HB 837

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 837 (Delegate Heller)
Appropriations

Teachers' Pension System - Benefits

This pension bill alters the formula for computing the retirement allowance of members of the Teachers' Pension System. It increases the accrual rate (or "multiplier") from 1.4% of average final compensation (times years of service) to 1.5% of average final compensation for service after July 1, 1998. The accrual rate for the Employees' Pension System would remain at 1.4%.

The bill takes effect July 1, 1999 and applies retroactively to July 1, 1998.

Fiscal Summary

State Effect: Increase in State pension liabilities of $113.9 million plus additional ongoing normal costs, resulting in an increase in annual State pension contributions (general funds) of $21.8 million in fiscal 2001. Future year expenditures increase by 5% per year based on actuarial assumptions. Increase in one-time administrative expenditures of $147,100 (special funds) for the State Retirement Agency to implement the bill (not included in table).

($ in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	$0	$0	$0	$0	$0
GF Expenditures	0	21.8	22.9	24.0	25.2
Net Effect	$0	($21.8)	($22.9)	($24.0)	($25.2)

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

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

State Expenditures: Chapter 530 of 1998 (HB 987) increased the multiplier for both the

Teachers' Pension System and the Employees' Pension System to 1.4% for service after July 1, 1998. The previous two-tiered formula provided a benefit equal to 1.0% to 1.1% of average final compensation for the average teacher or State employee.

Teacher members who transferred from the Teachers' Retirement System to the Teachers' Pension System after April 1, 1998 did not receive the enhancement under HB 987 and would not receive the increase to 1.5% under the bill.

There are currently about 72,000 members of the Teachers' Pension System (TPS) with a payroll of approximately $2.6 billion who would be affected by the proposal.

The State's actuary advises that increasing the multiplier for TPS members to 1.5% of average final compensation for service earned since July 1, 1998 will increase the unfunded liabilities of the Teachers' Pension System (which is combined with the Teachers' Retirement System for actuarial purposes) by $113.9 million. These additional liabilities would be amortized over the 19 years until 2020, with a first year amortization payment in fiscal 2001 of $7.2 million, increasing 5% per year thereafter based on actuarial assumptions.

In addition, the normal cost (or ongoing cost of the system if there were no existing liabilities) for the combined teachers' systems would increase by 0.40% (or 40 basis points) of payroll, for an annual increase beginning in fiscal 2001 of $14.6 million per year and increasing 5% per year thereafter based on actuarial assumptions.

In total, State pension contributions to the teachers' systems would increase by $21.8 million beginning in fiscal 2001 and increasing 5% per year thereafter. In terms of the systems' contribution rate, the effect would be as follows:

HB 837 - Impact on Teachers' Combined Systems Contribution Rate		
	Fiscal 2000 Rate	**Enhanced Rate**
Normal Cost	8.10%	8.50%
Unfunded Liabilities	4.44%	4.64%
Total Contribution Rate	**12.54%**	**13.14%**

Administrative Costs

The State Retirement Agency advises that funds will be needed to administer provisions of this bill including programming, counseling services, and communications (such as mailings and seminars). A separate handbook will be needed for the Teachers' Pension System and Employees' Pension System (currently there is one booklet for both the Teachers' and Employees' Pension Systems). The agency will also need to adjust the benefits for about 1,000 Teachers' Pension System members who have retired from July 1, 1998.

The agency advises that, due to existing staff requirements, an outside computer programming contractor would be required for adjustments needed for the current system. Because the Retirement Agency must alter both the existing system as well as the new system in development, anticipated changes to the new system resulting from legislation enacted after July 1, 1998, will add to the total cost and time of that project. A precise amount is not determinable at this time.

Total administrative costs are estimated as follows:

Type	Cost
Administrative Costs (mailings, counseling services, benefit handbooks)	$11,500
Contractual Accountant/Auditor (Grade 14-6 months)	$15,629
Data Processing Programming consultant to adjust existing system	$120,000
TOTAL	$147,129

Additional Comments: In addition to the appropriation process, the agency's annual spending authority for administrative and operational expenses is capped by Section 21-315(c) of the State Personnel and Pensions Article at 0.2% of the payroll of members. The Governor's proposed fiscal 2000 budget for the agency is extremely close (within $700) of the statutory administrative expenditure cap. Implementation of this bill would place the agency's expenses above the statutory cap.

Information Source(s): State Retirement Agency; Milliman & Robertson, Inc.; Department of Legislative Services

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