

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1430 (Delegate James) (Chairman, Joint Committee on Pensions)
Appropriations Budget and Taxation

State Retirement and Pension System - Administration - Simplification

This bill clarifies, corrects, and simplifies several sections of law governing the State Retirement and Pension System (SRPS).

Fiscal Summary

State Effect: None. The changes to State pension law clarify existing practice, correct previous omissions, and simplify language, but have no fiscal effect.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill amends various sections of the State Personnel and Pensions Article to specify or clarify that:

- deficiencies in members' pension contributions accrue interest annually;
- members of the Employees' Retirement System (ERS) and State Police Retirement System (SPRS) may purchase service credit to make up for missed employee contributions during their employment;
- Teachers' Retirement System (TRS) members may purchase service credit for previous public employment if that employment was permanent (rather than temporary);

- \$20,000 stipends received by principals who participate in the Principal Fellowship and Leadership Development Program should not be included in any calculations of retirement benefits;
- members of TRS, ERS, the Teachers' Pension System (TPS), the Employees' Pension System (EPS), and the Correctional Officers' Retirement System (CORS) may purchase up to five years of service credit for prior postsecondary teaching service;
- retirees of SPRS, CORS, and the Local Fire and Police System (LFPS) are not subject to benefit reductions for temporary employment if they have been retired for nine or more years from January 1 after the date of their retirement;
- retired members of SPRS may not be rehired for permanent, temporary, or contractual work within 45 days of their retirement;
- members of CORS may purchase service credit for prior service that occurred before they were vested in EPS;
- SRPS members who received a disability retirement allowance on or after July 1, 1982 no longer have to provide annual medical and earnings information to the board of trustees; and
- for the purpose of transferring service credit from one pension system to another, "contributory system" includes the State Contributory Employees' Pension System, the State Contributory Law Enforcement Officers' Pension System, or the State Contributory Teachers' Pension System.

Current Law:

Interest Accrued on Deficiencies: Missed employee contributions, if they are not repaid at the time of retirement, result in reduced retirement benefits, based on an amortization of the value of the deficiency. From the time of the missed payment until the time of retirement (or when the deficiency is repaid), those deficiencies accrue interest at the rate of 5% annually for TPS/EPS members and 4% annually for TRS/ERS members. However, the law does not specify that interest accrues on deficiencies, even though it has always been the case in practice.

Credit Purchase for Missed Payments: State law does not specify that members of ERS and SPRS may purchase service credit at employee cost to make up for member contributions that were not made.

Purchase of Service Credit for Permanent Employment: State law does not specify that members of TRS may purchase service credit at employee cost for periods of permanent employment with the State or a participating governmental unit.

Principal Fellow Stipends: Principals who are selected to serve as Fellows under the Principal Fellowship and Leadership Development Program receive their regular salary plus a \$20,000 stipend. Currently, the stipend is included in State calculations of a Fellow's retirement benefits. However, since the fellowship program is less than one-year old, there is no fiscal effect from excluding the \$20,000 stipends because they have not previously been used to calculate retirement benefits.

Postsecondary Teaching Credit: Depending on the section of State law, members either are not explicitly allowed to purchase credit for postsecondary teaching or are allowed to purchase up to 10 years of service. However, the federal tax code allows members to purchase only up to five years of service credit for postsecondary teaching.

Benefit Reductions: Retirees of SPRS, CORS, and LFPS are subject to benefit reductions if they are reemployed within 10 years of their retirement. This change brings these systems in line with other systems.

Forty-five Day Break in Employment: Chapter 493 of 2005 required a 45-day break in employment before being rehired by the same employer. This was instituted to ensure a "separation of service" before reemployment as required by the Internal Revenue Code. However, Chapter 493 did not specify that the 45-day break applied to all forms of reemployment, including part-time or contractual work.

Disability Information: Members of SRPS who retire on or after July 1, 1982 and receive a disability retirement benefit must provide annual medical and earnings information to the board of trustees until they reach normal retirement age. Failure to do so results in the suspension of their benefits.

Definition of Contributory System: Title 37 of the State Personnel and Pensions Article governs the transfer of service credit from one pension system to another. Title 37 excludes three State contributory pension systems from its definition of "contributory system," so there is no statutory guidance regarding service credit transfers to those systems from another State system, or from those systems to another State system.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland State Retirement Agency, Department of Legislative Services

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