

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1004
Appropriations

(Delegate Forbes)(Chair, Joint Committee on Pensions)

Budget and Taxation

**State Retirement and Pension System - Average Final Compensation -
Compensation Adjustments**

This bill establishes that, with respect to the calculation of average final compensation (AFC) for virtually all members of the State Retirement and Pension System (SRPS), a salary increase may not be considered an extraordinary salary increase if it is related to a review and adjustment to the compensation for a position classification to (1) address inequities in compensation among employees in the same position classification or (2) increase the compensation for the position classification to be more consistent with market compensation for the position. The bill further requires affected SRPS members that receive a salary increase related to a review and adjustment of compensation, as described, to submit a specified form to the State Retirement Agency (SRA). **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: The bill likely has no discernible effect on State pension liabilities or contribution rates, as discussed below. No effect on revenues.

Local Effect: The bill likely has no discernible effect on local pension liabilities or contribution rates, as discussed below. No effect on revenues.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to members of the Employees' Pension System, Employees' Retirement System, Teachers' Pension System, Teachers' Retirement System,

Law Enforcement Officers' Pension System, Correctional Officers' Retirement System, State Police Retirement System, and Local Fire and Police System. It does not apply to members of the Judges' Retirement System or the Legislative Pension Plan (as those plans do not calculate AFC).

A member who receives a salary increase due to a review and adjustment of compensation that meets either of the bill's criteria must, at the time of retirement, submit a form to SRA that (1) is completed by the member's employer and (2) certifies that the member received a salary increase due to a review and adjustment of compensation, as specified. The member must submit the form to SRA within 30 days from the date of SRA's written notice that the member has received an extraordinary salary increase.

Current Law: In general, except as described below, for SRPS members hired before July 1, 2011, a member's AFC does not include an extraordinary salary increase that occurs in the last three years of employment. Also, except as described below, for SRPS members hired on or after July 1, 2011, a member's AFC does not include an extraordinary salary increase that occurs in the last five years of employment.

SRA regulations establish that a salary increase is an extraordinary salary increase if it is more than 20% of a member's average earnable compensation in any of the last three or five years of employment (depending on the date of hire).

The exclusion of an extraordinary salary increase from the calculation of AFC does not apply if the increase results from the member's (1) promotion or (2) election or appointment to a public office. It also does not apply if the increase results in the member's allowance increasing by \$25 or less per month, or if the Board of Trustees of SRPS determines that the increase is not an extraordinary salary increase under specified conditions.

State/Local Expenditures: SRA advises that it receives very few reports of extraordinary salary increases each year. For instance, in fiscal 2023, it received only one report. Recently, SRA received salary increase data from two State agencies that conducted compensation studies resulting in salary increases for one or more employee classifications, which would otherwise be considered extraordinary salary increases for individuals who are near retirement. However, the increases affected only 14 employees eligible for retirement.

Given the limited number of potential instances of extraordinary salary increases, and that statute already authorizes the SRPS Board to declare a salary increase to not be an extraordinary salary increase, the bill likely has little or no effect on State pension liabilities.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 880 (Senator Jackson)(Chair, Joint Committee on Pensions) - Budget and Taxation.

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

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