HB 249

Department of Legislative Services

Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE
Revised

House Bill 249 (The Speaker)(By Request - Judicial Compensation Commission)

Appropriations Budget and Taxation

Judges' Retirement System - Compensation, Contribution Rates, and Vesting Requirements

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This bill increases the member contribution rate from 6% to 8% of earnable compensation for all members of the Judges' Retirement System (JRS). For JRS members hired on or after July 1, 2012, it institutes a five-year vesting requirement that applies only to eligibility for vested benefits but not to normal service or disability retirement benefits. It also repeals the provision in current law that salary recommendations for judges contained in a joint resolution submitted by the Judicial Compensation Commission (JCC) take effect unless the resolution is approved or amended by the General Assembly within 50 days. Instead, the joint resolution becomes effective only if passed by the General Assembly; if the General Assembly fails to amend or adopt the resolution, judicial salaries remain unchanged.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: State pension contributions decrease by $728,000 in FY 2014, due to the increased member contributions, and continue to decrease in the out-years according to actuarial assumptions. The vesting requirement has no fiscal effect. No effect on revenues.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	(728,000)	(754,000)	(780,000)	(807,000)
Net Effect	$0	$728,000	$754,000	$780,000	$807,000

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: Members of JRS contribute 6% of earnable compensation during the first 16 years of service; no member contributions are required after 16 years. JRS members vest immediately when they begin employment, and they are eligible for a full service retirement at age 60 or with at least 16 years of service. Retirement is mandatory at age 70.

Full service retirement is equal to two-thirds of the annual earnable compensation of a sitting judge holding a comparable position. The retirement allowance is prorated for members who retire with fewer than 16 years of service.

Besides the Legislative Pension Plan, JRS is the smallest plan within the State Retirement and Pension System. As of June 30, 2011, it had 286 active members and 358 retirees and beneficiaries. The State Retirement Agency advises that over the last four fiscal years, the number of new JRS enrollees has ranged from 6 to 25, or an average of 14 new members annually.

JCC, established in 1980, is a seven-member body charged with studying and making recommendations regarding judicial compensation. JCC must review and make recommendations on judicial salaries and pensions every four years, beginning in 2004. Recommendations regarding salaries must be introduced as a joint resolution in both houses of the General Assembly by the fifteenth day of the legislative session. The General Assembly may amend a joint resolution from the commission to decrease, but not increase, any of the commission's salary recommendations. The General Assembly may not reduce a judge's salary below its current level. Failure to adopt or amend the joint resolution within 50 calendar days of its introduction results in adoption of the salaries recommended by the commission. If the General Assembly rejects any or all of the commission's recommendations, the affected judges' salaries remain unchanged, unless modified by other provisions of law. Recommendations regarding pensions must be introduced as legislation by the presiding officers and become effective only if passed by both houses.

In its January 2012 report, JCC recommended that all judicial salaries be increased by a total of $29,006 over three years, beginning in fiscal 2014. The Senate amended the joint resolution to reduce the total increase for all such salaries to $14,081, also over three years, which was approved by the House of Delegates just before the 50-day deadline. The approved salary increases are expected to increase general fund expenditures by $2.2 million in fiscal 2014, escalating to $6.8 million in fiscal 2016 when fully phased in.

The Budget Reconciliation and Financing Act of 2011 (Chapter 397) required JCC to include specific recommendations in its report to the General Assembly concerning appropriate benefit and member contribution levels, taking into consideration the sustainability of the State Retirement and Pension System.

State Fiscal Effect: Member contributions are credited against the plan's normal cost, or the cost of individual benefits accrued in a given year. The State, as the employer, pays only the normal cost not paid by members, so an increase in member contributions results in a near-equivalent reduction in the employer contribution. The reason there is not an exact dollar-for-dollar reduction in employer contributions is because higher employee contributions also result in higher payouts for death benefits and member withdrawals because members and beneficiaries are entitled to a refund of member contributions, plus interest, in both cases. Actuarially, employer contributions typically decrease by between 85% and 95% of an equivalent increase in member contributions, which accounts for the reduction in projected plan assets attributable to increased payouts for death benefits and withdrawals.

A legislative plan change that affects existing members is typically reflected during the next valuation following passage of the change. Even though the change does not take effect until July 1, 2012, it is reflected in the June 30, 2012 valuation because passage of the legislation ensures that it affects contribution rates for existing members during the next budget cycle. The June 30, 2012 valuation determines employer contribution rates for fiscal 2014, so the bill's effects are first felt in that year.

The General Assembly's consulting actuary has determined that an increase in the member contribution of 2.0 percentage points results in a corresponding reduction in the employer contribution of 1.75 percentage points, which represents 87.5% of the increase in member contributions. This is consistent with typical actuarial calculations of the effect of changes in member contribution rates. As a result, State pension contributions for JRS members decrease by approximately $728,000 in fiscal 2014. State JRS pension contributions are paid entirely from general funds, so the savings accrue entirely to the general fund, and continue to grow according to actuarial assumptions.

For annual valuations of the system's liabilities, the system's actuary assumes no withdrawals from JRS, regardless of age or years of service. Therefore, the addition of a five-year vesting requirement for vested benefits has no practical fiscal effect.

Additional Information

Prior Introductions: None.

Cross File: SB 335 (Chair, Budget and Taxation Committee)(By Request - Judicial Compensation Commission) - Budget and Taxation.

Information Source(s): State Retirement Agency, Judiciary (Administrative Office of the Courts), Cheiron, Department of Legislative Services

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