

Department of Legislative Services
 Maryland General Assembly
 1999 Session

FISCAL NOTE

House Bill 1145 (Delegate Wood)

Appropriations

Employees' Pension System - Purchase of Service Credit

This pension bill allows a member or retiree of the Employees' Pension System, under certain circumstances, to purchase credit to which the member is not otherwise entitled, at less than full cost, for service with the State on or before December 31, 1979 as a member of the Employees' Retirement System or the Legislative Pension Plan.

The bill takes effect July 1, 1999.

Fiscal Summary

State Effect: Increase in State pension liabilities of \$4.6 million, resulting in first-year amortization payment in FY 2001 of \$307,000, increasing 5% per year based on actuarial assumptions.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	0	184,200	193,800	203,400	213,600
SF Expenditures	0	61,400	64,600	67,800	71,200
FF Expenditures	0	61,400	64,600	67,800	71,200
Net Effect	\$0	(\$307,000)	(\$323,000)	(\$339,000)	(\$356,000)

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

Local Effect: Indeterminate increase in pension expenditures for local governments that participate in the State Retirement and Pension System.

Small Business Effect: None.

Fiscal Analysis

Bill Summary: The bill allows members or retirees of the Employees' Pension System (EPS), if they meet the criteria below, to purchase credit to which they are not otherwise entitled for service with the State on or before December 31, 1979 as members of the Employees' Retirement System (ERS) or the Legislative Pension Plan.

To be eligible to purchase the service credit under the bill:

- the member or retiree, before the break in service that preceded the latest period of membership in the employees' pension system, must have had enough prior service that qualifies for purchase under the bill to have made the member or retiree eligible for a vested allowance if the member or retiree had purchased the service credit before the break in service;
- the member or retiree did not voluntarily withdraw accumulated contributions before the latest period of membership in the employees' pension system; and
- if a retiree, the retiree purchases the service credit within one year of retirement.

To purchase service credit under the bill, a member must pay to the board of trustees the amount that the member would have been required to contribute for that period of employment and interest on the member's contributions, compounded annually.

Background: Under current law members of the EPS may purchase service credits (up to ten years) for employment with: (1) the State; (2) the Division of Employment Service while the division was under federal control; (3) the Maryland Tuberculosis Association as the operator of radiological equipment under the supervision of the Maryland Health Department; (4) a political subdivision in the State; (5) an out-of-state school as a teacher; (6) the federal government; (7) an out-of-state political subdivision; or (8) a public school as a teacher.

The members may purchase this service only in the year of retirement. The members must pay, "an amount equal to the annuity reserve and pension reserve required to fund the additional allowance." In other words, the members pay the full cost of this purchase. Retirees are not eligible to purchase service.

The General Assembly Compensation Commission has exclusive jurisdiction over the provisions of the Legislative Pension Plan, including the provisions governing transfer or purchase of service in the Legislative Pension Plan to other State pension systems.

State Expenditures: The State Retirement Agency advises that it cannot precisely determine the number of active members that would qualify to purchase service under the bill

but estimates that not more than 50 active members may qualify. The agency notes that shortly after the ERS was closed in 1980, the agency received numerous inquiries from EPS members concerning prior service credit in the ERS that could not be credited to their current EPS service. The vast majority of such employees, however, have since retired (for more than one year) and hence would not be eligible for service purchase.

It is assumed that those eligible active members are at least age 55, have an average salary of \$35,000, have 20 years of service credit in the EPS, and can purchase ten years of additional service credit under this proposal. It is also assumed that there are five retirees (who have been retired for less than one year) who could purchase service credit under this proposal. It is assumed that these retirees are at least age 62, retired with an average final salary of \$40,000, had 16 years of EPS service credit, and can purchase ten years of additional credit.

Based on the demographic assumptions above, the State's actuary informally estimates that the bill will increase the system's liabilities by \$4.6 million. Amortizing these liabilities over the 19 years to 2020 results in a first-year payment of \$307,000, increasing 5% per year based on actuarial assumptions. It is assumed that these additional expenditures are 60% general funds, 20% special funds, and 20% federal funds.

Additional Comments: Two additional comments should be noted: First, the Retirement Agency advises that it interprets the phrase "did not voluntarily withdraw accumulated contributions" to mean that former members of the ERS received a return of their accumulated contributions from the State's abandoned property office. Presumably, the members had less than five years of creditable service during their last period of membership and they did not apply for a refund when employment ended. Their accounts became inactive after two years. Because there was no benefit to be paid, the accumulated contributions eventually were transferred to abandoned property, as required by law. The former members then received a return of the accumulated contributions from abandoned property.

Second, whether a former State legislator is permitted to transfer service credit from the Legislative Pension Plan to another State pension system would depend on the resolution of the General Assembly Compensation Commission that was in effect at the time the legislator left office.

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

Fiscal Note History: First Reader - March 16, 1999
lnc/jr

Analysis by: Matthew D. Riven

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510