

**Department of Legislative Services**  
Maryland General Assembly  
2011 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 629

(Senators Pipkin and Brinkley)

Budget and Taxation

**Teachers' Retirement and Pension Systems - Local Employer Contributions**

This bill requires local school systems, community colleges, and libraries to pay a portion of employer pension costs for their employees who are members of the Teachers' Retirement System (TRS) or Teachers' Pension System (TPS) beginning July 1, 2012. The local share of employer pension costs for an employee is the portion of total employer costs that is based on the amount of an employee's salary that exceeds the median annual salary. The bill establishes a schedule for local payments and financial penalties for late payments by local employers.

The bill takes effect July 1, 2011.

**Fiscal Summary**

**State Effect:** General fund expenditures decrease by \$174.4 million in FY 2013 due to local governments paying a portion of pension costs for members of TRS/TPS who are employed by local school systems, community colleges, and libraries. Out-year savings reflect 3.5% annual growth in TRS/TPS payroll. The penalty provisions for late payments are not expected to generate meaningful revenue due to their limited application. Based on an alternative interpretation of the bill, general fund expenditures for pension contributions on behalf of TRS/TPS members who are employed by local governments decrease by \$75.6 million in FY 2012. Out-year savings cannot be reliably estimated due to fluctuations in median salary levels in each local jurisdiction.

| (in dollars)   | FY 2012 | FY 2013       | FY 2014       | FY 2015       | FY 2016       |
|----------------|---------|---------------|---------------|---------------|---------------|
| Revenues       | \$0     | \$0           | \$0           | \$0           | \$0           |
| GF Expenditure | 0       | (174,407,500) | (193,039,700) | (211,522,300) | (228,844,900) |
| Net Effect     | \$0     | \$174,407,500 | \$193,039,700 | \$211,522,300 | \$228,844,900 |

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

**Local Effect:** Local expenditures increase by \$174.4 million in FY 2013 to pay the local share of TRS/TPS pension costs for members who are employed by local school systems, community colleges, and libraries. Based on an alternative interpretation of the bill, local expenditures increase by \$75.6 million in FY 2012 for pension contributions of TRS/TPS members employed by local governments; expenditures increase only in those counties whose median salaries for members of TRS/TPS exceed the statewide median salary, by type of employer. Out-year expenditure increases cannot be reliably estimated due to fluctuations in median salary levels in each local jurisdiction. In either interpretation, no effect on local revenues. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** None.

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## Analysis

**Bill Summary:** The Maryland State Department of Education (MSDE) is responsible for calculating median annual salaries for teachers and librarians, respectively, employed by local governments and reporting those figures to the State Retirement and Pension System (SRPS). The Maryland Higher Education Commission (MHEC) is responsible for calculating median annual salaries for community college employees and reporting them to SRPS. Local boards of education, community colleges, and libraries are then responsible for paying the share of the total employer pension contribution that is solely attributable to the amount of an employee's salary that is in excess of the median salary of all employees for that category of employer.

Each county's share of the pension costs for employees of a regional community college is prorated based on each county's share of full-time equivalent students at the college. The State remains responsible for paying the full share of pension costs for TRS/TPS members employed by State institutions, including Baltimore City Community College.

A county that does not pay its annual share of TRS/TPS pension costs within 30 days of receiving certification of its share from SRPS is subject to a penalty of 10% of the amount due and 10% annual interest on the amount due. However, SRPS may grant a 10-day grace period. The Comptroller is authorized to withhold the amount of any underpayment from any money due to a county upon notification by SRPS.

**Current Law:** The State pays the full employer share of pension costs for TRS/TPS members. For the purpose of calculating the employer contribution, the two systems are treated as one.

TRS was closed to new members in 1980 and replaced by TPS. As of June 30, 2011, it has just 3,111 members. Membership in TPS is a condition of employment for all teachers, librarians, and other individuals specified in statute who became employed by

local boards of education, community colleges, and libraries beginning in 1980; community college faculty have the option of joining the Optional Retirement Program (ORP) instead of TPS. As of June 30, 2010, TPS had 103,162 active members. Baltimore City Community College is a State-operated college whose employees are State employees and belong to TRS/TPS, ORP, or the Employees' Retirement or Pension System.

TPS is a contributory defined benefit pension system in which members earn a retirement benefit allowance according to the following formula:

$$\begin{array}{c}
 \boxed{\text{Years of Creditable Service Before 1998}} \times \boxed{\text{Average Final Compensation (AFC)}} \times \boxed{1.2\%} \\
 \text{Plus} \\
 \boxed{\text{Years of Creditable Service After 1998}} \times \boxed{\text{AFC}} \times \boxed{1.8\%}
 \end{array}$$

The member contribution rate for TPS is 5% of earnable compensation.

