Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 369 (Senator Blount, *et al.*)
Budget and Taxation

Employees' Pension System - Part-Time State Employees - Eligibility Service

This pension bill permits employees who are members of the Employees' Pension System (EPS) to receive eligibility service credit for part-time employment if for at least ten consecutive years the employee worked less than 700 hours. Under current law, members of the EPS earn eligibility service credit if they work at least 700 hours in any fiscal year. This bill is effective July 1, 1997.

Fiscal Summary

State Effect: Indeterminate increase in expenditures (all fund types) for employer retirement contributions, as discussed below. Revenues would not be affected.

Local Effect: None.

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

Fiscal Analysis

Background: Under current law, all new permanent employees of the State and participating municipal governmental units are enrolled in the Employees' Pension System (EPS). Once enrolled, the employee earns service credits based on hours worked. An employee earns two distinct types of service credits:

- Eligibility Service: service credits needed to qualify for most benefits; and
- Creditable Service: service credits used to calculate the value of most benefits.

An employee must work at least 700 hours in any fiscal year (except the first and last years of membership) to earn eligibility service. For working 700 or more hours in a fiscal year, employees receive one full year of eligibility service. (In the first and last years of membership only, eligibility service is prorated if the employees work less than 700 hours.) Employees must earn eligibility service in a fiscal year to earn creditable service for that same period.

Creditable service is earned based on the hours and months worked as compared to full time. If employees work less than full-time (work over 700 hours but less than 2,080 hours for State employees), creditable service is prorated as follows. Each pay period, the employer reports the actual hours worked and the standard full-time hours for each position. At the end of the year, the hours worked are divided by the standard hours for the position to calculate a percentage which is then multiplied by the number of months in which hours were reported, to get the months of creditable service. For example, if an employee works 1,040 hours (or 50% of full-time) over 12 months, then the Retirement Agency divides 1,040 by 2,080 to equal .500. The agency then multiplies that quotient, .500, times 12 months to equal six months. In this example, the employee earns one year of eligibility service (worked at least 700 hours) and six months of creditable service for the part-time employment.

Under this proposal, State employees (not employees of participating employers) who are members of the EPS would earn both eligibility service and creditable service if they work less than 700 hours for ten consecutive years. An eligible State employee would receive ten or more years of retroactive eligibility service, as well as eligibility service for future years if the employees continue to work less than 700 hours. It appears that if the employee worked 700 or more hours in any year during the ten year retroactive period, then the employees will not earn eligibility service credits under this proposal. Even though employees would receive one year eligibility service, the creditable service would still be prorated.

State Expenditures: Neither the Department of Budget and Management nor the State Retirement Agency was able to provide specific data on the number of members of the EPS who are currently working less than 700 hours and therefore may be affected by this proposal. As of June 30, 1996, there were approximately 50,000 State employees in the EPS. For illustrative purposes, assuming that 5% work less than 700 hours per year, and that 10% of these employees have worked less than 700 hours for ten consecutive years, there would be a pool of 250 eligible employees. It is assumed that these employees are age 52, working 500 hours per year, with ten years of past service and ten years of future service. Thus, at the retirement age of 62, they would have 20 years of eligibility service and five years of creditable service. Using the current average salary for a State employee in the EPS of $29,961, it is estimated that each of these employees could receive an annual maximum benefit of about $1,200 per year if they retire at age 63 with five years of creditable service.

This bill has not been forwarded to the State's actuary for a detailed actuarial analysis. Based on the illustration above, however, the actuary was able to offer an informal estimate. Based on a pool of 250 eligible employees, the actuary estimates that the net increased actuarial liabilities to the EPS under the proposal would be $1.7 million. This liability would be amortized over 21 years through the year 2020. The first year amortization payment is estimated at $97,000 beginning in fiscal 1999. Out-year expenditures reflect the actuarially assumed 5% rate of growth. These additional retirement expenditures are assumed to be shared 60% general fund, 20% special fund, and 20% federal funds. To the extent that the actual eligible pool varies from the estimate of 250 employees, this will be reflected in the increase in the State's liabilities.

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

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