Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Senate Bill 113 (Senator Kasemeyer)
(Chairman, Joint Committee on Pensions)
Budget and Taxation

State Retirement and Pension Systems - Limitations on Benefits and Contributions

This pension bill incorporates federal limitations on State Retirement and Pension System (SRPS) pension contributions and benefits. The bill provides that a member may not receive a benefit that exceeds the applicable Section 415 limit.

The bill is effective July 1, 1999.

Fiscal Summary

State Effect: Minimal decrease in retirement benefit payments, and hence employer pension contributions, if State employee retirement allowances are reduced to comply with federal limit.

Local Effect: Minimal decrease in retirement benefit payments, and hence employer pension contributions, if employee retirement allowances of participating local governments are reduced to comply with federal limit.

Small Business Effect: None.

Fiscal Analysis

Bill Summary: This bill prohibits the board of trustees of the SRPS from paying an allowance that exceeds the limit on benefit accruals under Section 415 of the Internal Revenue Code (IRC). The board must reduce any allowance to the extent that it exceeds the Section 415(b) limit as adjusted each year under Internal Revenue Service (IRS) regulations. For calendar 1998, the federal benefit limits range based on age from $77,000 per year at age 55 to $130,000 per year at age 65.

The board must reduce any employee contributions and other additions to any defined contribution plan maintained by the board to the extent they exceed the limits on annual additions under IRC Section 415(c). Because the IRC treats member contributions to the defined benefit plan as technically a defined contribution plan, the federal limit on member contributions applies.

Employees who have had their benefit reduced may in subsequent years receive post-retirement adjustments if the adjusted benefit does not exceed the dollar limit on benefits. The adjusted benefit, however, may not exceed the participant's basic allowance as increased by any post-retirement increases allowed under the applicable State system.

Finally, employees hired after June 30, 1999 are subject to the federal limits on purchase of prior service credit (and the resulting benefit allowances) under IRC Section 415(n). Current employees would not be subject to the purchase-of-service restriction. The State Retirement Agency reports that no SRPS member has yet purchased service credit that would invoke the federal limit.

State Expenditures: Only a very small fraction of SRPS members will be eligible for benefits that exceed the federal limit. The normal service retirement benefit under the retirement system provides 54% of average final compensation after 30 years of service, while the enhanced pension service benefit provides 42% of average final compensation after 30 years. To exceed the federal match, a retirement system member retiring at age 55 would need a final average salary of approximately $143,000 and a member retiring at age 65 would need a final salary of $241,000; a pension system member retiring at age 55 would need a final average salary of approximately $183,000 and a member retiring at age 65 would need a final salary of $310,000.

A very small number of pension system members, primarily but not exclusively at the University of Maryland Medical System (UMMS), may be eligible for pension benefits that exceed the federal limitation. Reducing the benefit allowances of these employees to comply with the federal limits would result in a negligible reduction in benefit payments, resulting in a negligible reduction in required employer pension contributions.

Additional Comments: Federal law allows creation of a "qualified governmental excess benefit plan" to accommodate those employees who may potentially exceed the Section 415 limitations. Either the employer of the member or the SRPS would be required to create such an "excess benefit plan" to allow payment of the additional benefits.

Also, given the federal tax law's preemptive effect, both the contribution and benefit limits will apply regardless of the outcome of this bill. Failure to incorporate these provisions into State law, however, could jeopardize the continuing tax qualified status of the system.

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

Fiscal Note History: First Reader - January 25, 1999

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