HB 616

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 616 (Delegate Edwards, *et al.*)
Appropriations

Retirement and Pensions - Earnable Compensation

This pension bill includes in the definition of "earnable compensation" for a member of the Teachers' Retirement System (TRS) or Teachers' Pension System (TPS) the compensation for participating as a coach or an advisor for any extra curricular activity or any stipend the member receives for participating in the National Teacher Certification Program.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: State pension contributions on behalf of teachers will increase by $2.7 million in FY 2003 (reflecting growth in teacher payroll) and by $6.2 million in FY 2004 (reflecting both payroll growth and an increase in the teacher contribution rate), increasing 5% per year thereafter.

($ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	$0	$0	$0	$0	$0
GF Expenditure	2.7	6.2	6.5	6.8	7.2
Net Effect	($2.7)	($6.2)	($6.5)	($6.8)	($7.2)

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

Local Effect: None. The State pays the pension contributions for teachers in the State.

Small Business Effect: None.

Analysis

Current Law: Earnable compensation is defined as "one-twelfth of the member's annual salary rate payable for working the normal time in the member's position." Stipends from coaching, other extracurricular activities, and the national certification program are not included in the current statutory or regulatory definition of earnable compensation. The regulations governing earnable compensation exclude: bonuses; overtime; summer school salaries; adult education salary; additional temporary payments from special research projects; honorariums; vehicle stipends; and other payments that the pension board determines are not part of the normal salary for working the normal time in the member's position.

Background: "Earnable compensation" is used for two purposes by the State Retirement Agency. First, it is used to determine the amount of member and employer pension contributions to be made to the applicable pension system, by multiplying the member's earnable compensation times the applicable contribution rate. Second, earnable compensation is also used to calculate the member's average final compensation (AFC), which is part of the formula (when multiplied by the member's years of service and the applicable "accrual rate") to calculate a member's retirement benefit. For the Employees' Pension System (EPS) and the TPS, AFC is calculated as the average earnable compensation during the three consecutive years that provide the highest average earnable compensation. For the Employees' Retirement System (ERS) and the TRS, AFC is calculated as the average earnable compensation for the three years of employment during which the member's compensation was highest.

State Expenditures: Stipends for coaching and other extracurricular activities vary depending on the nature and demands of the activity and the terms of the agreement between the teachers' representatives and the local board of education. The stipends can range from a few hundred dollars to several thousand dollars, but are assumed on average to be $2,000 per year. It is assumed that approximately 15% of teachers receive such stipends. The school boards also provide bonuses for the national certification, and again, the level of those stipends can vary. On average, they are assumed also to be $2,000. Only 176 teachers are currently receiving such bonuses, but that number is expected to grow in the future. The impact from the certification program is included in the 15% participation assumption.

The proposed change to earnable compensation affects both components used to calculate pension contributions: the increase in payroll upon which the contributions are made and the level of pension liabilities (expressed in the contribution rate) which is applied against payroll.

Payroll Impact

The State currently contributes approximately $340 million on behalf of K-12 teacher pensions, based on payroll of about $3.8 billion. Assuming 15% of teachers receive a $2,000 stipend, payroll will increase by approximately $25.9 million. Based on a proposed 9.87% teacher contribution rate, State pension contributions would increase by $2.6 million beginning in fiscal 2003, and increasing an estimated 5% per year thereafter.

Rate Impact

Inclusion of these additional funds would have two offsetting effects on State pension liabilities, and hence the contribution rate. By increasing the basis upon which AFC is calculated, pension liabilities will increase. On the other hand, pension assets will increase, because the contributions, which are based on earnable compensation, will also increase. For those existing members who will receive the higher AFC, but for whom contributions were not made throughout their careers, there will be an increase in unfunded liabilities. There will also be some gains resulting from members who received stipends upon which contributions were made but who do not receive such stipends in the years upon which AFC is calculated.

The actuary informally estimates that net actuarial liabilities will increase by approximately $69.8 million as a result of the increased AFC. Amortizing these liabilities over 25 years will result in a first year increase in State pension contributions of $6.2 million beginning in fiscal 2004 (including the payroll effect noted above), and increasing 5% per year thereafter based on actuarial liabilities.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Education, State Retirement Agency, Milliman USA, Department of Legislative Services

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