

Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

Senate Bill 106 (Senator Kasemever)
(Chairman, Joint Committee on Pensions)

Budget and Taxation

Employees' and Teachers' Pension Systems - Minimum Hours Required for Initial Membership

This pension bill excludes from membership in the Employees' Pension System (EPS) and the Teachers' Pension System (TPS) an employee who is not already a member of a State system and who accepts a position for which the budgeted hours per fiscal year are less than 500 hours. The bill takes effect July 1, 1998.

Fiscal Summary

State Effect: No net impact on State employer pension contributions. Any minimal decrease in State employer pension contributions for permanent employees who accept a position for which the annual budgeted hours are less than 500 will be offset by a negligible increase in the overall contribution rate.

Local Effect: No net impact on the "municipal pool" of local government employers that participate in the State Retirement and Pension System (SRPS). Individual employers that hire employees who will work less than 500 hours will experience a decrease in employer pension contributions for those part-time employees. Other members of the pool may experience a slight increase in rates.

Small Business Effect: None.

Fiscal Analysis

Background: The proposed legislation excludes from membership in the EPS or the TPS an individual who accepts employment with a State or other participating employer of the SRPS in a position for which the annual budgeted fiscal year hours is less than 500. Currently, permanent employees with fewer than 500 hours are enrolled in the system and charged a 2% contribution, but do not receive any benefits other than death and accidental disability. This often provides an incorrect impression to the employee, who may believe he or she is entitled to a pension benefit.

Employers with employees who work less than 500 hours are currently charged for employer contributions for these employees, even though they are not entitled to service benefits. These contributions represent an actuarial windfall to the State assets and/or the municipal pool of the SRPS.

State Expenditures: The State employs relatively few (less than 100) permanent employees at less than 500 hours per year. (The majority of part-time employees are contractual or temporary employees and not eligible for pension benefits in any event.) The few such employees are likely to be EPS members for whom the State makes pension contributions of 7.15% of compensation (fiscal 2000 contribution rate). Because these employees are not eligible for pension service benefits, the SRPS experiences a modest actuarial windfall. Elimination of the windfall will require the actuary to increase the contribution rate by a negligible amount in order to offset the lost contributions.

The State Retirement Agency may experience a slight decrease in administrative expenses because it will no longer have to refund member contributions for part-time employees.

Local Expenditures: Currently, some participating local governments employ permanent employees who work less than 500 hours per year. For example, some school boards employ cafeteria workers who work 2-3 hours per day during the school year. These employers make contributions of 5.99% (calendar 1997 base rate) of pay for EPS members, but the employees are not eligible for pension service benefits. It is estimated that there are less than 500 such employees among the participating governmental units.

Elimination of the requirement would create a small actuarial loss to the municipal pool, which would be reflected in a marginally higher contribution rate for all members of the municipal pool. Thus, there would be no net effect on the aggregate municipal contribution rate, but individually, those jurisdictions with employees who work less than 500 hours would experience a decline in their total employer contributions while all jurisdictions would experience a small increase in the contribution rate.

Additional Comments: Employees who are already members of the SRPS would not be affected. Employees who are in positions for which the budgeted hours increase above 500

hours would be enrolled in the SRPS.

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

Fiscal Note History: First Reader - January 22, 1999
ncs/jr Revised - Enrolled Bill - April 8, 1999

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