

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 699

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

Budget and Taxation

Appropriations

Alternate Contributory Pension Selection – Former Members – Member
Contributions

This bill allows specified members of the Employees' Pension System (EPS) and Teachers' Pension System (TPS) to continue to receive interest on member contributions under specified circumstances. **The bill takes effect July 1, 2018, and applies retroactively as described below.**

Fiscal Summary

State Effect: Since it is assumed that the bill applies in a limited number of cases, there is a negligible effect on State pension liabilities and no discernible effect on State pension contributions, as discussed below. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to an active member of EPS and TPS who was previously subject to the Alternate Contributory Pension Selection (ACPS) but (after a break in service) is now subject to the Reformed Contributory Pension Benefit (RCPB). If the member did not vest under ACPS and has not withdrawn member contributions made during their tenure in ACPS, the member may continue to receive regular interest (5%) on the member contributions made during their tenure in ACPS.

The bill applies retroactively and must be interpreted to provide payment of interest on an individual's contributions that were made while a member of ACPS beginning on the date that the individual became a member of RCPB, as long as the individual is an active member on the bill's effective date.

Current Law: ACPS and RCPB are different benefit tiers within EPS/TPS. ACPS applies to members employed prior to July 1, 2011, and RCPB applies to members employed on or after that date. In general, ACPS members who separate from employment for fewer than four years without withdrawing their accumulated contributions and then are reemployed in a position eligible for EPS/TPS may re-enroll in ACPS. However, if the break in service is greater than four years, they are enrolled in RCPB.

Member contributions in EPS/TPS earn regular interest of 5% annually until membership ends. Membership in EPS/TPS ends when a member:

- separates from employment for more than four years;
- separates from employment and is rehired into a position that requires enrollment in a part of EPS/TPS that has a different member contribution and benefit accrual;
- withdraws member contributions;
- retires; or
- dies.

Background: In 2017, the State Retirement Agency (SRA) was notified of a member who had accrued 18 months of service in ACPS but left service in June 2012 without withdrawing their member contributions. The individual did not return to service until more than four years had passed and was, therefore, enrolled in RCPB. As membership in ACPS ended (following a separation of more than four years), the member no longer earns interest on the accumulated contributions. However, the accumulated contributions cannot be withdrawn while the member remains active in RCPB because Internal Revenue Service guidelines do not allow in-service distributions. Finally, because the member did not vest in ACPS, service credit earned in ACPS cannot be combined with current and future RCPB service.

The board presented the Joint Committee on Pensions (JCP) with several options to address this member's situation. JCP ultimately opted to sponsor legislation to allow members in that situation to continue to earn interest on the accumulated contributions.

State Expenditures: Although SRA is aware of only the one member who would be affected by the bill, there may very well be more. However, the number who could be affected is limited by several factors, among them:

- any ACPS member who has left or leaves service after June 30, 2016, is vested in ACPS and, therefore, not affected by the bill;
- any ACPS member who left before June 30, 2016, but vested before leaving, is not affected by the bill; and
- any ACPS member who returns to service after a separation of fewer than four years is not affected because membership in ACPS is not terminated.

Thus, the bill is expected to apply only to a limited number of individuals. Moreover, since the affected member accounts are likely small because the affected members did not vest in ACPS, the cost of paying interest over time likely has a negligible effect on the system's liabilities.

Additional Information

Prior Introductions: None.

Cross File: HB 1019 (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 21, 2018
mm/rhh Third Reader - March 28, 2018
Revised - Amendment(s) - March 28, 2018

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