

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 399

(Senator Guzzone)(Chair, Joint Committee on Pensions)

Budget and Taxation

Appropriations

Employees' Pension System - Purchase of Credit for Eligibility Service -
Legislative Employees

This bill specifies that a member of the Employees' Pension System (EPS) who was employed by a member of the General Assembly before becoming a member of EPS and who wishes to purchase up to 130 days of eligibility credit for each year of employment with a member of the General Assembly must pay (1) for employment that occurred on or before December 31, 1979, interest of 5.0% on the member contributions that would have been required to be paid at the time of employment and (2) for employment that occurred on or after January 1, 1980, *half* of the amount that the member would have had to contribute, *half* of the amount that the State would have had to contribute, and 5.0% interest on both amounts. It repeals a provision specifying a different interest rate calculation.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: Since it is assumed that this bill applies in a limited number of cases, there is no discernible effect on State pension liabilities or contribution rates. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: A member of EPS may purchase eligibility service credit for employment with a member of the General Assembly that occurred before the individual became a member of EPS. For a period of employment that occurred on or before December 31, 1979, the member must pay the amount that the member would have been required to contribute and interest on the member's contribution, compounded annually. For a period of employment that occurred on or after January 1, 1980, the member must pay the sum of the (1) the amount the member would have been required to pay; (2) the amount that the State would have been required to contribute; and (3) interest on both amounts, compounded annually.

The rate of interest used for these calculations is the average for the five years preceding the year of payment of the yearly interest rate computed as the sum of the investment income and the realized gains and losses divided by the book value of the total investments.

Regular interest on EPS member contributions is 5.0%.

Background: The State Retirement Agency advises that no EPS members have applied to purchase pre-membership service credit for employment with a member of the General Assembly in the past 10 years. In 2004, membership in EPS was made a condition of employment for all new legislative employees; in 2015, optional membership was reinstated, but the election was required at the time of employment. Given the passage of time and the lack of any credit purchases in the last 10 years, it is unlikely that any current EPS members have pre-membership credit for legislative employment that they will seek to purchase at the time of retirement.

Though such purchases are unlikely, the Board of Trustees of the State Retirement and Pension System recommended making the interest payment consistent with the regular interest rate currently set in statute. It also recommended reducing the cost of service credit purchases for employment that occurred since 1980 to one-half of the required amounts to make it consistent with the cost of other purchases of service credit for periods of employment not otherwise eligible for credit. The Joint Committee on Pensions agreed to sponsor the legislation.

Additional Information

Prior Introductions: None.

Cross File: HB 817 (Delegate B. Barnes)(Chair, Joint Committee on Pensions) - Appropriations.

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

Fiscal Note History: First Reader - February 15, 2017
fn/rhh Third Reader - February 24, 2017

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510