**SB 313**

# Department of Fiscal Services

Maryland General Assembly

## FISCAL NOTE

Senate Bill 313 (Senator Amoss) (Chairman, Joint Committee on Pensions)
Budget and Taxation

**Workforce Reduction Act - Retirement Allowance for Deferred Retirements**

This bill provides those State employees who retired under the Workforce Reduction Act (Senate Bill 1, Chapter 353 of the Acts of 1996) and whose retirement date was deferred by their employer with a retirement benefit that is the greater of: (1) the benefit that they would receive based on their actual retirement date; or (2) the benefit they would receive if they had retired on the first date on which they would have been eligible. Under current law, they would receive a retirement benefit based on their actual retirement date. This bill takes effect June 1, 1997.

## Fiscal Summary

**State Effect:** Increase in employer retirement contributions of $5,400 beginning in FY 1998 and increasing 5% per year thereafter, as discussed below. Revenues would not be affected.

| (in dollars) | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 |
|---|---|---|---|---|---|
| GF/SF/FF Rev | $0 | $0 | $0 | $0 | $0 |
| GF/SF/FF Expend. | $5,400 | $5,700 | $6,000 | $6,300 | $6,600 |
| Net Effect | ($5,400) | ($5,700) | ($6,000) | ($6,300) | ($6,600) |

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

**Local Effect:** None.

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

## Fiscal Analysis

**Background:** Under Chapter 353, eligible members who elected to participate were to retire on October 1, 1996 or the first day they were eligible. State agencies, however, had the authority under the Act to delay the retirement of up to 50% of the employees who elected to participate in the early retirement incentive program. Employees could be deferred through June 1997.

**State Expenditures:** Members of the Employees' Pension System (EPS) who were deferred beyond January 1, 1997 may experience a reduction in benefits as a result of a higher Social Security Integration Level (SSIL) used to calculate the pension benefit. The SSIL for calendar 1996 was $25,900; the SSIL for 1997 is $27,500. Under the pension system, average final compensation below the SSIL is subject to a 0.8% multiplier (times years of service), while average final compensation above the SSIL is subject to a 1.5% multiplier. Thus, for those members whose retirement was deferred until calendar 1997, a larger portion of the pension benefit is subject to the 0.8% multiplier. This reduction may or may not be offset by the additional months of service credit and any pay raises that affect average final compensation. The proposed legislation would ensure that the pension benefits of these members would not be reduced as a result of their deferral.

Approximately 135 EPS members had their retirement deferred into calendar 1997. The Retirement Agency estimates that no more than ten of these deferred members would be affected by this proposal. The average additional benefits for each of these individuals is approximately $200 per year. The average EPS member retiring under the Act had an average final compensation of $34,100, was 60 years old, and had 23.7 years of service. Based on these assumptions, the State's actuary estimates that the additional liabilities total $25,000, amortized over five years beginning in fiscal 1998, as required under the Act. The first year payment is $5,400, increasing approximately 5% per year.

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

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