**Background:** The Budget Reconciliation and Financing Act of 2010 (Chapter 484) created the Public Employees' and Retirees' Benefit Sustainability Commission to study and make recommendations with respect to State-funded health care benefits and pensions provided to State and public education employees and retirees. Among the recommendations in its January 2011 report, the commission recommended that local employers pay a portion of employer pension costs for their employees who are members of TRS/TPS. Under the approach recommended by the commission, local employers would pay 50% of the combined employer cost for TRS/TPS and Social Security (for which they already pay the full employer share). Moreover, determination of the employer share for local boards of education would be calculated on a wealth-equalized basis.

**State/Local Fiscal Effect:** Based on membership data for TRS/TPS provided by the State Retirement Agency (SRA) in February 2011, the Department of Legislative Services (DLS) calculated weighted median salaries for each of local school boards, community colleges, and libraries for fiscal 2011. Those median salaries were then applied to fiscal 2012, for which DLS obtained a projection of total TRS/TPS payroll from SRA. All payroll data, including the salaries, were then inflated by 3.5% annually to project future pension costs and the distribution of those costs between the State and local governments. The fiscal 2011 median salaries and number of employees for each category of employer are shown in **Exhibit 1**, along with the projected fiscal 2012 total payroll for TRS/TPS members employed by local governments.

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**Exhibit 1**  
**Median Salaries and Payroll Information**  
**TRS/TPS Local Employers**

|   | <u>Boards of Education</u> | <u>Community Colleges</u> | <u>Libraries</u> |
|---|----------------------------|---------------------------|------------------|
| Median Salary (FY 2011)                       | \$52,035                   | \$42,634                  | \$32,481         |
| Total Employees (FY 2011)                     | 96,518                     | 4,722                     | 2,277            |
| Total Payroll up to Median Salaries (FY 2012) | 5,022,327,250              | 201,317,673               | 73,960,102       |
| Total Payroll (FY 2012)                       | 5,975,776,868              | 243,758,841               | 95,025,528       |
| % of Payroll Below Median                     | 84.0%                      | 82.6%                     | 77.8%            |

Source: State Retirement Agency; Department of Legislative Services

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As Exhibit 1 shows, more than three-quarters of member payroll for local employees can be attributed to salaries below the median. Under the bill, contributions based on that portion of payroll are still paid by the State.

In fiscal 2012, total State contributions for TRS/TPS members employed by local governments are projected to be \$975.6 million. Based on the findings presented above, DLS calculated the State and local portions of current TRS/TPS contributions for fiscal 2013 through 2016. In fiscal 2013, the local share totals \$174.4 million, as shown in **Exhibit 2**, leaving \$908.5 million for the State share. The exhibit also shows the local share of employer contributions for each county from fiscal 2013 through 2016.

It is assumed that MSDE, MHEC, and SRA can implement the bill with existing resources.

**Exhibit 2**  
**Local Share of TRS/TPS Employer Contributions under SB 629**  
**Fiscal 2013-2016**

|                          | <b>FY 2013</b>       | <b>FY 2014</b>       | <b>FY 2015</b>       | <b>FY 2016</b>       |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| Allegany                 | \$2,086,999          | \$2,309,957          | \$2,531,123          | \$2,738,410          |
| Anne Arundel             | 14,679,899           | 16,248,176           | 17,803,857           | 19,261,903           |
| Baltimore City           | 15,774,227           | 17,459,413           | 19,131,063           | 20,697,802           |
| Baltimore                | 20,154,611           | 22,307,761           | 24,443,616           | 26,445,425           |
| Calvert                  | 3,430,796            | 3,797,313            | 4,160,887            | 4,501,642            |
| Caroline                 | 1,011,127            | 1,119,148            | 1,226,300            | 1,326,728            |
| Carroll                  | 5,157,335            | 5,708,301            | 6,254,842            | 6,767,082            |
| Cecil                    | 3,076,671            | 3,405,357            | 3,731,403            | 4,036,986            |
| Charles                  | 5,038,111            | 5,576,341            | 6,110,247            | 6,610,646            |
| Dorchester               | 863,519              | 955,770              | 1,047,280            | 1,133,047            |
| Frederick                | 7,515,270            | 8,318,138            | 9,114,558            | 9,860,994            |
| Garrett                  | 893,966              | 989,470              | 1,084,206            | 1,172,997            |
| Harford                  | 7,179,713            | 7,946,733            | 8,707,593            | 9,420,701            |
| Howard                   | 12,231,566           | 13,538,284           | 14,834,506           | 16,049,378           |
| Kent                     | 477,898              | 528,952              | 579,597              | 627,063              |
| Montgomery               | 34,966,061           | 38,701,542           | 42,407,018           | 45,879,940           |
| Prince George's          | 25,514,613           | 28,240,381           | 30,944,254           | 33,478,433           |
| Queen Anne's             | 1,391,624            | 1,540,294            | 1,687,769            | 1,825,989            |
| St. Mary's               | 3,013,027            | 3,334,914            | 3,654,215            | 3,953,477            |
| Somerset                 | 604,212              | 668,761              | 732,791              | 792,803              |
| Talbot                   | 812,233              | 899,005              | 985,080              | 1,065,753            |
| Washington               | 4,050,934            | 4,483,701            | 4,912,993            | 5,315,343            |
| Wicomico                 | 2,854,690            | 3,159,661            | 3,462,183            | 3,745,718            |
| Worcester                | 1,600,311            | 1,771,275            | 1,940,866            | 2,099,813            |
| Regional Libraries       | 28,068               | 31,067               | 34,041               | 36,829               |
| <b>Total Local Share</b> | <b>\$174,407,481</b> | <b>\$193,039,716</b> | <b>\$211,522,288</b> | <b>\$228,844,904</b> |

