

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE
Revised

House Bill 492
Appropriations

(Delegate Otto)

Budget and Taxation

Employees' Pension System - Somerset County Economic Development
Commission - Eligible Governmental Unit

This bill makes the Somerset County Economic Development Commission (EDC) eligible to participate in the Employees' Pension System (EPS) as a participating governmental unit (PGU) and includes provisions related to the benefits available to EDC employees.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: None. The bill affects only local PGUs.

Local Effect: No discernible effect on PGU pension liabilities or contribution rates. If EDC elects to become a PGU, Somerset County expenditures increase by approximately \$7,000 to pay for the actuarial valuation required for EDC's membership in EPS. No effect on local revenues.

Small Business Effect: None.

Analysis

Bill Summary: Individuals who were employees of EDC on June 30, 2011, and who remain employees until EDC becomes a PGU:

- are subject to the alternate contributory pension selection (ACPS) in the same manner as an individual who was a member of EPS on June 30, 2011; and

- receive service credit for employment with EDC that occurred prior to EDC becoming a PGU but during which the employee paid member contributions to the Board of Trustees of the State Retirement and Pension System.

Current Law: Local governmental entities are eligible to join EPS as PGUs. Local governments that join EPS on or after July 1, 2011, are subject to the reformed contributory pension selection (RCPS), enacted under Chapter 397 of 2011 (HB 72).

EPS began as a noncontributory defined benefit pension system in 1980 (Chapters 23 and 24). In 1998, Chapter 530 (HB 987) made it a contributory system, and in 2006, Chapter 110 (HB 1737) enhanced the contributory benefit. To distinguish it from the benefits under the 1998 legislation, the enhanced benefit available under Chapter 110 was titled the alternate contributory pension selection (or ACPS as noted earlier). State employees in EPS automatically qualified for the enhanced benefits under first the contributory benefit in 1998 and then again under ACPS in 2006. However, at each stage of enhancement, each PGU enrolled in EPS was given the option of retaining the existing benefit or adopting the enhancement. Although most PGUs have opted for the enhancements at each stage, there are still a handful of PGUs subject to either the original noncontributory benefit or the 1998 contributory benefit.

Chapter 397 added RCPS as a new benefit tier to EPS; except for PGUs that have not opted for ACPS, any individual who becomes a member of EPS on or after July 1, 2011, is automatically enrolled in RCPS. Individuals who were members of EPS before July 1, 2011, remain in ACPS. **Exhibit 1** compares the benefit structures under ACPS and RCPS.

Exhibit 1
Comparison of ACPS and RCPS Benefits

	<u>ACPS</u>	<u>RCPS</u>
Vesting	5 years	10 years
Normal Retirement	30 years of service, or age 62	Age + service add to 90, or age 62
Benefit Multiplier	1.8%/year since 1998 1.2%/year before 1998	1.5%/year
Member Contribution	7% of pay	7% of pay

Source: Department of Legislative Services

Background: Somerset County, a PGU within EPS that participates in ACPS, recently advised the State Retirement Agency that EDC is not a county agency and that EDC employees are not employees of the county. Therefore, two employees of EDC, who had previously participated in EPS and on whose behalf both employee and employer contributions had been made to the system, were not actually eligible for membership in EPS. This bill seeks to remedy the oversight by (1) making EDC eligible for membership in EPS as a PGU; (2) giving the two employees service credit for their past employment during which all contributions were made on their behalf; and (3) ensuring that they retain their benefits under ACPS instead of being subject to RCPS (since they would legally be joining EPS after the June 30, 2011 cutoff date).

One of the affected individuals has more than 18 years of service, and the other has more than 11 years of service.

Any employees of EDC hired after the date it becomes a PGU will still be subject to RCPS.

Local Fiscal Effect: PGUs represent a separate pool within EPS; PGU assets and liabilities are not considered State assets or liabilities. Therefore, the bill only potentially affects PGUs.

In the absence of the bill, it is most likely that all employee and employer contributions (including interest) for the two affected individuals would be refunded to the individuals and to EDC, and the two EDC employees would forfeit any accrued benefits under EPS. Moreover, if EDC becomes a PGU, its two existing employees will accrue less generous benefits under RCPS rather than the more generous benefits under ACPS. This would likely result in minimal savings to the system, reflecting the two individuals' share of the system's unfunded liability for which the system would no longer be responsible, as well as the prospective accrual of lesser benefits under RCPS.

However, employee and employer contributions have been made on the two individuals' behalf for their entire employment with EDC, and they have otherwise been treated as legitimate members of EPS. Any actuarial savings generated by refunding the contributions and forfeiting the accrued benefits would be negligible for each of the approximately 120 PGUs. In practical terms, there is no cost to the system for retaining the contributions and accrued benefits earned with those contributions, as the contributions and benefits have already been reflected in the system's actuarial valuations. Therefore, the Department of Legislative Services concludes that the bill has no discernible effect on PGU pension liabilities or contribution rates.

Additional Information

Prior Introductions: None.

Cross File: Although not designated as a crossfile, SB 470 (Senator Mathias – Budget and Taxation) is identical.

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

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