

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 1121 (Delegate Bromwell)
Rules and Executive Nominations

Alternate Contributory Pension Selection - Return to Employment

This bill allows a member of the Teachers' Pension System (TPS) or Employees' Pension System (EPS) who (1) became vested in the Alternate Contributory Pension System (ACPS) on or before June 30, 2011; (2) is separated from employment for more than four years without withdrawing member contributions or retiring; and (3) returns to service by June 30, 2016, to resume participation in ACPS if the member is reemployed with an employer that participates in ACPS.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: The number of vested members of TPS/EPS who were subject to ACPS and who return to service under the bill by June 30, 2016, cannot be reliably estimated. For each vested member of TPS who returns to employment with five years of service credit in ACPS, State pension liabilities increase by approximately \$33,000 and the normal cost increases by \$1,000 for nonlocal board of education employee. For each vested member of EPS who returns to employment with five years of service credit in ACPS, State pension liabilities increase by \$28,000 and the normal cost increases by \$1,000. Amortizing the increased liability over the remainder of the 25-year amortization period and adding the full normal cost payment results in State pension contributions increasing by \$3,000 for each returning TPS member and \$2,000 for each returning EPS member, beginning in FY 2018. Those costs are assumed to be allocated 84% general funds, 8% special funds, and 8% federal funds. Out-year costs grow according to actuarial assumptions. No effect on revenues.

Local Effect: Participating governmental units (PGUs) experience similar increases in liabilities and contribution rates as the State for each vested member of EPS who returns

to service under the bill. Local boards of education expenditures increase by \$1,000 (the normal cost) beginning in FY 2018, for each eligible returning TPS member. No effect on local revenues.

Small Business Effect: None.

Analysis

Current Law: In general, a member of TPS/EPS hired on or after July 1, 2011, is subject to the Reformed Contributory Pension Benefit (RCPB). However, Chapter 397 of 2011, which created RCPB as a new benefit tier, created two exceptions for TPS/EPS members who were subject to ACPS before July 1, 2011, and:

- were separated from employment for four years or less without withdrawing contributions or retiring; or
- were separated from employment for more than four years for specified types of military service and resume employment within one year of leaving approved military service.

Individuals who meet either of the above criteria and who are rehired into TPS/EPS-eligible positions before July 1, 2016, are subject to ACPS rather than RCPB as long as the employer participates in ACPS.

Background: TPS/EPS began as noncontributory defined benefit pension systems in 1980 (Chapters 23 and 24). In 1998, Chapter 530 made them contributory systems, and in 2006, Chapter 110 enhanced the contributory benefit. To distinguish it from the contributory benefit 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 TPS/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 local 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, a handful of PGUs are still subject to either the original noncontributory benefit or the 1998 contributory benefit.

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

Exhibit 1
Comparison of ACPS and RCPB Benefits

	<u>ACPS</u>	<u>RCPB</u>
Vesting	5 years	10 years
Normal Retirement	30 years of service, or age 62	Age + service add to 90, or age 65
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

Following the enactment of Chapter 397 and the exemption it granted for ACPS members returning to work, 1,194 TPS/EPS members returning to work after June 30, 2011, qualified for ACPS benefits in fiscal 2012. However, the number of returning TPS/EPS members qualifying for ACPS benefits has declined substantially each year thereafter, to 338 in fiscal 2013 and 121 in fiscal 2014.

Chapter 1 of the 2012 first special session requires local school boards to pay a portion of the normal cost for their employees who are members of TPS or the Teachers' Retirement System (a closed system). Prior to fiscal 2013, the State paid 100% of the annual employer contribution on behalf of teachers in the State. Local school board payments of the normal cost were phased in over four years. In fiscal 2016, local school boards pay 100% of the *projected* normal cost at the time the change was made. Beginning in fiscal 2017, they pay 100% of the *actual* normal cost.

State Fiscal Effect: The number of vested TPS/EPS members who return to service under the bill cannot be reliably estimated. As noted above, the number who have returned subject to the four-year limitation has been declining substantially since the enactment of Chapter 397. However, the elimination of the four-year limitation may result in a greater number of former State employees returning to service during the one year allowed by the bill.

For the purpose of this analysis, the General Assembly's consulting actuary calculated the effect on State pension liabilities and contributions of one individual who vested under ACPS returning to service under the bill with five years of service credit. Absent the bill,

the individual retains the vested benefit under ACPS and begins earning prospective service credit under RCPB; none of the individual's service credit under ACPS would count toward the RCPB vesting requirement or RCPB benefit. Under the bill, the individual retains vested status in ACPS and continues to earn prospective service credit in ACPS. Separate analyses were conducted for TPS and EPS members based on the average demographic profile of vested separated members in each plan.

Based on this analysis, State pension liabilities increase by \$33,000 for each returning TPS member and by \$28,000 for each returning EPS member. The normal cost increases by \$1,000 for both members. As the affected members would be returning to work between July 1, 2015, and June 30, 2016, the effects of their return would be captured entirely in the June 30, 2016 actuarial valuation, which determines employer pension contributions for fiscal 2018. Amortizing the increased liability over the remainder of the 25-year amortization period and adding the full normal cost payment results in State pension contributions increasing by \$3,000 for each TPS member and \$2,000 for each EPS member, beginning in fiscal 2018. Those costs are assumed to be allocated 84% general funds, 8% special funds, and 8% federal funds. Out-year expenditures grow according to actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: SB 364 (Senator Kasemeyer) - Budget and Taxation.

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

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min/rhh

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