Source: State Retirement Agency; Department of Legislative Services

**Additional Comments:** An alternative interpretation of the bill requires only those local boards of education, community colleges, and libraries whose median salaries exceed the statewide median to pay a portion of their employees' pension costs. Employers whose median salaries exceed the State average median for other similar employers are then required to pay the employer pension cost for that portion of their employees' salaries that exceeds the statewide median salary. **Exhibit 3** shows the projected fiscal 2012 median salaries, by employer, for each county.

As the exhibit shows, seven boards of education, four community colleges, and eight public libraries are projected to have median salaries above the respective statewide medians in fiscal 2012. Therefore, those employers have to pay the portion of their employees' pension cost that is attributable to the portion of their salary that exceeds the statewide median. Based on the employer pension contribution rates and the salaries in each of the affected jurisdictions, Legislative Services estimates that the total local contribution, and therefore the total State general fund savings, is \$75.6 million in fiscal 2012. The amount of savings and the affected employers is subject to fluctuation each year because the number of employers with median salaries over the State median is likely to change based on different levels of pay increases given to employees.

**Exhibit 4** shows the fiscal 2012 local pension contributions for the affected counties.

**Exhibit 3**  
**Median Salaries for TRS/TPS Local Employees**  
**Fiscal 2012 Estimate**

|                                  | <b>Boards of Education</b> |                      | <b>Community Colleges</b> |                      | <b>Libraries</b>        |                      |
|----------------------------------|----------------------------|----------------------|---------------------------|----------------------|-------------------------|----------------------|
|                                  | <b><u>Employees</u></b>    | <b><u>Median</u></b> | <b><u>Employees</u></b>   | <b><u>Median</u></b> | <b><u>Employees</u></b> | <b><u>Median</u></b> |
| Allegany                         | 1,111                      | \$57,891             | 221                       | \$41,793             | 27                      | \$27,828             |
| Anne Arundel                     | 8,193                      | 49,384               | 460                       | 44,778               | 192                     | 37,534               |
| Baltimore City                   | 9,104                      | 52,650               |                           |                      | 277                     | 36,349               |
| Baltimore                        | 11,627                     | 47,061               | 726                       | 44,323               | 281                     | 37,157               |
| Calvert                          | 1,836                      | 59,318               |                           |                      | 52                      | 39,166               |
| Caroline                         | 671                        | 46,402               |                           |                      | 19                      | 31,952               |
| Carroll                          | 3,100                      | 46,692               | 111                       | 34,886               | 135                     | 29,056               |
| Cecil                            | 1,913                      | 47,216               | 118                       | 20,943               | 73                      | 25,512               |
| Charles                          | 2,720                      | 48,476               |                           |                      | 37                      | 52,959               |
| Dorchester                       | 553                        | 45,529               |                           |                      | 16                      | 22,158               |
| Frederick                        | 4,511                      | 50,069               | 159                       | 46,668               | 138                     | 26,261               |
| Garrett                          | 526                        | 53,515               | 53                        | 35,606               | 25                      | 20,284               |
| Harford                          | 4,597                      | 44,987               | 310                       | 32,578               | 220                     | 27,760               |
| Howard                           | 6,697                      | 59,653               | 282                       | 41,565               | 243                     | 34,437               |
| Kent                             | 302                        | 44,881               |                           |                      | 11                      | 25,047               |
| Montgomery                       | 17,010                     | 59,937               | 897                       | 58,062               |                         | *                    |
| Prince George's                  | 13,174                     | 54,907               | 677                       | 35,698               | 266                     | 38,664               |
| Queen Anne's                     | 904                        | 44,982               |                           |                      | 13                      | 45,273               |
| St. Mary's                       | 1,794                      | 50,031               |                           |                      | 54                      | 23,249               |
| Somerset                         | 399                        | 44,776               |                           |                      | 12                      | 25,750               |
| Talbot                           | 479                        | 47,453               |                           |                      | 20                      | 31,072               |
| Washington                       | 2,403                      | 50,730               | 173                       | 39,500               | 84                      | 22,491               |
| Wicomico                         | 1,930                      | 44,068               |                           |                      | 41                      | 21,710               |
| Worcester                        | 964                        | 49,529               |                           |                      | 41                      | 29,414               |
| Chesapeake CC                    |                            |                      | 135                       | 36,257               |                         |                      |
| Southern MD CC                   |                            |                      | 262                       | 32,541               |                         |                      |
| Wor-Wic CC                       |                            |                      | 138                       | 38,628               |                         |                      |
| <b>Total</b>                     | <b>96,518</b>              |                      | <b>4,722</b>              |                      | <b>2,277</b>            |                      |
| <b>Statewide Weighted Median</b> |                            | <b>\$52,035</b>      |                           | <b>\$42,634</b>      |                         | <b>\$32,481</b>      |

