Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Joint Resolution 1 (Delegate Serafini)
Rules and Executive Nominations

General Assembly Compensation Commission - Recommendations - Employees' Pension System

This joint resolution rejects the recommendations of the General Assembly Compensation Commission (GACC) regarding (1) changes in the salary received by members and presiding officers of the General Assembly; (2) reimbursements and/or allowances for meals, lodging, and travel; and (3) benefits provided to members of the General Assembly, including provisions related to the Legislative Pension Plan (LPP). Instead, this joint resolution closes LPP and requires current and future members of the General Assembly to transfer to the Employees' Pension System (EPS). The provisions related to compensation, reimbursements, and other benefits for members of the General Assembly and the presiding officers remain as provided in the Resolution of the GACC dated January 5, 2010, as amended by Joint Resolution 4 of 2010.

Fiscal Summary

State Effect: General fund expenditures by the Maryland General Assembly decrease by $208,000 in FY 2015 compared with the level of salary and travel allowance that members of the General Assembly would receive in the absence of this joint resolution. This reflects the new compensation levels taking effect in January 2015. Out-year savings reflect annual increases in member salaries included in the GACC resolution. There is only a half-year effect in FY 2019, primarily related to level of salary, as the GACC resolution only covers the next four-year legislative term. Negligible decrease in State pension liabilities and contribution rates due to the changes in pension benefits for members of the General Assembly. No effect on revenues.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	$0	$0	$0	$0	$0
GF Expenditure	(208,000)	(530,000)	(852,000)	(1,174,100)	(644,100)
Net Effect	$208,000	$530,000	$852,000	$1,174,100	$644,100

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: LPP members who have accrued at least eight years of service credit retain that credit when they transfer to EPS, and they are eligible for a retirement allowance under the terms of LPP for that credit when they retire. LPP members who have accrued less than eight years of service credit may either (1) purchase service credit in LPP up to at least eight years in order to earn an LPP benefit when they retire; (2) request a return of member contributions plus interest; or (3) transfer the LPP credit to EPS, subject to State pension law transfer provisions.

LPP members who have accrued 22 years and 3 months of service in LPP (the maximum allowed) are not allowed to join EPS.

The resolution specifically rejects the forfeiture provisions under LPP that were adopted in 2010 under Joint Resolution 4 and continued in the 2014 GACC resolution. Those provisions establish that a member or retiree of LPP forfeits benefits under the plan if the member is convicted of – or enters a plea of *nolo contendere* – to any felony or misdemeanor related to the member's public duties that was committed during the member's term of office.

Current Law:

General Assembly Compensation Commission

A constitutional amendment, approved by the voters in 1970, created the nine-member GACC and specified that the commission submit salary and allowance recommendations to the legislature every four years. Members of the General Assembly and State and local government officers and employees are not eligible for appointment to the commission.

The constitutional provisions, Article III, Section 15, provide that:

- The compensation commission must submit its compensation, allowances, and pension recommendations to the General Assembly by formal resolution within 15 days after the beginning of the last regular General Assembly session in a four-year term of office. In 2014, the commission was required to submit its resolution proposing compensation and allowances for the 2015-2018 General Assembly term by January 22, 2014.

- Rates of compensation and pensions must be uniform for all members of the General Assembly, except that the officers of the Senate and the House of Delegates (traditionally, the President and the Speaker) may receive higher compensation.
- Compensation allowances may not be less than the dollar amounts prior to the establishment of the first compensation commission in 1970.
- Through a joint resolution, the General Assembly may reduce or reject, but may not increase, any item in the resolution. If the General Assembly takes no action on the GACC resolution, its recommendations take effect at the beginning of the next General Assembly.
- The commission's resolution, with any reductions concurred in by joint resolution of the General Assembly, has the force of law and takes effect at the beginning of the next General Assembly.
- The provisions of each resolution govern until superseded by a subsequent resolution.

The Maryland Constitution, as interpreted by the Attorney General, gives the commission exclusive jurisdiction over salaries, meal and lodging expense allowances, travel allowances, employee benefit programs, and the legislative retirement system. This exclusive jurisdiction extends only to payments made to the legislators themselves.

The *Report of the General Assembly Compensation Commission*, published on January 7, 2014, contains exhibits that set forth the process and timeline by which a resolution takes effect, and summarize the commission's 11 preceding resolutions.

Employees Pension System

With a few exceptions, membership in EPS is a condition of employment for regular State employees hired since January 1, 1980, and whose compensation is provided by State appropriation or paid from State funds, as well as other individuals designated in statute.

