HB 1167

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 1167 (Delegates Rawlings and Rosenberg)
Appropriations

Employees' and Teachers' Pension Systems - Mandatory Supplemental Retirement Plan

This pension bill creates a mandatory defined contribution program for State employee members of the Employees' Pension System and members of the Teachers' Pension System. The bill mandates employee contributions of 3% of salary and provides an employer match of 1.5% of salary, up to $450 per year. The bill takes effect July 1, 1998.

Fiscal Summary

State Effect: State employer supplemental retirement contributions equal $51.0 million (all fund types) in the first budgeted year, increasing by approximately 5% per year thereafter. In addition, the Supplemental Retirement Board (special funds) and the Central Payroll Bureau (general funds) would incur one-time and ongoing administrative costs.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Revenues	$0.0	$0.0	$0.0	$0.0	$0.0
Expenditures	$51.0	$53.5	$56.2	$59.0	$62.0
Net Effect	($51.0)	($53.5)	($56.2)	($59.0)	($62.0)

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

Local Effect: Minimal fiscal impact on counties to administer supplemental benefit payments for local Teachers' Pension System members. Benefit payments would be paid by the State.

Small Business Effect: None.

Fiscal Analysis

Bill Summary: Under the proposal, every State member of the Employees' Pension System (EPS) and every member of the Teachers' Pension System (TPS) is required to contribute 3% of salary into a supplemental retirement plan (any of three tax-deferred retirement programs: 401(k), 403(b), or 457 plans). To that amount the State contributes 1.5% of salary as an employer match (or 50 cents on the dollar), up to a maximum of $450. Employees making $30,000 or less will receive a total of 4.5% of pay into their account (their own contribution of 3% plus 1.5% from the State). Employees making more than $30,000 will receive 3% from their own contributions plus the maximum $450 per year State contribution.

For State EPS and TPS members, the member and State contributions would be administered by the Supplemental Retirement Agency, which already offers the three supplemental plans on a voluntary basis. For county members of the TPS, the appropriate county board of education will administer the plan. The State would then reimburse the counties for the expenditures.

The Governor is required to include in the State budget an appropriation sufficient to pay the employer contributions for State members and county members. If the Governor does not include a sufficient appropriation for employer contributions, then the required member contributions cannot be taken either (although members would still be free to contribute voluntarily).

State Expenditures: State employer supplemental retirement contributions will increase by $51.0 million in the first budgeted year, increasing by approximately 5% per year thereafter due to payroll growth. Of that amount, approximately $21.3 million is attributable to State employee members of the Employees' Pension System (48,842 members), while $29.7 million is attributable to local members of the Teachers' Pension System (66,978 members).

The Supplemental Retirement Agency, which oversees the State's three deferred compensation plans with the assistance of an outside plan administrator, will require additional one-time and permanent expenditures to manage the increased workload. Currently, approximately 50% of State workers have an account with the agency. The proposal would therefore effectively double the agency's workload of State employee accounts. In addition, the bill would have certain local employees with the community colleges and libraries be administered through the agency.

It is estimated that the agency would require increased expenditures of approximately $470,000 in fiscal 1999, of which $250,000 would be for one-time start-up expenses such as temporary staff and communication costs. The remaining $220,000 would be for three additional permanent staff (two Field Representatives and one Secretary) plus ongoing additional administrative costs and contractual services. The fiscal 1999 estimate assumes full-year costs due to the July 1, 1998 effective date of the bill. Future year expenditures reflect: (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses. These additional special fund expenditures would be paid from asset-based fees collected from member accounts.

In addition, the Central Payroll Bureau would incur one-time and ongoing expenses to ensure that the proper program enrollment and payroll deductions were made. These expenses include one-time computer programming changes and two additional permanent personnel to assist in the payroll deduction process. It is estimated that the fiscal 1999 general fund costs would total $261,700, of which $190,200 would be one-time programming expenses, and the remaining $71,500 would be for ongoing personnel and administrative expenses. The fiscal 1999 estimate assumes full-year costs due to the July 1, 1998 effective date of the bill. Future year expenditures reflect: (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

The mandatory 3% employee contribution may result in upward salary pressure so that employees' take-home pay is not reduced. This may become an issue in collective bargaining or other fora.

Additional Comments: For employees who are currently contributing the maximum amount to deferred compensation allowed by federal law, the proposal could require them to reduce their contributions. Amending the bill to allow creation of a separate account for employee contributions could alleviate this problem.

Information Source(s): Comptroller's Office (Central Payroll), State Retirement Agency, Supplemental Retirement Plans, Department of Legislative Services

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