SB 709

Department of Legislative Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 709 (Senators Fry and Neall)
Budget and Taxation

State Pension Systems - Social Security Integration Level Adjustment

This pension bill freezes the Social Security Integration Level (SSIL) at the calendar 1998 level for 1999 and 2000 for members of the Employees' Pension System (EPS), Teachers' Pension System (TPS), Law Enforcement Officers' Pension System (LEOPS), and Local Fire and Police System (LFPS) who retire on or after July 1, 1998. For calendar 2001 and thereafter, the integration level will lag two years behind what it would have been under current law. This bill takes effect July 1, 1998.

Fiscal Summary

State Effect: Increase in State employer pension contributions of $17.0 million beginning in FY 2000, and increasing by 5% per year thereafter.

(in millions]	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
All Revenues	$0	$0	$0	$0	$0
All Expenditures	$0.0	$17.0	$17.9	$18.8	$19.7
Net Effect	$0.0	$(17.0)	$(17.9)	$(18.8)	$(19.7)

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

Local Effect: For the approximately 100 local governments that participate in the Maryland State Retirement and Pension System (MSRPS), increase in total employer contributions of $1.5 million beginning in FY 2000 and increasing by 5% per year thereafter.

Small Business Effect: None.

Fiscal Analysis

Background: The benefit in the pension systems is integrated with the federal Social Security system. The pension system is non-contributory except to the extent an employee's salary exceeds the Social Security Wage Base ($68,400 for calendar 1998). Under the pension systems, the benefit calculation is .8% for each year of service for average final compensation (AFC) up to the SSIL, while for AFC in excess of the SSIL, the benefit calculation is 1.5% for each year of service.

The SSIL is calculated as the 35-year moving average of the Social Security Wage Base. If the integration level increases faster than the member's compensation, then larger amounts of a member's average final compensation are subject to the lower benefit accumulation rate of 0.8%. For example, the annual normal retirement benefit of an employee retiring in 1998 with 30 years of service and an average final compensation of $35,000 would receive an annual benefit as follows:

$29,300 x 30 x 0.8%		**$7,032**
$5,700 x 30 x 1.5%	**+**	**$2,565**
Annual Benefit	**=**	**$9,597**
As % of Final Salary:		**27%**

Since 1987, the compound annual growth of the integration level has been 5.8% versus 4.4% for teachers' salaries and 4.3% for employees' salaries. Since 1992, the integration level has grown by 5.9%, while teachers' salaries have grown by 2.5% and employees' salaries have grown by 2.4%.

State Expenditures: This bill freezes the SSIL at the calendar 1998 level for 1999 and 2000. For calendar 2001 and thereafter, the integration level will lag two years behind what it would have been under current law. The table below lists the current integration level as currently forecasted for the next four years, versus what the integration level would be under the proposal.

	Current	Proposed
CY 1998	$29,300	$29,300
CY 1999	$31,100	$29,300
CY 2000	$33,000	$29,300
CY 2001	$35,000	$31,100

The effect on the benefit of a member retiring in calendar 2000 would be as follows:

	Current	Proposed

Salary	$35,000	$35,000
Years of Service	30	30
Integration Level	$33,000	$29,300
Annual Benefit	$8,820	$9,597
Benefit as % of Salary	25%	27%

The integration level would also be frozen for the LEOPS, where it has the same effect on benefits. The proposal has not been submitted to the actuary for a formal analysis, however, the actuary has informally provided the following estimates. The table below lists the additional liabilities of the proposal as it affects each pension system and the additional amortization payments assuming amortization over 20 years until the year 2020, beginning with the first-year payment in fiscal 2000 and increasing 5% per year thereafter.

Local Expenditures: For local governments with employees that participate in the EPS, employer contributions will increase, as illustrated below. In addition, for the three municipal jurisdictions that participate in the LFPS, there will be increased employer contributions, as illustrated below, because that system also includes the integration level. The actuary was not able to calculate the impact on each individual participating governmental unit.

Two-Year Integration Level Freeze
Additional Liabilities and Amortization Payments
($ in thousands)

	Total Additional			Annual Amortization		
	Liabilities	1999	2000	2001	2002	2003
State						
TPS	$197,000	$0	$11,600	$12,180	$12,789	$13,428
EPS	$82,000	$0	$5,400	$5,670	$5,954	$6,251
LEOPS	$621	$0	$37	$39	$41	$43
Total	**$279,621**	**$0**	**$17,037**	**$17,889**	**$18,783**	**$19,722**
Local						
EPS - local	$26,000	$0	$1,500	$1,575	$1,654	$1,736
LFP	$458	$0	$27	$28	$29	$31
Total	**$26,458**	**$0**	**$1,527**	**$1,603**	**$1,683**	**$1,767**

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

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