

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 815 (Delegate C. Mitchell)
Appropriations

State Employees - Eligibility for Retirement

This pension bill provides for retirement after 25 years of service for State employees' retirement and pension system members without a reduction in the service retirement allowance. State employee members of the Employees' Retirement System (ERS) would be eligible for an unreduced allowance after 25 years of service or age 60. State employee members of the Employees' Pension System (EPS) would be eligible for an unreduced allowance after 25 years of service or age 62 with at least five years of service. Non-State employee members of the ERS and EPS would continue to be eligible for an unreduced allowance at the current service requirement of 30 years of service. Vested deferred members of the EPS would continue to be subject to the early retirement reduction. This bill is effective July 1, 1997.

Fiscal Summary

State Effect: State expenditures (all fund types) for employer pension contributions would increase by \$26.9 million beginning in FY 1999, and increasing 5% per year thereafter, as discussed below. Revenues would not be affected.

(\$ 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	26.9	28.2	29.7	31.1
Net Effect	\$0	\$26.9	\$28.2	\$29.7	\$31.1

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

Local Effect: None.

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

Fiscal Analysis

State Expenditures: Currently, ERS and EPS members are subject to reductions in their benefit allowance if they retire prior to 30 years of service. For ERS members, the reduction of benefits is 0.5% for each month that the retirement date precedes age 60 or 30 years of service, with a maximum reduction of 30%. For EPS members, the reduction of benefits is 0.5% for each month that the retirement date precedes age 62, with a maximum reduction of 42%. Under the proposed legislation, there would be no early retirement reduction after 25 years of service, as described above. ERS members would be eligible for retirement after 25 years of creditable service or age 60. EPS members would be eligible after 25 years or:

- Age 62 with five years of eligibility service;
- Age 63 with four years of eligibility service;
- Age 64 with three years of eligibility service;
- Age 65 or more with two years of eligibility service.

The State Retirement Agency reports that there are 1,753 ERS State members who have at least 25 but less than 30 years of creditable service. The average salary for an ERS State member is \$36,629. Under the EPS, there are 3,091 State members with at least 25 but less than 30 years of creditable service. The average EPS State salary is \$29,691.

This bill has not been forwarded to the State's actuary for a formal actuarial analysis. Based on the Retirement Agency data, however, the actuary was able to offer an informal estimate. The actuary estimates that the proposal would increase the system's actuarial liabilities by \$104 million, amortized over 21 years beginning in fiscal 1999 through the year 2020. The first year payment in fiscal 1999 would be \$5.9 million, increasing 5% per year thereafter.

In addition, the employees' systems' normal cost of employer contributions -- the amount the employer must contribute to fund future benefits exclusive of existing liabilities -- will increase from 6% of payroll to 7% permanently. This results in an additional annual employer contribution of \$21 million beginning in fiscal 1999, also increasing 5% per year thereafter. In total, employer contributions are estimated to increase \$26.9 million beginning in fiscal 1999, increasing 5% per year thereafter.

These additional retirement benefits, and employer contributions, would only affect State employee members of the ERS and EPS. Other State employees, including members of the teachers' systems, would not be affected.

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

Fiscal Note History: First Reader - February 10, 1997

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