

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE  
Revised

House Bill 430 (Washington County Delegation, *et al.*)  
Appropriations

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**Retirement and Pensions - Participating Governmental Units - Deficits**

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This 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 make payments for these liabilities. Under the bill, the amount of these payments would be reduced, with the State transferring pension assets of \$4.45 million to the municipal pool on behalf of these municipalities. The bill is effective July 1, 1998.

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**Fiscal Summary**

**State Effect:** Increase in State actuarial pension liabilities to the MSRPS of approximately \$4.45 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 \$4.45 million in pension liabilities for certain local governments that participate in the MSRPS.

**Small Business Effect:** None.

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**Fiscal Analysis**

**Background:** As of June 1997, there were 98 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.

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 if they chose to withdraw.

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 23 of the participating governmental units must make deficit payments as part of their annual employer contribution cost because their existing retirement system assets are insufficient to fund the present value of their accumulated retirement 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 beginning in December 1997.

For seven of these 23 local governments, their total deficit exceeds 40% of their total annual payroll as of June 1995. 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. Chapter 740 of 1997 (HB 1348) provided a transfer of \$3.85 million in assets to these municipalities to reduce their deficit as a percent of payroll from 66% (on average) to 53%. This bill would provide the assets necessary to reduce each of their total deficits to 40% of annual payroll, as illustrated in **Exhibit 1**.

The State’s actuary indicates that this proposal will cost \$3.85 million plus two years of actuarial interest at 7.5%, for a total of \$4.45 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	1995 Payroll	Current Deficit After HB 1348	Current Deficit as % of Payroll	Revised Deficit (40% of Payroll)	Total Deficit Decrease
Hagerstown	\$12,343,500	\$7,449,500	60%	\$4,937,400	\$2,903,000
Cumberland	\$5,496,900	\$2,271,300	41%	\$2,198,700	\$83,800
Takoma Park	\$4,028,100	\$2,113,500	52%	\$1,611,200	\$580,500
Greenbelt	\$3,105,800	\$1,495,900	48%	\$1,242,300	\$293,100
Hyattsville	\$2,252,000	\$920,000	41%	\$900,800	\$22,200
Talbot Bd. Ed.	\$1,263,700	\$715,500	57%	\$505,500	\$242,700
Dorchester Roads	\$1,126,900	\$733,200	65%	\$450,700	\$326,300
<b>TOTAL</b>	<b>\$29,616,900</b>	<b>\$15,698,900</b>	<b>53%</b>	<b>\$11,846,600</b>	<b>\$4,451,600</b>

Under the bill, the State would transfer \$4.45 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 approximately one basis point (0.01%).

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

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