HB 196

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 196 (Delegate Proctor)
(Chairman, Joint Committee on Pensions)
Appropriations

Pensions - Compensation Limit

This pension bill establishes a limit of $150,000, on the amount of compensation a retirement benefit can be based on. The bill is effective June 30, 1996. The compensation limit will be adjusted each year to account for inflation.

Fiscal Summary

State Effect: Negligible effect on retirement expenditures as discussed below. No effect on revenues.

Local Effect: None.

Fiscal Analysis

State Expenditures: Retirement benefits are determined based on a retiree's average final compensation and years of creditable service. Under current State law, there is no limit on average final compensation for purposes of calculating a retirement allowance. Certain provisions in federal law require defined benefit public pension systems to have a $150,000 compensation limit for plan years beginning after December 31, 1995 (July 1, 1996 for Maryland's plans). Failure to enact such limits may result in (1) loss of tax status as a qualified plan, resulting in the taxation of investment earnings and the taxation of employer contributions; and (2) the federal compensation limit would be applied to existing and future employees.

Employees hired after July 1, 1996 who make over $150,000 (indexed for inflation) will have their retirement benefits reduced. Any decrease in the State's retirement contributions resulting from this benefit reduction would be negligible.

Information Source(s): Maryland State Retirement Agency, Milliman and Robertson, Department of Fiscal Services

Fiscal Note History: First Reader - January 31, 1996
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