Multiple Agency Fiscal Note Summary

Bill Number: 5046 SB	**Title:** District judges, retirement

Estimated Cash Receipts

NONE

Estimated Expenditures

Agency Name	2013-15			2015-17			2017-19		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Administrative Office of the Courts	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total	0.0	$0	$0	0.0	$0	$0	0.0	$0	$0

Estimated Capital Budget Impact

NONE

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Final 1/29/2013

* See Office of the Administrator for the Courts judicial fiscal note

** See local government fiscal note

FNPID 33003

Judicial Impact Fiscal Note

Bill Number: 5046 SB	Title: District judges, retirement	Agency: 055-Admin Office of the Courts

Part I: Estimates

☒ **No Fiscal Impact**

The revenue and expenditure estimates on this page represent the most likely fiscal impact. Responsibility for expenditures may be

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

Contact		Phone:	Date: 01/25/2013
Agency Preparation:	David Elliott	Phone: 360-705-5226	Date: 01/29/2013
Agency Approval:	Dirk Marler	Phone: 360-705-5211	Date: 01/29/2013
OFM Review:	Jim Albert	Phone: (360) 902-0419	Date: 01/29/2013

Request # adminstrat-2

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact on the Courts

This is not expected to have a fiscal impact on the courts or the administrative office of the courts.

This bill would amend RCW 3.74.030 to provide that any district judge that attains age 75 must retire at the expiration of the member's term of office after attaining such age rather than at the end of the calendar year of the year they attain age 75.

II. B - Cash Receipts Impact

none

II. C - Expenditures

There are no impacts on the courts or AOC resulting from the bill. The salary and benefit costs of a judicial officer are not affected by the proposed change.

A survey of district court judges found that there are five sitting district court judges that will reach age 75 in the next five years.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

SOURCES:
Judicial Information System data
District and Municipal Court Judges Association survey data

Individual State Agency Fiscal Note

Bill Number: 5046 SB	Title: District judges, retirement	Agency: AFN-Actuarial Fiscal Note - State A

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

Non-zero but indeterminate cost. Please see discussion.

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates,

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 01/25/2013
Agency Preparation:	Devon Nichols	Phone: 3607866145	Date: 01/25/2013
Agency Approval:	Troy Dempsey	Phone: 360-786-6154	Date: 01/25/2013
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 01/25/2013

Request # -1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

Part IV: Capital Budget Impact

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

SUMMARY OF RESULTS

This bill modifies the mandatory retirement provision for District Court judges. Under this bill a District Court judge must retire at the end of the term in which the judge reaches age 75.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

The cost of this bill is indeterminate due to a lack of data on the number of active District Court judges in PERS whose terms will expire later than the end of the calendar year in which they reach age 75, and of them how many would elect to finish their term.

We would expect a savings to occur if a District Court judge, who reached age 75, decided to finish their term. Generally, when a member delays their retirement it results in a savings to the retirement system since the benefits start later and are paid for a shorter period of time.

If, for example, a District Court judge's term ended when the judge reached age 79 instead of 75, their total pension liability could decrease by about 17 percent. This decrease in liability results in a savings to PERS.

See the remainder of this fiscal note for additional details on the summary and highlights presented here.

WHAT IS THE PROPOSED CHANGE?

Summary Of Change

This bill impacts the following systems:

- Public Employees' Retirement System (PERS).

This bill modifies the mandatory retirement provision for district judges. Under this bill a district judge must retire at the end of the judge's term in which the judge reaches age 75.

Effective Date: 90 days after session.

What Is The Current Situation?

District judges must retire at the end of the calendar year in which the judge reaches age 75.

Who Is Impacted And How?

The option to work past age 75 to finish a future term could affect 116 current District Court judges in PERS. Based on data from the Administrative Office of the Courts, we do not expect any District Court judges to turn 75 during their current 2010-2014 term.

Impacted members may work longer than currently allowed if their term has not yet expired. If a member works longer, their pension benefit starts later and is paid for a shorter period of time but the member's annual pension benefit increases due to the additional service credits and potentially higher average final compensation.

This bill could impact all PERS Plan 2 members through decreased contribution rates. This bill will not affect member contribution rates in Plan 1 since they are fixed in statute. Additionally, this bill will not affect member contribution rates in Plan 3 since Plan 3 members do not contribute to their employer-provided defined benefit.

WHY THIS BILL HAS A SAVINGS AND WHO RECEIVES IT

Why This Bill Has A Savings

This change in the law allows impacted members to work beyond their mandatory retirement age of 75. Generally, when a member delays their retirement it results in a savings to the retirement system since the benefits start later and are paid for a shorter period of time.

Who Will Pay For These Savings?

The savings that result from this bill will be divided between members and employers according to standard funding methods that vary by plan:

- Plan 1: 100 percent employer.
- Plan 2: 50 percent member and 50 percent employer.
- Plan 3: 100 percent employer.

All employers of PERS, School Employees' Retirement System, and Public Safety Employees' Retirement System members would pay lower PERS Plan 1 Unfunded Actuarial Accrued Liability contribution rates.

HOW WE VALUED THESE SAVINGS

Assumptions We Made

We were not able to collect data on which members might elect to continue to work past age 75 to finish their term. Therefore we were unable to set a best estimate assumption for this pricing. As a result, this fiscal note shows an indeterminate fiscal impact for this bill.

To evaluate the magnitude of the potential savings for the change in retirement age, we provided an example for a hypothetical PERS 2 member who elects to finish their term at age 79. We compare the expected present value of future benefits under two retirement scenarios:

- Member retires at the end of the calendar year that they turn 75.
- Member finishes a four-year term and retires at age 79.

Example - Expected PERS 2 Savings from Delayed Retirement		
Retirement Age	75	79
Expected Average Final Compensation	$150,000	$173,798
Member Service	30	34
Expected Benefit Amount	$90,000	$118,182
Expected Present Value of Future Benefits	$822,787	$682,460
Expected Retirement System Savings	N/A	$140,327

We would expect less retirement system savings if the member working past age 75 retired earlier than age 79. The expected savings from this example may change if the member was in PERS 1 or PERS 3 instead of PERS 2.

We developed this example using the same assumptions, methods, assets, and data as disclosed in the *June 30, 2011, Actuarial Valuation Report*.

Special Data Needed

We relied on data from the Administrative Office of the Courts (AOC) to determine the number of District Court judges in PERS. We also relied on data from the AOC to determine the number of District Court judges reaching age 75 during their current term. We relied on this data as complete and accurate. In our opinion, this information is adequate and substantially complete for purposes of this analysis.

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown in the footer. We intend this fiscal note to be used by the Legislature during the 2013 Legislative Session only.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse, and may mislead others.

ACTUARY'S CERTIFICATION

The undersigned hereby certifies that:

1. The actuarial cost methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. We prepared this fiscal note for the Legislature during the 2013 Legislative Session.
6. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown in the footer of this fiscal note.

The undersigned, with actuarial credentials, meet(s) the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

While this fiscal note is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Troy Dempsey

Troy Dempsey, ASA, EA, MAAA
Actuary

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GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e. interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded actuarial accrued liability. The normal cost is determined for the actuarial accrued group rather than on an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost.
- Amortization of the unfunded actuarial accrued liability.

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Unit Credit (PUC) Liability: The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service) based on the PUC method.

Projected Benefits: Pension benefit amounts that are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded PUC Liability: The excess, if any, of the Present Value of Benefits calculated under the PUC cost method over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.