

**Department of Fiscal Services**  
 Maryland General Assembly

**FISCAL NOTE**  
**Revised**

House Bill 274 (Delegate Grosfeld, *et al.*)  
 Appropriations

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**Membership in the Judges' Retirement System - Masters**

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This bill places full-time Masters in Chancery and Masters in Juvenile Causes appointed after June 30, 1989 in the Judges' Retirement System. Under current law, such masters appointed on or before June 30, 1989 participate in the Judges' Retirement System, while masters appointed after that date are members of the Employees' Pension System. The bill transfers assets from the Employees' Pension System to the Judges' Retirement System equal to the member and employer contributions plus interest of those masters who transfer to the Judges' Retirement System. In addition, these new members of the Judges' Retirement System may purchase service credit for the time they spent in the Employees' Pension System.

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**Fiscal Summary**

**State Effect:** Employer contributions to the Judges' Retirement System for 16 full-time masters would increase by \$554,300 beginning in FY 1999, increasing 5% per year thereafter. No effect on revenues.

| (in dollars)    | FY 1998 | FY 1999     | FY 2000     | FY 2001     | FY 2002     |
|-----------------|---------|-------------|-------------|-------------|-------------|
| GF Revenues     | \$0     | \$0         | \$0         | \$0         | \$0         |
| GF Expenditures | \$0     | \$554,300   | \$582,700   | \$611,000   | \$641,500   |
| Net Effect      | \$0     | (\$554,300) | (\$582,700) | (\$611,000) | (\$641,500) |

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

**Local Effect:** Indeterminate reduction in employer pension contributions, as discussed below.

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

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## **Fiscal Analysis**

**Background:** From 1975 to 1989, full-time Masters in Chancery and Masters in Juvenile Causes participated in the Judges' Retirement System (JRS). Unlike other members of the JRS who are State employees, masters are employed by individual counties throughout the State. Unlike judges, who receive uniform salary increases within each court as recommended by the Judicial Compensation Commission and adopted by the General Assembly, masters are paid under the general salary structure of each county; i.e., via grades and steps. In 1989, Chapter 779 of the Acts of 1989 was enacted, whereby:

- Full-time masters employed before July 1, 1989 remain enrolled in the JRS and full-time masters employed on or after July 1, 1989 enroll in the Employees' Pension System (EPS) with the State paying the full employer contribution.
- The State contribution for masters in the JRS is capped at the January 1, 1989 salary levels and the local governments pay employer contributions on salary over the January 1, 1989 levels.

**State Expenditures:** Under current law, Masters in Chancery and Masters in Juvenile Causes employed on or after July 1, 1989 are eligible for membership in the EPS, with the State paying the appropriate employer contribution rate (8.21% in fiscal 1998). It is estimated that there are eight such masters currently in the EPS. In addition, it is estimated that there are eight other masters hired since 1989 who participate in independent local pension systems. Under the proposed legislation, both the eight masters in the EPS plus the eight masters in the local systems, as well as all future full-time masters, would be enrolled in the JRS. The State would be responsible for the full pension costs of these masters under the proposed legislation. The State's employer contribution rate would increase from 8.21% to 52.49% for those masters transferring from the EPS to the JRS, and from zero to 52.49% for those transferring from local systems.

It is estimated that the average eligible master is age 50 with 4.4 years of service as a full-time master, earning a salary of \$74,900. This bill has not been forwarded to the State's actuary for a detailed actuarial analysis. Based on the available data, however, the actuary was able to offer an informal estimate. The actuary estimates including these estimated 16 masters in the JRS will increase the JRS's liabilities by \$2.6 million, beginning in fiscal 1999 and amortized over 21 years through the year 2020. The initial payment in fiscal 1999 will be \$147,000 and will increase approximately 5% per year thereafter.

In addition, the normal cost of employer contributions -- the amount the employer must contribute to fund future benefits exclusive of existing liabilities -- will increase. For those

transferring from the EPS, the normal cost will increase from 6% of payroll (under the EPS) to 37% (under the JRS), for an additional normal cost of 31% of payroll. For those transferring from a local system, the new normal cost will be 37%. For all 16 masters, the additional normal cost is estimated at \$407,300 beginning in fiscal 1999, also increasing 5% per year thereafter permanently. In total, employer contributions are estimated to increase \$554,300 beginning in fiscal 1999, increasing 5% per year thereafter.

The bill also allows masters transferring to the JRS to purchase service credit for their time in the EPS, to avoid any actuarial reduction stemming from a deficiency in employee contributions. The bill also provides for a transfer of assets from the EPS to the JRS based on the employer contributions, for the employees who transfer, which is included in the actuary's estimate.

**Local Expenditures:** For those local governments whose masters are currently members of a local pension system, transfer of these masters to the JRS will result in a decline in employer pension contributions. The amount of this decline will depend on the employer contribution rate for the local system. For local governments whose masters are in the EPS, this proposal will result in no change in expenditures, as they currently do not pay employer contributions.

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

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