 77.0%. The projected payroll shown in the report is \$19.9 million with an employee contribution rate of 5.0%. The annual required contribution for 20.2% is shown to be \$4.0 million. The 2002 State Combined Annual Financial Report (CAFR) will be available in December.

ALTERNATIVES

The Judicial Retirement System's financial statements are prepared on an accrual basis. Without notwithstanding the Code of Iowa, the employer contributes 23.7% and the employee contributes 5.0% for a total of 28.7%. Based on the June 30, 2001, State CAFR report, the member contribution required and contributed was \$970,000 representing 5.0% of the FY 2001 covered payroll. The State contribution required by statute and the amount contributed was \$4.5 million. The State share is based on 23.7% of the FY 2001 covered payroll. In FY 2001, the Judge's contribution rate was increased from 4.0% to 5.0% in Senate File 2411 (FY 2002 Public Retirement Systems Act).

Most retirement systems are on a 100% scale where the employer pays 60% and the employee pays 40%. If the Judicial Retirement percentages were transferred to a 100.0% scale, the employer contribution rate would be 82.6% and the employee contribution rate would be 17.4%. Since the Fund is not actuarially sound and assuming that the total contribution rate will stay at 28.7% of covered payroll, if a 60-40 split was applied, the employer's share would be 17.2% and the

employee's share would be 11.5% for a total of 28.7%. This would be a 130.0% increase in the Judges' contribution rate.

BUDGET IMPACT

Covered payroll for FY 2003, as of July 1, 2002, is estimated at \$20.6 million. The employer share of \$20.6 million, based on a contribution rate of 23.7%, would be \$4.9 million. The employee share, based on a contribution rate of 5.0%, would be \$1.0 million. If the employer contribution rate was decreased from 23.7% to 17.2%, the employer's share would be \$3.5 million. If the employee share was increased from 5.0% to 11.5%, the employee's share would increase to \$2.4 million. By applying a 60-40 split, the result would be a cost savings to the employer of \$1.3 million and an increased cost to the employee of \$1.3 million.

STAFF CONTACT: Jennifer Dean (Ext. 17846)