

Statewide Amendment 1: Judicial Retirement Reform

Background

Amendment 1 would make cost-saving changes to the retirement plans of future judges and district attorneys. Alabama's public pension system is divided into three funds: the Teachers' Retirement System (TRS), the Employees' Retirement System (ERS), and the Judicial Retirement Fund (JRF). Currently, the Judicial Retirement Fund has 338 active employees, 375 retirees, and 54 terminated employees who are not yet receiving benefits.

The Judicial Retirement Fund is only 58% funded, the lowest funded level of the state's three pension funds. The TRS and ERS are funded at 66% and 65%, respectively. This percentage shows the difference between the money the plan has on hand versus its benefit obligations to retirees. In other words, the JRF is underfunded by 42%.

Facing growing pension debt, the Alabama Legislature enacted cost-saving reforms to the pension plans of TRS and ERS members during the 2012 legislative session. However, the changes did not apply to JRF plans, despite the fact that these employees receive a far more generous retirement benefit than other state employees. Further, the state is subject to spend a great deal of money paying out a lifetime retirement benefit to a judge who may retire at any age after 25 years of service or at age 70 after only 10 years of service.

This generous benefit and lower than expected investment returns have increasingly put taxpayers on the hook for the high cost of judicial retirement benefits. In 2015, the Alabama Legislature contributed \$15.5 million to the Judicial Retirement Fund.

ISSUE SNAPSHOT

- Alabama's public pension plan for judicial retirees is currently only 58% funded. Alabama taxpayers contributed \$15.5 million to the plan this year.
- Passage of Amendment 1 will place the Judicial Retirement Fund on a more stable financial trajectory. It is expected to save the state between \$10-15 million annually.

This annual contribution of taxpayer dollars has increased by 74% over the last ten years and is expected to be even higher—\$18.4 million—in 2016.

Purpose of the Amendment

This amendment is expected to save the state between \$10-15 million annually, and it will place the JRF on a more stable financial trajectory.

These savings will be accomplished by

- raising the employee contribution rate by 0.5%
- setting a minimum age of retirement at 62
- replacing the current benefit—75% of a judge's final salary—with a benefit factor of 3% of the member's average final compensation multiplied by years of service
- establishing a "District Attorneys' Plan" within the JRF so that cost-saving reforms will apply to district attorneys and clerks.

Recommendation

The Alabama Policy Institute recommends voting **YES** on Amendment 1. For more info, see our study here.