

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 655 (Senator Hollinger. *et al.*)

Budget and Taxation

Teachers' Pension System - Eligibility for Past Employment with Community College

This pension bill allows a member of the Teachers' Pension System (TPS) to receive credit for eligibility service for a period of employment as an employee of a community college on or after January 1, 1980, during which the employee was eligible to be a member of the TPS but was not a member of a State system or the Optional Retirement Program (ORP). Such a member must elect to receive those eligibility service credits within 12 months of the effective date of the bill and pay the appropriate employee contribution which would have been deducted for that service. The bill takes effect July 1, 1998.

Fiscal Summary

State Effect: Increase in State employer pension contributions of \$271,000 in FY 2000, increasing 5% per year thereafter based on actuarial assumptions.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
All Revenues	\$0	\$0	\$0	\$0	\$0
All Expenditures	0	271,000	285,000	299,000	314,000
Net Effect	\$0	(\$271,000)	(\$285,000)	(\$299,000)	(\$314,000)

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

Background: Community college employees (professional employees) hired prior to 1975 had an option to participate in the Teachers' Retirement System (TRS). In July 1975, they were required to enroll in the Optional Retirement Program (ORP) or the TRS. Since no carrier had been selected for the ORP in 1975, these individuals were required to join the TRS. Clerical employees were required to enroll in the TRS.

In 1976, legislation was enacted to correct this forced enrollment and to give those community college professional employees who were forced to enroll in the TRS several options. They could remain in the TRS; they could withdraw from the TRS and then return; they could withdraw and elect to participate in the ORP (TIAA-CREF was selected as the carrier effective July 1, 1976); or they could elect not to participate in any State supported system.

If an individual elected not to join either plan, that person still could elect to enroll in the TRS prior to June 30, 1977, and be eligible to purchase past community college employment at employee costs (employee contribution based on salaries earned during the period being purchased plus 4% interest compounded annually through date of billing). If they did not enroll in the TRS until July 1977, membership was to be prospective only - no purchase of prior community college service. Since creation of the Teachers' Pension System (TPS) in 1979, enrollment in TPS has been mandatory and automatic for community college support staff; professional staff have the mandatory option of either the TPS or the ORP.

State Expenditures: Under this proposal, members of the Teachers' Pension System (TPS) are entitled to receive service credits for employment as an employee of a community college on or after January 1, 1980 (date of establishment of the pension systems) to date of enrollment in the TPS if (1) the employee was eligible to be a member of the TPS, but (2) was not a member of any State system or the ORP. The election to claim such service must be made within 12 months of the effective date of this proposal - by June 30, 1999. The proposal requires that the member only pay the employee contribution, which may not apply unless the employee earned more than the Social Security wage base. The State would therefore bear all or almost all of the cost of granting such service credits.

There are 19 community colleges in the State. The State Retirement Agency advises that there may be four to five employees at each college, except Carroll which is relatively new, who would be affected by this proposal (total of 90 estimating five at each campus). It is assumed that each member would have six years of service credits to claim, and that members are age 50 on average with an average salary of \$48,400. It is further assumed that these members have 20 years of TPS service that is already recognized by the retirement

agency. It is further assumed that there would be no retroactive employee contributions (for salary above the Social Security wage base).

The bill has not been presented to the State's actuary for a formal actuarial analysis. The actuary informally estimates, however, that the proposal would increase system liabilities by \$4.6 million. Amortizing the additional liabilities over 20 years (through the year 2020) results in a first year amortization payment of \$271,000 in fiscal 2000. Future year payments would increase by 5% per year based on actuarial assumptions.

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

Fiscal Note History: First Reader - March 10, 1998

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