SB 540

Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 540 (The President, *et al.*) (By Request - Administration)

Budget and Taxation Appropriations

Study of Retirement Plan Alternatives

This Administration bill requires the Department of Legislative Services (DLS) to examine potential retirement plan options that may be offered to new employees as an alternative to the defined benefit (DB) pension plans of the State Retirement and Pension System (SRPS). DLS must report its findings and recommendations to the Joint Committee on Pensions by December 1, 2017.

The bill takes effect July 1, 2017, and terminates June 30, 2018.

Fiscal Summary

State Effect: General fund expenditures by DLS increase by approximately $30,000 in FY 2018 for actuarial consulting services to inform its analysis of alternative retirement plan options. No effect on revenues.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenues	$0	$0	$0	$0	$0
GF Expenditure	30,000	0	0	0	0
Net Effect	($30,000)	$0	$0	$0	$0

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

Local Effect: None.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The DLS study must examine:

- retirement plan alternatives, such as defined contribution (DC) plans and cash balance plans;
- the costs and benefits of offering retirement plan alternatives, including recruitment and retention of employees, retirement security for employees, State pension contributions, and asset allocation by SRPS;
- the experiences of other states that currently offer or have previously offered alternative retirement plans to employees; and
- the legal requirements to set up an alternative retirement plan.

Current Law: With a few exceptions, membership in the Employees' Pension System (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. In general, EPS members hired before July 1, 2011, are subject to the Alternate Contributory Pension Selection (ACPS), a benefit tier within EPS. Chapter 397 of 2011 added the Reformed Contributory Pension Benefit (RCPB) as a new benefit tier to EPS. In general, an individual who becomes a member of EPS on or after July 1, 2011, is automatically enrolled in RCPB (subject to limited exceptions). **Exhibit 1** compares the benefit structures under ACPS and RCPB.

Exhibit 1
Comparison of ACPS and RCPB Benefits

	ACPS	RCPB
Vesting	5 years	10 years
Normal Retirement	30 years of service, or age 62	Age plus service add to 90, or age 65
Benefit Multiplier	1.8%/year since 1998 1.2%/year before 1998	1.5%/year
Member Contribution	7.0% of pay	7.0% of pay

ACPS: Alternate Contributory Pension Selection
RCPB: Reformed Contributory Pension Benefit

Source: Department of Legislative Services

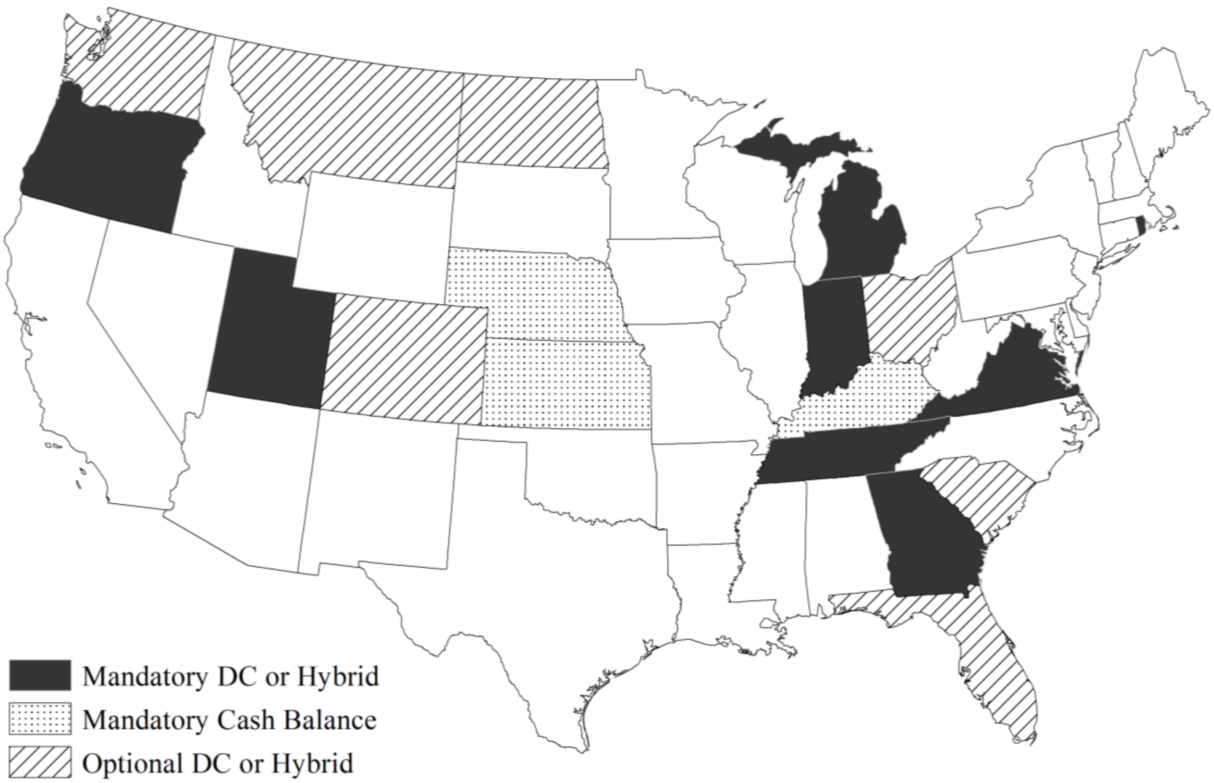
Background: As of June 30, 2016, there were 50,234 EPS members employed by the State and 24,468 EPS members employed by approximately 120 participating governmental units.

