

Department of Legislative Services  
 Maryland General Assembly  
 2012 Session

FISCAL AND POLICY NOTE

House Bill 661 (Delegate Smigiel, *et al.*)  
 Appropriations

State Retirement and Pension System - Local Employer Contributions - Educators  
 and Educational Staff

This bill requires county governments to pay the retirement costs associated with local school, community college, and library employees hired after June 30, 2011. County payments begin in fiscal 2014, and the State will continue to pay any costs not paid by the counties. The bill also establishes a schedule for local payments and financial penalties for late payments.

The bill takes effect July 1, 2012.

Fiscal Summary

**State Effect:** General fund expenditures decrease by an estimated \$32.2 million in FY 2014 due to the shift of pension costs for some local employees from the State to the counties. Future year savings reflect growing numbers of local employees hired on or after July 1, 2011, increases in local salary bases, and projections of the employer contribution rates for members of the Teachers’ Retirement System (TRS) and Teachers’ Pension System (TPS). Revenues are not affected.

(\$ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	(32.2)	(69.6)	(112.7)	(168.9)
Net Effect	\$0	\$32.2	\$69.6	\$112.7	\$168.9

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

**Local Effect:** County (and Baltimore City) expenditures for local employee pensions increase by \$32.2 million in FY 2014 and by \$168.9 million in FY 2017. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** None.

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## **Analysis**

**Bill Summary:** The bill requires counties to pay pension costs for TRS/TPS members who were hired on or after July 1, 2011, and are employed by local boards of education, local libraries, and local community colleges. By April 1 of each year, the State Board of Education must certify the number of local school and library employees who qualify for county pension funding, disaggregated by county. The Maryland Higher Education Commission (MHEC) must do the same for community college employees.

For a regional community college, the local share of the employer pension contribution for community college faculty and staff is prorated among the counties that support the college. The prorated amounts are based on the proportion of full-time equivalent students enrolled at the college who reside in each county.

The State continues to pay the full employer contribution for TRS/TPS members who are:

- employed by Baltimore City Community College;
- faculty members employed by educational institutions (other than community colleges) supported and controlled by the State; or
- staff members of the University System of Maryland, Morgan State University, or St. Mary's College of Maryland who were members of TPS as of January 1, 1998, or who transferred from TRS to TPS on or after that date.

Quarterly, counties must pay their shares of the TRS/TPS employer contributions after receiving certified contribution rates from the State Retirement and Pension System (SRPS) Board of Trustees. Failure to pay results in a 10% penalty and 10% annual interest on the delinquent amount. If notified by the board's secretary that a delinquency exists for a particular county, the Comptroller must immediately exercise the right of setoff against any money due or coming due to that county from the State.

**Current Law:** The State pays the full employer contribution for all TRS/TPS members, including employees of local boards of education, libraries, and community colleges. For the purpose of calculating the employer contribution, the two systems are treated as one.

Membership in TRS/TPS includes:

- employees of a day school in the State under the authority and supervision of a local board of education or the Baltimore City Board of School Commissioners;
- faculty employees of an educational institution supported and controlled by the State;
- librarians and clerical employees of local libraries;
- community college faculty and staff;
- staff members of the University System of Maryland, Morgan State University, or St. Mary's College of Maryland as of January 1, 1998; and
- nonfaculty employees of the Baltimore City Community College, prior to October 1, 2002.

**Background:** State general fund expenditures for the pension costs of local employees more than doubled from fiscal 2006 (\$433 million) to fiscal 2011 (\$900 million) due to a number of factors, including declining pension fund assets brought on by two recessions, a retroactive pension enhancement enacted in 2006, and increasing local salary bases resulting in part from State initiatives to increase funding for schools, libraries, and community colleges. Recognizing that the cost of pensions and other benefits for public employees represented one of the fastest growing components of the State budget, the Budget Reconciliation and Financing Act of 2010 (Chapter 484) established the Public Employees' and Retirees' Benefit Sustainability Commission. The commission submitted its first report in January 2011. The report concluded that the current benefit structure is not sustainable and recommended that the State restructure public employee benefits and require local school boards to help the State pay pension costs associated with local school employees.

The Budget Reconciliation and Financing Act of 2011 (Chapter 397) restructured pension benefits for State and local employees and made changes to health benefits for State employees and retirees. The Sustainability Commission acknowledged this progress in its July 2011 final report and reiterated its recommendation to shift a portion of the pension costs for local school employees to the local school boards. The Budget Reconciliation and Financing Act of 2012, as proposed by the Administration, would execute a pension cost-sharing proposal similar in methodology and scope to the one suggested by the Sustainability Commission. The present bill would implement a different approach for sharing pension costs by requiring counties to pay pension costs associated with new employees.

Data from the Maryland State Department of Education (MSDE) shows that local school boards hired between 5,200 and 8,000 new teachers annually between the 1997-1998 school year and the 2008-2009 school year, before dropping to just 4,143 new teachers hired in the 2009-2010 school year. Similar information was not immediately available for libraries and community colleges, but data from SRPS shows 364 new

community college employees and 123 new library employees who enrolled in TRS/TPS during fiscal 2011.

