Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Joint Resolution 7 (Delegate Krebs)
Rules and Executive Nominations

General Assembly Compensation Commission - Legislative Pension Plan - Closure to Current and Future Members

This joint resolution closes the Legislative Pension Plan (LPP) to new members as of January 9, 2019, and freezes *creditable* service of current active and vested former members as of that date.

Fiscal Summary

State Effect: State pension liabilities increase by $660,000 and the normal cost decreases by $1.63 million. The net effect of amortizing the increase in liabilities over the remaining years of the 25-year closed amortization period and adding the lower normal cost results in State pension contributions decreasing by $1.66 million in FY 2020. Out-year savings continue to accrue based on actuarial assumptions and are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law:

General Assembly Compensation Commission

A constitutional amendment, approved by the voters in 1970, created the nine-member General Assembly Compensation Commission (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.
- 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 (term of the) 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 (term of the) General Assembly.
- The provisions of each resolution govern until superseded by a subsequent resolution.

Legislative Pension Plan

Membership in LPP is open only to elected members of the General Assembly. The 2014 GACC resolution made membership in LPP mandatory for all elected members of the General Assembly; prior to the current legislative term, membership in LPP was optional for members of the General Assembly.

LPP members contribute 7% of their salary for up to 22 years and three months; contributions are not required beyond that time. They are vested in the plan after 8 years (two terms). Vested members are eligible for a full-service retirement allowance upon reaching age 60, as long as they are no longer serving in the General Assembly. Their annual retirement allowance is 3% of the salary of a current member of the General Assembly for each year of service credit, but is capped at two-thirds of the salary of a current member. The 2018 GACC resolution (which can be found in the GACC Report) maintains all of these provisions for the next legislative term.

For the purpose of calculating employer contributions, LPP is combined with the Employees' Retirement System, Employees' Pension System, and Correctional Officers' Retirement System for the annual actuarial valuation. Therefore, employer contributions for LPP are the same as those for the employees' combined systems (ECS).

Background: LPP currently has 188 active members (all elected members of the General Assembly), 298 retirees and beneficiaries, and 55 deferred vested members.

State Fiscal Effect: Because LPP is a small component of ECS, (188 members out of a total of more than 80,000 members), any change in LPP benefits has only a small effect on State pension liabilities and employer contributions.

By closing and freezing the plan, the joint resolution maintains existing accrued liabilities for LPP but eliminates future normal cost benefits and payments. However, the actuary advises that the termination of future normal cost payments causes a small increase in accrued liabilities because those payments were projected to pay future liabilities, based on the actuarial cost method used by the State Retirement and Pension System.

Therefore, State pension liabilities increase by $660,000 and the normal cost decreases by $1.63 million. The net effect of amortizing the increase in liabilities over the remaining years of the 25-year closed amortization period and adding the lower normal cost results in State pension contributions decreasing by $1.66 million in fiscal 2020. Savings are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds and out-years reflect actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: SJ 9 (Senator Serafini) - Budget and Taxation.

Information Source(s): Bolton Partners, Inc.; State Retirement Agency; Department of Legislative Services

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md/rhh

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