Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 1203 (Delegate McHale, *et al.*)
Appropriations

Teachers' Retirement and Pension Systems - Eligibility for Retirement

This pension bill provides for retirement after 25 years of service for members of the Teachers' Retirement System (TRS) and the Teachers' Pension System (TPS) without a reduction in the service retirement allowance. TRS members would be eligible for an unreduced allowance after 25 years of service or age 60, or a reduced allowance with at least 20 but less than 25 years of service. TPS members would be eligible for an unreduced allowance after 25 years of service or age 62 with at least five years of service. TPS members would be eligible for a reduced allowance if they had at least 15 years but less than 25 years of service and were at least age 55. This bill is effective July 1, 1997.

Fiscal Summary

State Effect: Increase in general fund expenditures of $70.2 million for employer pension contributions beginning in FY 1999, and increasing 5% per year thereafter based on actuarial projections. Revenues would not be affected.

($ in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$0	$0	$0	$0	$0
GF Expenditures	$0	$70.2	$73.7	$77.4	$81.2
Net Effect	$0	($70.2)	($73.7)	($77.4)	($81.2)

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: None. The State currently pays the retirement contributions of local employees who would be affected by the bill.

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

Fiscal Analysis

State Expenditures: The teachers' retirement and pension systems include teachers and other personnel of: the local boards of education; libraries and community colleges; and the State higher education system. State higher education professionals who participate in the Optional Retirement Program would not be subject to this bill.

Under current law, TRS members are eligible for service retirement benefits after 30 years of service or after attaining age 60. Members electing an early retirement (prior to age 60 or 30 years of service) may do so if they have between 25 and 30 years of service. The early retirement benefit is the service benefit reduced by .005 for each month that the retirement date precedes age 60 or 30 years of service (maximum 30% reduction in benefits). Under the bill, TRS members would be eligible for an unreduced allowance after 25 years of service or age 60, or a reduced allowance with at least 20 but less than 25 years of service.

Currently, TPS members are eligible for service retirement after 30 years of service or after attaining age 62 with a minimum of five years of eligibility service. Members may receive an early retirement benefit reduced by .005 for each month that the retirement date precedes age 62 (maximum 42% reduction in benefits) if they have at least 15 years of eligibility service and are at least age 55. Under the bill, TPS members would be eligible for an unreduced allowance after 25 years of service or age 62 with at least five years of service. TPS members would be eligible for a reduced allowance if they had at least 15 years but less than 25 years of service and were at least age 55.

Based on the pension's system valuation of June 30, 1996, it is estimated that there are 4,867 TRS members with at least 25 but less than 30 years of service who would be eligible for unreduced retirement under the bill. There are an estimated additional 4,986 TRS members with at least 20 but less than 25 years of service who would be eligible for early (reduced) retirement under the bill. The average salary for these TRS members is $50,072.

It is estimated that there are 4,057 TPS members with at least 25 but less than 30 years of service who would be eligible for unreduced retirement under the bill. Their average salary is $34,810. Because under current law TPS members are already eligible for reduced retirement after 15 years, there would be no change in this group under the bill.

This bill has not been forwarded to the State's actuary for a detailed actuarial analysis. Based on the data above, however, the actuary was able to offer an informal estimate of liabilities. The actuary estimates that the systems' liabilities would increase by $493 million. These additional liabilities would be amortized over 21 years, beginning in fiscal 1999 and going through fiscal 2020. The first year's amortization payment in fiscal 1999 is estimated to be $28.2 million, increasing 5% per year thereafter based on actuarial assumptions.

In addition, the normal cost of employer contributions -- the amount the employer must contribute to fund future benefits exclusive of existing liabilities -- for the teachers' systems will increase from 8% of payroll to 9.25% beginning in fiscal 1999 and continuing permanently. This amount is estimated at $42 million beginning in fiscal 1999, also increasing 5% per year thereafter. In total, employer contributions are estimated to increase $70.2 million in fiscal 1999, increasing 5% per year thereafter.

Information Source(s): State Retirement Agency, Milliman & Robertson, Inc., Department of Fiscal Services

Fiscal Note History: First Reader - February 20, 1997
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