

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE
Revised

House Bill 368 (Chairman, Appropriations Committee)

(Departmental – University System of Maryland, Morgan State
 University, St. Mary’s College, and Baltimore City Community College)

Appropriations

Budget and Taxation

**Optional Retirement Program - Employer Contribution Rate and Mandatory
 Employee Contributions**

This departmental pension bill increases the State employer contribution for certain participants in the Optional Retirement Program (ORP), primarily higher education faculty members. The contribution increases from 7.25% to 9.25% of salary phased in over two years. The bill applies to faculty at the University System of Maryland, its constituent institutions, Baltimore City Community College, Morgan State University, St. Mary’s College, the Historic St. Mary’s Commission, and the Maryland Higher Education Commission. Implementation by St. Mary’s College and the Historic St. Mary’s Commission would be delayed one year.

Fiscal Summary

State Effect: Retirement expenditures would increase by \$3.0 million in FY 2002, of which approximately \$2.1 million is general funds. Future year expenditure growth reflects the phased-in increase and actuarially assumed payroll growth.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	2.1	6.7	9.4	9.9	10.4
Higher Ed Exp.	.9	2.8	4.0	4.2	4.4
Net Effect	(\$3.0)	(\$9.5)	(\$13.4)	(\$14.1)	(\$14.8)

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

Local Effect: None.

Small Business Effect: The University System of Maryland has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The employer contribution for these institutions would increase to 8.25% for calendar 2002 and 9.25% for calendar 2003 and thereafter. Member contributions would be 1% for calendar 2002 and 2% for calendar 2003 and thereafter.

For St. Mary's College and the Historic St. Mary's Commission, employer and employee contributions would increase by 1% in calendar 2003 and another 1% in calendar 2004, when they would be equal to the other institutions.

Current Law: The State contributes 7.25% of earnable compensation on behalf of participants in the Optional Retirement Program. An individual is eligible to participate in the ORP if the individual is eligible for membership in a retirement system or a pension system and is:

- (1) a member of the faculty of an employing institution;
- (2) a professional employee at a community college;
- (3) an employee of the University System of Maryland who is not in a position designated to be treated in the same manner as a classified service employee;
- (4) an employee of Morgan State University who is not subject to the provisions of Division I of the State Personnel and Pensions Article; or
- (5) an employee of St. Mary's College of Maryland who is in a position determined to be a professional or faculty position.

A member may elect to participate in the ORP or the appropriate State pension system (usually, the Teachers' Pension System).

Background: The ORP is a defined contribution pension system. The State's liability is limited to its annual employer contribution. Investment decisions are made by the member, who absorbs the risk of adequacy of benefit at retirement.

The State currently contributes 7.25% of salary on behalf of all participants in the ORP, with no mandatory member contribution. By comparison to the State's defined benefit

systems, the State contributes 4.73% of salary on behalf of members of the Employees' Pension System and 9.35% of salary on behalf of members of the Teachers' Pension System. (Both of these contribution rates include unfunded liability costs associated with the pre-1980 retirement systems, which do not apply to the ORP.)

The State's ORP is similar in structure to that offered by other states. Traditionally, higher education faculty members, who may change employers several times during a career, have preferred defined contribution plans because they provide for greater portability. The majority of new faculty members select the ORP. (This is less true at the community colleges, where faculty often remain at one institution for their career.)

The following table lists the employer and member contributions of neighboring public higher education institutions:

<u>Jurisdiction</u>	<u>Employer Contribution</u>	<u>Employee Contribution</u>
Maryland	7.25%	---
New Jersey	8%	5%
Delaware	11%	4%
Pennsylvania	9.29%	5%
West Virginia	6%	8%
Virginia	10.4%	---

State Expenditures: Expenditures by the affected institutions would increase by approximately \$3.0 million in fiscal 2002 and \$9.6 million in fiscal 2003, reflecting the January 1 increase as illustrated below:

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
University System of Maryland	\$2,902,800	\$9,143,800	\$12,801,400	\$13,441,400	\$14,113,500
Baltimore City Community College	9,600	30,300	42,400	44,500	46,800
Morgan State University	74,100	23,500	326,900	343,200	360,400
St. Mary's College	0	54,500	171,600	240,300	252,300
Historic St. Mary's Commission	-	3,800	12,100	16,900	18,000
MD Higher Education Commission	5,800	18,300	25,600	26,800	28,200
Total	\$2,992,300	\$9,484,200	\$13,380,000	\$14,113,300	\$14,818,900

Numbers may not total due to rounding.

It is not possible to determine the exact proportion attributable to State general funds. It is assumed that 70% of personnel costs are associated with State general funds and the other 30% with other restricted and unrestricted funding sources at the university system institutions, Morgan State University, and St. Mary's College. The additional personnel costs are assumed to be 100% general funds at Baltimore City Community College, the Historic St. Mary's Commission, and the Maryland Higher Education Commission. Future year expenditures reflect annualization and 5% payroll growth. The increase in member contributions to 2% does not affect employer costs for the ORP.

The Comptroller's Office advises that it will require \$34,300 in one-time data processing costs to alter the contribution rate for the eligible ORP members. Legislative Services believes that while there will be some minor additional programming costs, these costs can be absorbed with existing resources.

Additional Comments: This bill does not apply to the local community colleges.

Additional Information

Prior Introductions: HB 224 of 2000, a similar bill, was passed by the House of Delegates but was not reported from the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): Comptroller's Office, State Retirement Agency, Department of Legislative Services

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