Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Senate Bill 364 (Senator Kasemeyer)
(Chairman, Joint Committee on Pensions)
Budget and Taxation

Employees' and Teachers' Pension Systems - Technical Corrections

This pension bill corrects certain technical errors and clarifies certain issues relating to the pension enhancement legislation enacted in 1998 (Chapter 530/HB 987). The bill: (1) includes in the pension enhancement Selection C members of the Employees' Retirement System who were inadvertently excluded; (2) clarifies that military service and unused sick leave credit accrued after July 1, 1998 receives the 1.4% accrual multiplier; and (3) clarifies that there are now two pension formulas for the pension system: a contributory pension benefit formula and a noncontributory pension benefit formula.

The bill takes effect July 1, 1999.

Fiscal Summary

State Effect: FY 2000 personnel expenditures (all funds) would increase by $124,200 (for the deferred compensation matching program) and FY 2001 expenditures would increase by $1,640,760 (for the matching program and the pension enhancement), with pension costs increasing by 5% per year thereafter based on actuarial assumptions. Administrative expenditures (special funds) for the State Retirement Agency could increase by $50,000 per year (not included in table).

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF/SF/FF Revs	$0	$0	$0	$0	$0
GF/SF/FF Exps	124,200	1,640,800	1,715,800	1,794,500	1,877,200
Net Effect	($124,200)	($1,640,800)	($1,715,800)	($1,794,500)	($1,877,200)

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

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

Background: The bill makes three technical changes to the pension systems.

Selection C Members

The bill includes Selection C members of the retirement systems who are State employees or teachers in the pension enhancement. Selection C members, also referred to as "bifurcated" members, currently accrue service in the pension systems, but maintain service credit in the retirement systems for their years of service prior to electing to bifurcate. Because Selection C members are members of the retirement systems, they are currently not eligible for the enhancement under HB 987.

Covered employees will receive 1.4% of average final compensation for each year of service after July 1, 1998. Service before July 1, 1998 will earn 1.2% or the existing formula, whichever is higher, for each year of service. These employees must contribute 2% of pay toward their pension benefit. They will receive a compound cost of living adjustment (COLA) capped at 3%, versus the current simple COLA (also capped at 3%).

The bill applies retroactively, granting eligibility and creditable service for affected members as of July 1, 1998 (including for those who have retired since July 1, 1998) and includes the compound COLA since that date.

The bill also makes Selection C members who are State employees eligible for the deferred compensation matching program created under HB 987.

Nomenclature Change

Most pension system members are now eligible for the enhanced benefit under HB 987. Certain pension system members, however, -- for example those members who transferred from the retirement systems after April 1998 and members who are employed by participating local governments (assuming no legislative changes) -- will receive the pre-enhancement benefit formula. To distinguish between the two benefit formulas, the bill identifies the enhanced benefit as the "contributory pension benefit."

Sick Leave and Military Credit

The bill clarifies that service credit earned from uncredited military service or unused sick leave is to be credited at 1.4% per year of service (the accrual rate that is effective for service earned after July 1, 1998) even if some or all of the military service or unused sick leave took place prior to July 1, 1998, for which the accrual rate is 1.2% per year of service. For active military duty that interrupts membership, the actual dates of military service will determine the accrual rate. The retirement board's policy has been that uncredited military service does not "accrue" until the member files for and receives military service credit. Similarly, unused sick leave is granted only at the time of retirement, when it is first reported to the retirement agency.

State Expenditures: The change in nomenclature has no fiscal impact. The clarification on military service and unused sick leave credit has no fiscal impact because it codifies existing practice by the State Retirement Agency. Thus, the sole fiscal impact relates to the inclusion of State employee and teacher Selection C members in the enhancement.

The State Retirement Agency advises that there are 1,734 Selection C members, of whom 1,626 are State employees or teachers. The State's actuary estimates that including these 1,626 Selection C members in the enhancement will increase the system's liabilities by $25.3 million. Amortizing these liabilities over the 19 years until 2020 results in a first year payment in fiscal 2001 of $1.5 million. Future year payments would increase by 5% per year based on actuarial assumptions. The additional amortization payment is equal to about 0.03% to the aggregate State contribution rate of 10.7%.

There are 276 Selection C members who are State employees and will be eligible for the $600 match to deferred compensation. Participation in deferred compensation by these employees, who have worked for the State for at least 19 years, is likely to be higher than the general population. It is assumed that 75% of them will take advantage of the full $600 match in fiscal 2000, increasing to 85% in fiscal 2001 and beyond. This will result in fiscal 2000 costs of $124,200 and fiscal 2001 costs of $140,760.

In total, fiscal 2000 expenditures will increase by $124,200 (for the deferred compensation matching program) and fiscal 2001 expenditures will increase by $1,640,760 (for the matching program and the pension enhancement), increasing by 5% per year thereafter based on actuarial assumptions.

The State Retirement Agency advises that administrative costs could increase by approximately $147,000 to implement the bill, including additional communications costs, a full-time contractual accountant/auditor, and an outside computer consultant to reprogram the existing mainframe computer.

Legislative Services estimates, however, that administrative expenses for the agency could increase by approximately $50,000 per year to implement the new formula manually with the system's current mainframe computer system for the 1,626 Selection C members until the pending computer system is available. Programming the new formula into the system's pending computer system will require indeterminate costs to change the procurement specifications.

Additional Comments: In addition to the appropriation process, the State Retirement Agency's annual spending authority for administrative and operational expenses is capped by Section 21-315(c) of the State Personnel and Pensions Article at 0.2% of the payroll of members. The Governor's proposed fiscal 2000 budget for the agency is extremely close (within $700) of the statutory administrative expenditure cap.

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

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