SB 301

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 301 (Senator McCabe) (By Request)
Budget and Taxation

Pensions - Transfers to Local Contributory Systems

This pension bill provides local governments with the option of not reducing the pension benefit of an employee transferring from a noncontributory system within the State to a contributory system. Under current law, the individual's retirement allowance under the contributory system must be reduced by the actuarial equivalent of the accumulated contributions that would have been deducted if the individual had earned the transferred service credit under the new system, including interest on those contributions. Under the proposal, the contributory system has the option to make such a reduction, but also has the option to not reduce the member's allowance. The bill is effective July 1, 1997.

Fiscal Summary

State Effect: None. This bill does not affect the Maryland State Retirement and Pension System (MSRPS).

Local Effect: Indeterminate increase in expenditures, as discussed below.

Small Business Effect: None. This bill does not directly affect small businesses.

Fiscal Analysis

Local Expenditures: Contributory pension systems are those systems in which both the employer and employee must make contributions to fund the employee's pension. Noncontributory pension systems are those systems in which only the employer makes contributions. The MSRPS's Employees' Pension System (EPS), for example, is essentially a noncontributory system because most employees (those making below the Social Security Taxable Wage Base) do not make contributions to the system's funding. This bill allows local governments that operate contributory systems to accept transferees from noncontributory systems (such as the EPS) without making an actuarial reduction in the transferee's retirement allowance for the contributions that the transferee did not make while part of the noncontributory system, as is required under current law.

If the local government were to choose not to make such a reduction, that government would be responsible for the additional actuarial liabilities. Because the provision is optional, it is difficult to predict how local governments will apply the provision and therefore how much their expenditures will increase.

Information Source(s): State Retirement Agency, Frederick County, Anne Arundel County, Department of Fiscal Services

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