

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 1082

(Senator Madaleno, *et al.*)

Budget and Taxation

Appropriations

State Reformed Contributory Employees' and Teachers' Pension Systems - Prior Eligibility Service

This bill allows members of either the Employees' Pension System (EPS) or Teachers' Pension System (TPS) who are subject to the Reformed Contributory Pension Benefit (RCPB) and have prior service credit in a part of EPS or TPS that has a different member contribution and benefit accrual to combine their prior and current eligibility service credit, under specified circumstances.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: Any initial increases in pension liabilities and contribution rates are negligible, but out-year effects may be greater as more individuals return to work as members of TPS and EPS and combine prior service with current service. As the number of individuals who return to work cannot be known, a reliable estimate of the long-term effects cannot be determined but may be meaningful. Over time, the effects are diminished due to more individuals returning to work with prior credit in the Alternate Contributory Pension System (ACPS) rather than noncontributory or contributory credit. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: A member of EPS or TPS who is subject to RCPB and otherwise qualifies under the bill may combine prior eligibility service from another benefit with current eligibility credit in EPS or TPS if the member:

- was entitled to a vested allowance from EPS or TPS at the time of prior separation from employment;
- did not transfer to EPS or TPS from the Employees' Retirement System or Teachers' Retirement System after April 1, 1998; and
- has completed at least one year of employment subject to RCPB.

A member may combine prior service credit with current service if the member completes a claim with the Board of Trustees of the State Retirement and Pension System and deposits the member contributions, if any, that would have been due if the member had earned the prior credit in the part of EPS or TPS in which the member is currently enrolled, plus regular interest on the contributions.

Current Law: A member of either EPS or TPS who is subject to the contributory pension benefit or ACPS and who has prior service credit in a part of EPS or TPS that has a different member contribution and benefit accrual may combine prior eligibility service credit with current credit under the same conditions specified in the bill.

Members of EPS/TPS subject to ACPS who separated from employment prior to July 1, 2011, and then rejoin EPS or TPS after that date are subject to RCPB, unless their break in service is less than four years. If the break in service is less than four years and they did not previously withdraw their contributions, they may rejoin ACPS if the employer participates in ACPS.

In general, members may transfer service credit from a noncontributory or contributory plan to EPS/TPS; however, members who transfer from a noncontributory plan must pay the EPS/TPS member contribution, plus interest, that was in effect when they earned the prior service credit that they are transferring. Similarly, members who transfer credit from a contributory plan must pay any difference in member contributions between the two plans, plus interest. Moreover, such transfers must occur within one year of joining EPS/TPS.

Background: EPS and TPS, created by Chapters 23 and 24 of 1979, comprise multiple benefit tiers. Initially, the new systems were noncontributory and integrated with the Social Security system. Members earning less than the Social Security wage base (generally everyone except those in the upper echelons of the salary schedule) made no employee contributions, while compensation above the wage base was subject to a 5% SB 1082/ Page 2

employee contribution. The benefit accrual rate was 0.8% for the portion of average final compensation (AFC) below the Social Security integration level (the 30-year average of wage bases) and 1.5% for the portion of AFC above the integration level.

Chapter 530 of 1998 discontinued the systems' integration with Social Security and transformed TPS/EPS into contributory pension systems, requiring 2% employee contributions on all compensation and raising the benefit accrual rate to 1.4% of AFC for service credit earned on or after July 1, 1998. All State members of EPS and teachers in TPS automatically became subject to the new contributory benefit. Participating governmental units (PGUs) in EPS were allowed to opt for the enhanced contributory plan or remain in the noncontributory plan; all but 9 out of approximately 112 PGUs opted for the enhanced plan.

Chapter 110 of 2006 established ACPS as a new benefit tier with enhanced benefits for EPS/TPS members. All State employees and teachers automatically became subject to ACPS, but PGUs were again given the option of maintaining their existing benefit plan or joining ACPS; most joined ACPS. Under ACPS, member contributions increased to 5%, and the benefit multiplier was 1.8% for service credit earned after 1998 and 1.2% for service credit earned before that.

Chapter 397 of 2011 established RCPB as yet another benefit tier. RCPB applies only to EPS/TPS members hired on or after July 1, 2011, including those hired by PGUs that are subject to ACPS. The member contribution is 7% and the benefit multiplier is 1.5%. PGUs that join EPS on or after July 1, 2011, are automatically subject to RCPB.

State Fiscal Effect: The State Retirement Agency is aware of two individuals who are current TPS/EPS members and are affected by the bill. One has prior service credit in noncontributory EPS as a former employee of Prince George's County (a PGU that retained the noncontributory benefit), and the other has service credit in contributory TPS from the early 2000s. In both cases, combining previous service credit with RCPB credit represents a benefit enhancement since the RCPB benefit multiplier (1.5%) is greater than the noncontributory multiplier (0.8%) and the contributory multiplier (1.4%). However, in both cases, the employees will also have to pay the difference in contribution rates between, in one case, the noncontributory system and RCPB and, in the other case, the contributory system and RCPB. Given that only two individuals are affected and that they are required to pay the difference in contribution rates for the enhanced benefits they receive, any increase in pension liabilities and contributions is initially negligible.

In the near term, the bill has the potential to affect a larger number of people who return as members of EPS or TPS with prior service credit. Since the number of former members who may return to work in the future cannot be reliably estimated, the

long-term effect on pension liabilities and contribution rates cannot be determined, but it may be meaningful.

The Department of Legislative Services notes, however, that over time the bill likely has a diminishing effect on pension liabilities because individuals returning to work will be increasingly likely to have prior ACPS credit rather than noncontributory or contributory credit. As the ACPS multiplier is greater than the RCPB multiplier, they may be less inclined to combine prior ACPS service with RCPB service; if they do, it will represent a savings to the pension system.

Additional Information

Prior Introductions: None.

Cross File: HB 1483 (Delegates Hucker and Costa) – Appropriations.

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

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