\*Employees of the Montgomery County Public Library participate in a county retirement plan, not TRS/TPS.

Source: State Retirement and Pension System, Department of Legislative Services

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**Exhibit 4**  
**Local Pension Contributions Under SB 629**  
**Fiscal 2012 Estimate for Alternative Interpretation**

|                 | <b>Board of Education</b> | <b>Community College</b> | <b>Library</b>      | <b>Total</b>        |
|-----------------|---------------------------|--------------------------|---------------------|---------------------|
|                 | <u>Contribution</u>       | <u>Contribution</u>      | <u>Contribution</u> | <u>Contribution</u> |
| Allegany        | \$35,201                  | 0                        | 0                   | \$35,201            |
| Anne Arundel    | 0                         | \$780,032                | \$204,570           | 984,602             |
| Baltimore City  | 12,232,343                | 0                        | 394,036             | 12,626,378          |
| Baltimore       | 0                         | 1,073,067                | 573,030             | 1,646,097           |
| Calvert         | 1,665,944                 | 0                        | 33,842              | 1,699,786           |
| Caroline        | 0                         | 0                        | 0                   | 0                   |
| Carroll         | 0                         | 0                        | 0                   | 0                   |
| Cecil           | 0                         | 0                        | 0                   | 0                   |
| Charles         | 0                         | 0                        | 14,534              | 14,534              |
| Dorchester      | 0                         | 0                        | 0                   | 0                   |
| Frederick       | 0                         | 214,704                  | 0                   | 214,704             |
| Garrett         | 258,675                   | 0                        | 0                   | 258,675             |
| Harford         | 0                         | 0                        | 0                   | 0                   |
| Howard          | 2,956,300                 | 0                        | 247,991             | 3,204,292           |
| Kent            | 0                         | 0                        | 0                   | 0                   |
| Montgomery      | 28,692,034                | 1,337,202                | 0                   | 30,029,236          |
| Prince George's | 24,432,287                | 0                        | 386,218             | 24,818,505          |
| Queen Anne's    | 0                         | 0                        | 32,716              | 32,716              |
| St. Mary's      | 0                         | 0                        | 0                   | 0                   |
| Somerset        | 0                         | 0                        | 0                   | 0                   |
| Talbot          | 0                         | 0                        | 0                   | 0                   |
| Washington      | 0                         | 0                        | 0                   | 0                   |
| Wicomico        | 0                         | 0                        | 0                   | 0                   |
| Worcester       | 0                         | 0                        | 0                   | 0                   |
| Chesapeake CC   | NA                        | 0                        | NA                  | 0                   |
| Southern MD CC  | NA                        | 0                        | NA                  | 0                   |
| Wor-Wic CC      | NA                        | 0                        | NA                  | 0                   |
| <b>Total</b>    | <b>\$70,272,783</b>       | <b>\$3,405,005</b>       | <b>\$1,886,938</b>  | <b>\$75,569,448</b> |

Source: State Retirement and Pension System, Department of Legislative Services

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.



**Information Source(s):** Maryland State Department of Education, Montgomery County, Morgan State University, Maryland State Retirement Agency, University System of Maryland, Department of Legislative Services

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