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BILL ANALYSIS

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House Bill 4425 (as reported without amendment)

Sponsor: Representative John Pastor

House Committee: Judiciary

Senate Committee: Judiciary

CONTENT

The bill would amend the Judges Retirement Act to do all of the following:

- Require the Judges Retirement System to increase a retirement allowance by up to \$900 annually, if certain conditions were met.
- Provide that the recalculated retirement allowance would be the basis for the calculation of future adjustments; the Act's final compensation limits would not apply to these retirement allowance supplements; and, for a retirant or beneficiary receiving more than one retirement allowance, the supplements could be received only on the largest allowance.
- Specify that, if a retirant died before July 1, 2009, and benefits did not otherwise become payable to a beneficiary, the retirant's retirement allowance could not be supplemented under the bill.

By April 1 of each State fiscal year, the retirement system would have to determine the amount by which the actuarial value of the assets in Tier 1 exceeded the present value of expected future benefit payments for Tier 1 beneficiaries. If the excess amount, and the present and future liabilities of active members, vested terminated members, retirants, and retirement allowance beneficiaries, were an amount that would allow retirants and retirement allowance beneficiaries to receive individual increases of \$900 per year and keep the actuarial value of the assets in Tier 1 at 120% of the present value of expected future benefit payments, the retirement system would have to grant an annual increase of \$900 to each retirant and retirement allowance beneficiary receiving retirement payments under the Act. In any year in which this evaluation determined an excess amount that would result in an increase of less than \$900 per retirant, the increase would have to be reduced on a pro rata basis. If an increase of any amount would result in the actuarial value of the assets in Tier 1 being less than 120% of the present value of expected future benefit payments, no increase could be given for that year.

("Tier 1" is the Judges Retirement System's defined benefit program. The system's defined contribution system is known as "Tier 2".)

Proposed MCL 38.2513

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would provide pension supplements only when the provision of those supplements, in addition to the payment of regular pensions, would not lower the actuarial value of the assets in Tier 1 below 120% of the present value of expected future benefit payments.

Therefore, the bill essentially would require pension supplements only when the system was so "overfunded" that even building in the up-to-\$900 supplements would not drop the funded percentage below 120%. Therefore, a negative fiscal impact from this legislation would occur only if, at a future time, the value of the assets in the system fell below the level necessary to support the pensions as supplemented under this bill. If the existing assets in the Judicial Retirement System were not enough to cover the increased base pension, the additional funds would come from the Court Fee Fund (which currently pays for judicial salaries). As a result, the State would have to use additional GF/GP dollars for judicial salaries, reducing GF/GP funding elsewhere in the State's budget.

Date Completed: 12-18-08

Fiscal Analyst: Kathryn Summers-Coty

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.