Most states offer their employees DB retirement plans, but over the past two decades, about one-third of states have either closed those plans in favor of DC or hybrid plans or offered their employees a choice between different plan types. A DB plan, like EPS and other plans administered by SRPS, provides a retiree with a guaranteed benefit for life that is determined by a formula that takes into consideration the individual's years of service and compensation at the time of retirement. By contrast, under a DC plan, an employer provides a specific contribution that each employee invests in an individual account; the benefit is determined by the value of the investments in the individual account at the time of retirement. A hybrid plan, including cash balance plans, contains elements of both a DC and a DB plan.

In its 2010 interim report, the Public Employees' and Retirees' Benefit Sustainability Commission recommended that the State offer existing members of EPS and the Teachers' Pension System a menu of benefit options. The commission further recommended that "in designing the menu, the State should give serious consideration to offering current members the opportunity to convert their accrued benefits into a cash balance plan." Changes in guidelines by the Internal Revenue Service since 2010 prohibit implementation of this recommendation because the new guidelines bar existing members from electing an alternative benefit design. However, a menu of benefit options can still be offered to new employees. Since then, numerous bills have been introduced in almost every legislative session to provide alternative retirement plan options to State employees, teachers, or both.

Exhibit 2 summarizes the states that require or offer DC, hybrid, or cash balance plans to state employees, teachers, or both. With the exception of Indiana's hybrid plan (1955), all of the DC, hybrid, and cash balance plans reflected in Exhibit 2 took effect after 1995. As Exhibit 2 shows, seven states currently offer their employees and/or public school teachers a choice between a DB plan and either a DC or hybrid plan.

Exhibit 2
States with Defined Contribution, Hybrid, or Cash Balance Retirement Plans



DC: defined contribution
Source: National Association of State Retirement Administrators; National Conference of State Legislatures; Pew Charitable Trusts

State Expenditures: In order to assess the effect of offering an alternative retirement plan to State employees on State pension liabilities and contributions, DLS requires the services of an actuarial consultant. DLS currently retains Bolton Partners as its consulting actuary to analyze the fiscal effect of proposed legislation for inclusion in fiscal and policy notes. However, any additional analysis conducted by Bolton Partners during the interim is not budgeted. Based on the costs of analyzing the fiscal effect of alternative retirement plans proposed during the current legislative session, DLS estimates that expenditures for actuarial consulting services increase by approximately $30,000 in fiscal 2018.

Additional Information

Prior Introductions: None.

Cross File: HB 748 (The Speaker, *et al.*) (By Request - Administration) - Appropriations.

Information Source(s): Bolton Partners; Department of Budget and Management; State Retirement Agency; National Association of State Retirement Administrators; National Conference of State Legislatures; Pew Charitable Trusts; Department of Legislative Services

Fiscal Note History: First Reader - March 2, 2017
fn/rhh Third Reader - March 27, 2017
Revised - Amendment(s) - March 27, 2017
Revised - Clarification - March 27, 2017

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: State Retirement Choice for the 21st Century Workforce

BILL NUMBER: SB540/HB748

PREPARED BY: GLO
(Dept./Agency/GLO)

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

__X__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

OR

_____ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS