Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 65 (Senator Ruben)
Budget and Taxation

Retirement and Pensions - Participating Governmental Units - Deficit Payments

This bill allows certain local governments that participate in the Maryland State Retirement and Pension System (MSRPS) to liquidate their actuarial deficits over a 50-year time period, instead of over a 40-year period. The annual deficit payments began to accrue on July 1, 1995. Thus the bill gives participating governmental units until the year 2045 to pay off their actuarial deficit, versus the year 2035 under current law. This bill takes effect July 1, 1997.

Fiscal Summary

State Effect: Minimal increase in special fund expenditures, as discussed below.

Local Effect: Pension expenditures of several local governments would be significantly affected, as discussed below.

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

Fiscal Analysis

Background: As of June 1996, there were 101 local governmental units participating in the MSRPS. The assets and liabilities for these participating local governmental units are maintained separately from State assets and liabilities. Prior to Chapter 661 of 1996 (HB 1338), each participating governmental unit was responsible for funding their retirement accounts.

In 1984, the accounts of these local governments were "pooled" in the sense that the MSRPS computed one local government contribution rate for all participating governmental units. This rate was adjusted for the proportion of employees in the employee retirement system and the employee pension system as of that time. (This ratio was never updated). Despite the appearance of a pool, the local governments remained responsible for any unfunded liabilities attributable to their participation.

These governments may have assumed that the rates charged by the MSRPS between 1984 and 1996 were sufficient to fund their liabilities. In fact, this was not the case. Because each employer was not making payments based on their actual experience (i.e., changes in liabilities), some participating governmental units accumulated surpluses while others developed shortfalls between the actuarial liabilities and accumulated assets. Subsequently, some local governments requested and received an accounting of liabilities, which prompted several "overfunded" local governments to leave the system.

Chapter 661 established a true pooling approach to local governments participating in the MSRPS. Under the new billing process, which begins December 1997, four governmental units will experience a substantial increase to their annual employer contribution cost because their existing assets in the system are insufficient to fund the present value of accumulated system benefits as of June 30, 1995. The four governmental units are: City of Tacoma Park, City of Hagerstown, Talbot County Board of Education, and Dorchester County Roads Board.

State Expenditures: The Retirement Agency advises that 40 years is the maximum time period approved under the Government Accounting Standards Board (GASB) for deficit repayment. Because a 50-year repayment schedule would be in violation of GASB standards, the agency and the State's actuary would be required to prepare and maintain two sets of accounts, one set in compliance with the GASB, and the other reflecting the longer repayment period. The agency estimates additional expenditures of $5,000 per year in additional agency and actuary resources.

Local Expenditures: Chapter 661 of the Acts of 1996 provides that deficit payments for the under-funded employers be paid over a 40-year period, with annual payments listed below. Under this bill, payments would be made over a 50-year period. Because the MSRPS assumes an interest rate of 7.5% (its actuarially assumed investment rate of return), these jurisdictions would pay more over the long run under the 50-year proposal. Their annual payments, however, would be lower, as shown below.

Current vs. Proposed Payments

	Initial Deficit	40 Years First Yr. Pmt. +5%/Yr.	Total Payments	50 Years First Yr. Pmt +5%/Yr.	Total Payments
City of Hagerstown	$9,961,000	$403,558	$48,750,000	$355,829	$74,492,000
City of Takoma Park	$2,615,748	$105,968	$12,800,910	$90,435	$19,560,430
Talbot Co. Bd. of Ed.	$925,482	$37,493	$4,529,146	$33,059	$6,920,835
Dorchester Co. Roads	$1,015,584	$41,143	$4,970,065	$36,277	$7,594,517
Total	$14,517,814	$588,162	$71,050,121	$515,600	$108,567,782

The State Retirement Agency has previously proposed to the four employers a five-year graduated plan for the deficit payment that would start with an initial smaller payment increasing 15% annually for the first five years, and then increasing 5% annually for the remaining 35 years. The MSRPS has indicated that it may not offer its graduated plan under the 50-year proposal. If it were to offer such a proposal, that would compare to the current graduated plan as follows:

Current Payments under Graduated Plan versus Proposed Payments under Graduated Plan

	40 Years First Yr. Pmt. w/initial disc.	Total Payments	50 Years First Yr. Pmt w/initial disc.	Total Payments
City of Hagerstown	$261,125	$49,198,000	$226,027	$75,110,000
City of Takoma Park	$68,567	$12,918,625	$60,139	$19,722,972
Talbot Co. Bd. of Ed.	$24,260	$4,570,797	$21,278	$6,978,257
Dorchester Co. Roads	$26,622	$5,015,819	$23,349	$7,657,455
Total	$380,574	$71,703,241	$333,793	$109,468,684

Both the current and proposed provisions apply only to participating governmental units for which the annual deficit payment increased its required contribution by more than 2% of the aggregate annual earnable compensation as of July 1, 1995. Participating governmental units for which the deficit payment was 2% or less are required to liquidate the deficit over 25 years, or by the year 2020. The State's unfunded liability for its members of the MSRPS is also to be paid off by the year 2020.

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

Fiscal Note History: First Reader - January 21, 1997
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