SB 312

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 312 (Senator Amoss) (Chairman, Joint Committee on Pensions)
Budget and Taxation

Pensions - Member Contributions - Deduction and Payment

This pension bill provides that employers that participate in the Maryland State Retirement and Pension System (MSRPS) (local governments and State agencies) are subject to a penalty for failure to deduct and pay employee contributions promptly for the required pay periods. A penalty of 10% of the amount due will be imposed on a participating employer if the employer fails to transfer to the MSRPS those member contributions deducted from the compensation of each member for all pay periods ending during a calendar year. Member contributions must be transferred for that calendar year even if an amount is paid to the member after December 31 of the calendar year. This bill takes effect July 1, 1997.

Fiscal Summary

State Effect: Minimal reduction in special fund expenditures and potential minimal increase in off-budget revenues for the MSRPS, as discussed below. Minimal one-time increase in expenditures for participating employers, as discussed below.

Local Effect: Minimal one-time increase in expenditures for participating governments, as discussed below.

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

Fiscal Analysis

State Expenditures: Under current law, the MSRPS is authorized to determine a member's earnable compensation on the first day of the payroll period and to assume that the member receives that amount through the entire payroll period. In so doing, the MSRPS is authorized to give members retirement credit on an "as earned" basis rather than on an "as paid" basis. This approach benefits members since at retirement, members receive credit for all the time they worked. By contrast, if earnable compensation were determined on an as paid basis, members who retire and who have not been paid for their last payroll period would not receive credit for the last payroll period.

Under current law, participating employers are required to deduct employee contributions earned and submit them to the Retirement Agency on a timely basis. For members of the pension systems, some payroll centers deduct member contributions on an as paid basis rather than as earned. As a result, pension system members may not have the required mandatory contributions deducted. This can result in a contribution deficiency reducing future benefits. Of 101 participating employers, 12 did not comply with the reporting requirements during calendar 1995 and 1996, resulting in contribution deficiencies in the accounts of some of their members.

This proposal amends the duties of participating employers to require that member contributions are deducted based upon earnable compensation for all pay periods ending during a calendar year even if paid in the following year. Employers that fail to pay these member contributions in a timely fashion (within five days of the members being paid) will be subject to a penalty of 10% of the amount due and interest on the amount due.

The Retirement Agency will experience a minimal reduction in administrative costs since the affected members would no longer need to be notified and billed for these "missed" contributions. Revenues as a result of the penalty are expected to be minimal; existing penalties for late employer contributions resulted in one fine of $1,562 during fiscal 1996. All fine revenue is deposited in the MSRPS trust fund and is not available for Retirement Agency administrative expenses.

State employers that currently make contributions on an as paid basis may experience a minimal one-time cost to adjust payroll programs to an as earned basis.

Local Expenditures: Local governments that participate in the MSRPS and that currently make contributions on an as paid basis may experience a minimal one-time cost to adjust payroll programs to an as earned basis.

Information Source(s): State Retirement Agency, Department of Fiscal Services

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