HB 1034

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 1034 (Delegate Proctor)
Appropriations

Employees' and Teachers' Pension Systems - Alternate Pension Selection

This bill provides an alternate pension selection for current and future active members of the Employees' Pension System (EPS) and the Teachers' Pension System (TPS). For current members, the alternate selection would be optional. For future members, the alternate selection would be mandatory. Under the alternate selection, members would receive a 1.5% flat benefit multiplier, versus the current two-tiered structure (0.8%/1.5%). Cost-of-living adjustments would be capped at 3% on a compound basis. Current law provides for a simple 3% cap. Members would be subject to a mandatory 3% employee contribution. Members transferring from the current EPS and TPS programs would be subject to a five-year vesting period before being eligible for the alternate selection benefits. Following vesting, however, the new multiplier would apply to the past service of those transferring. This bill is effective July 1, 1997.

Fiscal Summary

State Effect: Increase in State expenditures (all fund types) for employer pension contributions of $118.9 million beginning in FY 1999, increasing 5% per year thereafter.

(in $ millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF/SF/FF Rev	$0	$0	$0	$0	$0
GF/SF/FF Expend	$0	$118.90	$124.80	$131.10	$137.60

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

Local Effect: Indeterminate increase in employer pension contributions for local governments that participate in the Employees' Pension System, if those employees are eligible for the alternate selection.

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

Fiscal Analysis

State Expenditures: This bill changes several aspects of the EPS and TPS for current members who elect the alternate selection and future members for whom membership is mandatory.

- Members would receive a 1.5% flat benefit multiplier (1.5% times years of service times average final compensation). An employee retiring after 30 years would thus receive 45% of average final compensation. The current benefit formula is 0.8% of average final compensation up to the Social Security Integration Level (SSIL), which is $27,500 for calendar 1997, plus 1.5% of average final compensation in excess of the SSIL, multiplied by the years and months of service credits. Based on the average State employee salary, the current effective blended multiplier is approximately 1.1%.

- Cost-of-living adjustments would be capped at 3% on a compound basis, versus a simple 3% cap under current law.

- Members would be subject to a mandatory 3% employee contribution; currently under the EPS, only employees earning more than the Social Security Taxable Wage Base must contribute to the EPS.

- Members transferring from the current EPS and TPS programs would be subject to a five-year vesting period before being eligible for the alternate selection benefits.

There are currently 63,818 active members of the TPS and 70,215 members of the EPS. Total payroll for both groups was $4.2 billion as of June 1996. The agency estimates that 70% of the current active members of both groups would elect to participate in this alternate selection. This bill has not been forwarded to the State's actuary for a detailed actuarial analysis. Based on the data provided by the Retirement Agency, however, the actuary was able to offer an informal estimate. The actuary estimates that total actuarial liabilities would increase by $2.9 billion, of which employee contributions would finance $800 million, resulting in an increased actuarial liability to the State of $2.1 billion. This increased liability would be amortized over 21 years beginning in fiscal 1999, through the year 2020. The initial payment in fiscal 1999 will be $118.9 million and will increase approximately 5% per year thereafter.

Additional Comments: In calculating the increased liabilities to the retirement system of the proposed legislation, the actuary assumed that the 70% of current members who choose the alternate selection do so immediately. As currently drafted, the bill would allow a current member to choose the alternate selection at any time, so long as the member participated in the alternate selection for five years prior to retirement. This would allow a member, for example, to stay in the current EPS for 25 years (with no employee contribution) and then switch to the alternate selection for the five remaining years prior to retirement. If members were to follow this pattern in significant numbers, the increase in actuarial liability would be significantly higher. Finally, as the bill is currently drafted, the 1.5% multiplier is stated to apply to average final compensation above the SSIL. Since that reflects current law, it is assumed for this analysis that the 1.5% multiplier is intended to apply to all average final compensation.

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

Fiscal Note History: First Reader - February 12, 1997
ncs

Analysis by:	Matthew D. Riven	Direct Inquiries to:
Reviewed by:	John Rixey	John Rixey, Coordinating Analyst
		(410) 841-3710
		(301) 858-3710