

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 335 (Delegate Proctor)
(Chairman, Joint Committee on Pensions)

Appropriations

**Employees' and Teachers' Retirement Systems - Combination Formula
Computation of Early Service Retirement Allowance**

This bill provides a 42% limit on the reduction of an early service retirement allowance for members of the Employees' Retirement System or the Teachers' Retirement System who elected Selection C (combination formula) and receive a portion of their service credit under the retirement systems' formula and a portion under the pension systems' formula.

Fiscal Summary

State Effect: Minimal increase in employer retirement contributions (all funds) for increased benefit for Selection C members who retire early.

Local Effect: Potential minimal impact for governments that participate in the Maryland State Retirement and Pension System (MSRPS).

Small Business Effect: None.

Fiscal Analysis

Background: Under current law, members of the Employees' and Teachers' Retirement Systems retained membership in those systems by choosing from three selections: Selection A (Additional Member Contributions); Selection B (Limited Cost-of-Living Adjustment); and Selection C (Combined Formula). Selection C, as its title implies, provides a two-part benefit utilizing the benefit formulas from both a retirement system and a pension system. At retirement, the two-part benefit is calculated as a retirement system benefit for service credits accrued prior to the election of Selection C, and as a pension system benefit for service credits accrued after electing Selection C.

Members who elect Selection C are eligible for early service retirement after 25 years of service based on retirement system law. That is, a member qualifies for a reduced retirement with 25 years of creditable service, regardless of age. For the portion calculated as the retirement system benefit, the reduction factor for early retirement is .005 for each month retirement occurs prior to age 60 or prior to 30 years of service. The maximum reduction is 30%. For the pension system portion of the benefit, however, there is no maximum reduction. Since Selection C members follow retirement system law to qualify for early retirement, there is no age requirement (normally the pension system member must be age 55 to seek early retirement). The pension system benefit, therefore, will be reduced by .005 for each month that retirement occurs prior to age 62, with no maximum reduction. Depending on the age of the member when seeking early retirement, the pension system portion of the Selection C benefit may be reduced to zero.

State Expenditures: Under this proposal, a maximum reduction factor is established at 42% for the early retirement pension system benefit provided under Selection C. This proposed 42% cap already applies to a pension system early retirement calculation and also was the cap under the Workforce Reduction Act (Chapter 353).

There would be minimal benefit increases associated with this proposal. There are 502 Selection C members who qualify for early retirement today. There are an additional 1,094 members who may qualify in the future. The retirement agency, however, does not anticipate that many members, even with the proposed change, would seek early retirement because of the relatively small benefit and still large maximum reduction factor (42%) associated with the pension system benefit (portion) in the two-part calculation.

The retirement agency estimates that not more than 10 Section C members per year would seek early retirement. For illustrative purposes, if an employee retires at age 45 with 25 years of service and an average final salary of \$35,000, the additional annual benefit provided under the bill would be \$1,851. The total additional benefit costs for 10 members would be \$18,510 annually, increasing according to any cost-of-living adjustments. The bill has not been presented to the State's actuary for a formal actuarial analysis because any additional liabilities to the pension system's liabilities would be minimal.

Information Source(s): State Retirement Agency, Department of Legislative Services

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Analysis by: Matthew D. Riven
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710