All EPS members pay a member contribution of 7% of earnable compensation, but vesting, eligibility, and benefits under EPS differ for members hired before July 1, 2011, and those hired on or after that date. **Exhibit 1** summarizes the benefits provided under the plan based on date of hire.

Exhibit 1
EPS Plan Characteristics

	Date of Hire	
	Before July 1, 2011	**On or After July 1, 2011**
Member Contribution	7% of earnable compensation	
Vesting	5 years	10 years
Retirement Eligibility	Age 62 with 5 years of service, or any age with 30 years of service	Age 65 with 10 years of service, or age plus years of service adding to 90
Average Final Compensation	3 highest consecutive years	5 highest consecutive years
Benefit Multiplier	1.2% for service credit prior to 1998; 1.8% for service credit after 1998	1.5%

Source: Department of Legislative Services

EPS retirees are also entitled to annual cost-of-living adjustments (COLAs) to their retirement benefits, which are calculated based on the Consumer Price Index for all Urban Consumers (CPI-U). For service credit earned prior to July 1, 2011, COLAs are equal to CPI-U, up to a maximum adjustment of 3%. For service credit earned on or after July 1, 2011, COLAs are contingent on the performance of the State Retirement and Pension System investment portfolio. For years in which the investments earn the target rate of return (currently 7.70%), the COLA is equal to CPI-U, up to a maximum of 2.5%. For years in which investments do not meet the target, the COLA is equal to CPI-U, up to 1.0%.

Background: The 2014 GACC recommends that salaries be increased from their current levels of $43,500 for members and $56,500 for presiding officers. **Exhibit 2** shows the proposed increases, which begin in January of each year:

Exhibit 2
General Assembly Compensation Commission Salary Recommendations

	2015	**2016**	**2017**	**2018**
Members	$45,207	$46,915	$48,622	$50,330
Presiding Officers	$58,718	$60,935	$63,153	$65,371

Source: Department of Legislative Services

Regarding expense reimbursements and allowances, the commission recommends that the annual in-district travel allowance increase from $500 to $750; the General Assembly previously rejected an increase from $500 to $600 recommended by the 2006 commission and an increase to $650 recommended by the 2010 commission. The commission's resolution also replaces the current $225 per-day limit for reimbursement of approved out-of-state travel expenses with a requirement that such reimbursements be subject to the most current published federal General Services Administration (GSA) daily per-diem rates for meals and lodging. It also substitutes the GSA schedule for in-state lodging for the Internal Revenue Service (IRS) schedule that has been used to date because the IRS no longer publishes a reimbursement schedule. Except for the change in travel allowance, these changes to lodging and meal reimbursements have no practical effect on reimbursement rates or expenditures.

The commission recommends several changes to LPP in light of pension benefit reforms that were enacted in 2011 for most State employees and teachers. First, it makes membership in LPP mandatory; to date, it has been voluntary, but most General Assembly members participate. Second, it raises the member contribution rate from 5% of compensation to 7%. Third, members who join after January 14, 2015, are eligible for normal service retirement at age 62 (instead of age 60) and for early retirement at age 55 (instead of age 50). Vesting and benefit levels within LPP remain the same.

State Fiscal Effect: The joint resolution's rejection of the salary increases and travel allowance increase means that the current salaries and allowance levels remain in effect. As the GACC changes would otherwise take effect in January 2015, the first-year effect only applies to the last six months of fiscal 2015. Therefore, general fund expenditures decrease by $207,969 in fiscal 2015, which reflects the half-year of savings, except for the travel allowance, which is recognized in full in fiscal 2015 through 2018. Savings continue to accrue in the out-years, reflecting the annual increases in compensation that would otherwise take effect. Fiscal 2019 reflects only a half-year of salary savings.

The Department of Legislative Services did not have sufficient time to conduct an actuarial analysis of the changes to pension benefits included in the bill, but the fiscal effects are expected to be negligible. LPP is currently consolidated with EPS and two other State employee plans for the purpose of conducting annual actuarial valuations that determine employer contribution rates. Therefore, the State pays the same contribution rate for EPS members as it does for LPP members, even though their current benefits are different. With a membership of more than 60,000 in the combined employees' systems, a modest change in benefits for fewer than 200 members is not expected to result in a significant change in State pension liabilities or contribution rates. To the extent that there is a change, it would represent a slight decrease in liabilities and contributions.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Legislative Services

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