HB 735

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 735 (Delegates Kach and Heller)
Appropriations

Employees' Pension System - University of Maryland Medical System Corporation - Inclusion in Contributory Pension Benefit

This pension bill includes employees of the University of Maryland Medical System Corporation who still participate in the Employees' Pension System to qualify for the benefit enhancement enacted last year under Chapter 530 of 1998 (HB 987). The medical system, which is a withdrawn employer of the pension system, would be responsible for the resulting additional liabilities.

The bill takes effect July 1, 1999 and is retroactive to July 1, 1998.

Fiscal Summary

State Effect: Total increase in pension liabilities of $10.0 million, resulting in annual pension expenditures by the University of Maryland Medical System (off-budget private corporation) of $655,000 in FY 2000, increasing 5% per year based on actuarial assumptions. One-time administrative expenditures of $50,000 (special funds) for the State Retirement Agency to implement the bill.

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

Bill Summary: The bill makes active members of the Employees' Pension System who are employed by the medical system corporation eligible for the contributory pension system enacted under HB 987. These members would pay a mandatory 2% contribution. (They would have a one-year grace period to repay without interest missed employee contributions from fiscal 1999.)

They would receive 1.4% of average final compensation for each year of service earned after July 1, 1998. For service prior to July 1, 1998, they would receive 1.2% or the pre-enhancement formula, whichever is higher. Retirees would receive a compound cost of living adjustment (COLA) limited to 3%; currently they receive a simple COLA limited to 3%. These members would not be eligible for the State deferred compensation matching program.

The University of Maryland Medical System (UMMS) formerly participated in the State Retirement and Pension System of Maryland (SRPS) but has since withdrawn. The State Retirement Agency advises that in 1989 State employees who had worked for the University Hospital when that agency was part of State government were offered an incentive program by UMMS to switch from "State employment" to corporate employment. As part of that incentive program, those employees who switched remained members of the State Retirement and Pension System (as part of a closed group) with UMMS paying the appropriate pension liabilities for these employees. Those employees who did not elect to participate in the incentive program remain State employees under the University of Maryland while working for UMMS.

State Expenditures: There are 552 active employees of UMMS with a payroll of $20,080,000 who are affected by this bill. In addition, there are 190 retirees. The withdraw liability of UMMS must be recalculated, or adjusted to reflect the higher enhanced benefit for both active members and retirees.

The State's actuary advises that providing the enhanced benefits to these members and retirees would increase UMMS's liabilities by $10.0 million. Amortizing these liabilities over 20 years (until 2020) would result in a first-year payment of $655,000 in fiscal 2000, increasing 5% per year thereafter based on actuarial assumptions.

Administrative Expenses

The State Retirement Agency advises that funds will be needed to administer provisions of this bill including computer programming, communications, and counseling services. The agency states that it will need temporary or contractual help for three months with the manual adjustments and corrections to data that may result from implementing this proposal.

The agency advises that it will need an outside computer programming contractor for adjustments to the current computer system. Because the agency must alter both the existing system as well as the new system in development, any changes to the new system due to legislation enacted after July 1, 1998 will add to the total cost and time of that project. A precise amount is not determinable at this time.

The agency estimates its additional expenditures as follows:

Type	Cost
Administrative Cost (mailing, counseling, supplement to benefits handbook)	$2,000
Contractual Accountant/Auditor (Grade 14-3 months)	$7,815
Data Processing Programming consultant to adjust existing system	$120,000
TOTAL	$129,815

Legislative Services believes that this cost estimate is excessive and that $50,000 in additional overtime, contractual, or temporary personnel expenditures should be adequate to implement the provisions of the bill until the new computer system is operational (plus any additional costs of reprogramming that system.)

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.

The State Retirement Agency notes that for other legislation that applies to a particular participating or withdrawn employer, the agency's administrative costs of implementing

the bill have been borne by that employer and that such a provision would be appropriate in this case.

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

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