

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1348 (Washington County Delegation, *et al.*)

Appropriations

Referred to Budget and Taxation

Retirement and Pensions - Participating Governmental Units - Deficits

This amended pension bill limits the unfunded actuarial liabilities of certain local governments that participate in the Maryland State Retirement and Pension System (MSRPS) and whose deficit payments as a result of these liabilities exceed 40% of aggregate annual earnable compensation (payroll). Under current law, participating governmental units with unfunded actuarial liabilities must begin making payments for these liabilities beginning in December 1997. Under the bill, the amount of these payments would be reduced, with the State transferring pension assets to these municipalities. The bill is effective July 1, 1997.

Fiscal Summary

State Effect: Increase in State actuarial pension liabilities to the MSRPS of approximately \$3.85 million to absorb the costs of unfunded actuarial liabilities that would otherwise be paid by certain local governments. Revenues would not be affected.

Local Effect: Decrease of \$3.85 million in pension liabilities for certain local governments that participate in the MSRPS.

Small Business Effect: None. This 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 enactment of Chapter 661 of 1996 (HB 1338), each participating governmental unit was responsible for funding its 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.

State and Local Expenditures: Chapter 661 of 1996 established a true pooling approach to local governments participating in the MSRPS. Under the new billing process, which begins December 1997, 23 of the 101 participating governmental units will begin making deficit payments as part of their annual employer contribution cost because their existing assets in the system are insufficient to fund the present value of their accumulated system benefits as of June 30, 1995. Under current law, the total deficit for each of these governments is to be amortized over 40 years; December 1997 marks the first annual deficit payment.

For 7 of these 23 local governments, their total deficit exceeds 40% of their total annual payroll. These jurisdictions are: the cities of Hagerstown, Cumberland, Takoma Park, Greenbelt, and Hyattsville; the Talbot County Board of Education (employees’ systems only); and the Dorchester County Road Board. This bill would provide half the assets necessary to reduce their total deficit to 40% of annual payroll, as illustrated in **Exhibit 1**. The State’s actuary indicates that this proposal will cost \$3.85 million, as illustrated in **Exhibit 1**.

Exhibit 1
Current and Revised Deficits
(\$ in million/numbers may not total due to rounding)

Participating Gov'tal Unit	Payroll	Current Deficit as Revised			Total	State
		Deficit	% of Payroll	Deficit	Decrease	Transfer
Hagerstown	\$12.3	\$10.0	81%	\$4.9	\$5.0	\$2.512
Cumberland	5.5	2.3	43%	2.2	0.1	.072
Takoma Park	4.0	2.6	65%	1.6	1.0	.502
Greenbelt	3.1	1.7	56%	1.2	0.5	.254
Hyattsville 2.3	0.9	42%	0.9	0.0	.019	
Talbot Bd. Ed.	1.3	0.9	73%	0.5	0.4	.210
Dorchester Roads	1.1	1.0	90%	0.5	0.6	.282
TOTAL	\$29.6	\$19.4	66%	\$11.8	\$7.7	\$3.851

Under the amended bill, the State would transfer \$3.85 million in assets from the State's asset pool within the MSRPS to the local governments' pool. The additional liabilities likely would be funded beginning in fiscal 1999 and through the year 2020, because the State is on a timetable to fully fund its MSRPS liabilities by that date. This could increase the State's employer contribution rate by between zero and two basis points (0.00 - 0.02%).

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

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