

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE

House Bill 1414 (Delegate Serafini)
 Appropriations

State Retirement and Pension System - Report on Proposal to Authorize Counties to Elect Alternate Pension Options for Teachers

This bill requires the Board of Trustees of the State Retirement and Pension System (SRPS) to submit a report to designated committees of the General Assembly on transitional statutory provisions that may be necessary or desirable if legislation were enacted to authorize a governing body of a county to elect to alter, prospectively, the pension benefits of current or future employees of local school boards. The report must be submitted by December 31, 2013.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: Special fund expenditures by the State Retirement Agency (SRA) increase by \$75,000 in FY 2014 for actuarial consulting services related to the preparation of the mandated report. No effect on revenues.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	75,000	0	0	0	0
Net Effect	(\$75,000)	\$0	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: Teachers and other educational personnel specified in statute are members of the Teachers' Retirement System or Teachers' Pension System (TRS/TPS) as a condition of their employment. Even though these individuals are employed by local governments, prior to fiscal 2013, the State paid the full employer pension contribution on behalf of TRS/TPS members employed by local school boards.

Chapter 1 of the 2012 first special session (SB 1301) requires local school boards to pay the normal cost for their employees who are members of TRS/TPS, phased in over five years. Based on 2012 projections of the normal cost, local school boards pay 50% of the normal cost in fiscal 2013, phasing up to 100% of the normal cost by fiscal 2016. For those four years, Chapter 1 specifies the exact dollar amount to be paid by each local school board based on the projected normal cost and the local share of that cost. Beginning in fiscal 2017, however, local school boards must pay 100% of the *actual* normal cost.

Beginning in fiscal 2013, Chapter 1 also requires county governments (including Baltimore City) to adjust their maintenance of effort payments to local school boards to fully compensate them for teacher pension costs. Beginning in fiscal 2017, the fiscal 2016 payments by the counties are included in subsequent years' maintenance of effort calculations, so local school boards are responsible for any increase in normal cost payments between fiscal 2016 and each succeeding year. **Exhibit 1** shows the annual payments that local governments will have to make on behalf of TRS/TPS members during the four-year phase-in of the normal cost payment requirement.

The benefit structure under TRS/TPS is established in statute; local school boards cannot alter the benefits, either retroactively or prospectively, that are earned by TRS/TPS members. There are also no provisions allowing local school boards to withdraw from participation in TRS/TPS. In instances where a local participating governmental unit (PGU) that has elected to participate in SRPS has subsequently elected to withdraw, statute specifies the conditions under which it may do so. Specifically, active members employed by a withdrawing PGU typically have the choice of remaining in SRPS or withdrawing and entering a local retirement or pension plan; employees hired by a PGU subsequent to its withdrawal are not eligible to join SRPS. In addition, a withdrawing PGU must typically continue to make withdrawal liability contributions, as specified in statute, until its share of any outstanding pension liabilities is liquidated.

Exhibit 1
Local Government Pension Contributions for TRS/TPS Members

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Allegany	\$1,487,742	\$1,885,754	\$2,412,465	\$2,773,677
Anne Arundel	11,493,684	14,568,567	18,637,716	21,428,297
Baltimore City	12,922,862	16,380,092	20,955,217	24,092,793
Baltimore	15,755,802	19,970,922	25,549,002	29,374,395
Calvert	2,835,938	3,594,631	4,598,648	5,287,193
Caroline	793,934	1,006,334	1,287,413	1,480,175
Carroll	4,005,782	5,077,441	6,495,621	7,468,196
Cecil	2,459,819	3,117,889	3,988,747	4,585,973
Charles	3,936,516	4,989,645	6,383,304	7,339,061
Dorchester	656,543	832,186	1,064,625	1,224,028
Frederick	5,893,461	7,470,128	9,556,610	10,987,499
Garrett	664,714	842,544	1,077,874	1,239,262
Harford	5,529,741	7,009,102	8,966,815	10,309,396
Howard	9,821,066	12,448,477	15,925,463	18,309,945
Kent	366,147	464,102	593,730	682,628
Montgomery	27,227,553	34,511,689	44,151,153	50,761,802
Prince George's	19,554,579	24,785,979	31,708,954	36,456,662
Queen Anne's	1,105,527	1,401,286	1,792,679	2,061,093
St. Mary's	2,485,697	3,150,691	4,030,711	4,634,220
Somerset	480,124	608,570	778,550	895,121
Talbot	628,456	796,586	1,019,080	1,171,665
Washington	3,094,113	3,921,875	5,017,294	5,768,522
Wicomico	2,173,593	2,755,091	3,524,616	4,052,348
Worcester	1,271,561	1,611,739	2,061,914	2,370,640
Total	\$136,644,954	\$173,201,320	\$221,578,201	\$254,754,591

Source: Department of Legislative Services

Additional Comments: State pension law specifies that assets of SRPS are “for the exclusive purposes of providing benefits to the participants and for reasonable expenses of administering the several systems...” It further specifies that fiduciaries of the system

must discharge their duties “solely in the interest of the participants and...in accordance with the laws governing the several systems...” SRA advises, “Spending trust assets to fund this study would be a violation of the Board’s fiduciary responsibility” because the study relates to plan design and does not benefit plan participants. Prior to implementing the bill, the Department of Legislative Services advises that a determination should be made as to whether the mandated study is consistent with the board’s fiduciary responsibilities, particularly whether it represents “reasonable expenses of administering the several systems” that are “in accordance with the laws governing the several systems.”

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/rhh

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