**State Expenditures:** General fund expenditures decrease by an estimated \$32.2 million in fiscal 2014 due to the shift of pension costs from the State to the counties. The savings will grow to an estimated \$69.6 million in fiscal 2015, \$112.7 million in fiscal 2016, and \$168.9 million in fiscal 2017. These estimates are based on the following information and assumptions.

- The analysis assumes that counties will not share in the reinvestment of savings from the 2011 pension changes. Annual employer contribution rates for TRS/TPS are estimated at 14.27% in fiscal 2014, 14.99% in fiscal 2015, 15.40% in fiscal 2016, and 15.60% in fiscal 2017.
- Data obtained from SRPS suggests that roughly 3.6% of the total salary base for local employees as of June 2011 was attributable to employees who were initially enrolled in TRS/TPS during fiscal 2011. This percentage increases to 7.3% for employees who enrolled in the last two years, 11.3% for employees enrolled in the last three years, and 16.6% for employees enrolled in the last four years.
- The SRPS data also suggests that, relative to schools and libraries, higher proportions of the total salary bases for community colleges are attributable to newer employees.
- Based on recent experience, local school and library salary bases are expected to increase by 1% per year, while community college salary bases are expected to grow 2.5% annually.
- Although the bill requires the State Board of Education and MHEC to certify the number of local employees hired on or after July 1, 2011, it is assumed that SRPS can identify these employees through its existing database more efficiently. MSDE advises that it would need additional staff to generate the required information for the State board, and it is expected that MHEC would likewise need additional staff.

The shift of responsibility for local employee pension costs will continue in future years. Eventually, perhaps 30 to 40 years from now when teachers, librarians, and community college faculty hired prior to July 1, 2011, are no longer working, counties will pay 100% of the pension costs for local employees.

**Local Expenditures:** County expenditures for local employee pension costs increase by an estimated \$32.2 million in fiscal 2014, the first year counties will contribute to pensions. **Exhibit 1** displays the estimated county payments by local entity and shows that the majority of the costs, \$29.6 million, are attributable to local school employees.

**Exhibit 1**  
**Fiscal 2014 Pension Costs by Local Entity**  
(\$ in Thousands)

<b>County</b>	<b>Schools</b>	<b>Libraries</b>	<b>Community Colleges</b>	<b>Total</b>
Allegany	\$111	\$6	\$64	\$181
Anne Arundel	3,018	45	199	3,262
Baltimore City	4,963	84	0	5,047
Baltimore	3,244	30	308	3,582
Calvert	400	13	24	437
Caroline	210	10	8	228
Carroll	756	35	31	822
Cecil	448	24	50	522
Charles	1,297	16	80	1,393
Dorchester	280	0	7	288
Frederick	1,085	38	107	1,229
Garrett	73	11	33	117
Harford	1,405	19	110	1,533
Howard	2,305	69	119	2,493
Kent	144	0	3	147
Montgomery	4,026	0	327	4,353
Prince George's	3,473	64	355	3,892
Queen Anne's	157	12	9	177
St. Mary's	601	13	27	642
Somerset	144	0	6	151
Talbot	203	3	8	213
Washington	560	13	139	713
Wicomico	540	1	43	583
Worcester	175	2	17	195
<b>Total</b>	<b>\$29,619</b>	<b>\$508</b>	<b>\$2,074</b>	<b>\$32,201</b>

County pension payments for local employees will increase in future years, as more new employees are hired. Estimates for fiscal 2014 through 2017 are shown by county in **Exhibit 2**. The estimates reflect the assumptions described above, as well as different county retention rates for local employees. School systems, library systems, and community colleges that are able to retain employees hired prior to July 1, 2011, will keep pension costs down for their counties in the near future. Eventually, as local

employees retire or otherwise drop out of the workforce, all counties will pay 100% of the pension costs for local employees.

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**Exhibit 2**  
**Estimated County Pension Costs, House Bill 661**  
**Fiscal 2014-2017**  
**(\$ in Thousands)**

<b>County</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Allegany	\$181	\$488	\$822	\$1,145
Anne Arundel	3,262	6,576	10,153	14,538
Baltimore City	5,047	10,215	17,259	24,820
Baltimore	3,582	8,496	13,318	18,748
Calvert	437	778	1,227	2,174
Caroline	228	485	719	1,036
Carroll	822	1,547	2,608	3,802
Cecil	522	1,113	1,936	3,268
Charles	1,393	2,729	4,245	6,770
Dorchester	288	480	729	961
Frederick	1,229	2,229	3,626	5,811
Garrett	117	309	512	630
Harford	1,533	3,258	4,529	6,520
Howard	2,493	4,459	7,100	11,162
Kent	147	284	437	578
Montgomery	4,353	10,174	16,338	24,065
Prince George's	3,892	9,966	17,521	29,059
Queen Anne's	177	439	712	1,080
St. Mary's	642	1,443	2,183	3,212
Somerset	151	240	390	704
Talbot	213	413	673	845
Washington	713	1,958	3,062	4,408
Wicomico	583	1,161	1,899	2,585
Worcester	195	341	688	991
<b>Total</b>	<b>\$32,201</b>	<b>\$69,582</b>	<b>\$112,687</b>	<b>\$168,912</b>

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

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ncs/mwc

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