

Department of Legislative Services
 Maryland General Assembly
 1999 Session

FISCAL NOTE

Senate Bill 437 (Senator Conway)

Budget and Taxation

Optional Defined Contribution System - Eligibility

This pension bill expands the eligibility for the State’s matching program for deferred compensation to include State employee members of the Employees’ Retirement System (ERS) as well as those members of the Employees’ Pension System who transferred from the ERS after April 1998.

The bill takes effect July 1, 1999.

Fiscal Summary

State Effect: Increase in fringe benefit expenditures of \$2.2 million (all funds) in FY 2000 for matching program, increasing in FY 2001 due to higher participation and decreasing thereafter due to employee retirements.

(\$ in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Revenues	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
GF Expenditures	1.3	1.4	1.2	1.1	0.9
SF Expenditures	0.4	0.5	0.4	0.4	0.3
FF Expenditures	0.4	0.5	0.4	0.4	0.3
Net Effect	(\$2.2)	(\$2.3)	(\$2.0)	(\$1.8)	(\$1.5)

*Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect
 Numbers may not total due to rounding.*

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

Background: Chapter 530 of 1998 (HB 987) enhanced the pension benefit for State employee members of the Employees' Pension System (EPS) and provided these members with a State match of up to \$600 per fiscal year for contributions to a deferred compensation program. Members of the Employees' Retirement System and EPS members who transferred from the retirement system after April 1, 1998 were excluded from the matching program.

State Expenditures: There are currently 4,914 active State employee members of the ERS, plus approximately 20 employees who have transferred from the Employees' Pension System since April 1, 1998. It is estimated that over the long-run, approximately 85% of eligible employees will participate in the matching program (and it is assumed that those who participate will receive the full match). The annual long-term cost of expanding the program would therefore be \$2.5 million.

Based on experience in other states, however, it is unlikely that participation will increase to 85% in the first year. Currently, active participation in deferred compensation among State employees is approximately 33%. The Maryland Supplemental Retirement Plans, which oversees the State's three deferred compensation programs, was unable to provide an estimate of current participation by retirement system members. Given that retirement system members have at least 19 years of State service, are likely to be in higher steps (and perhaps grades) than State employees on average, and are likely to be planning for retirement, it can be assumed that current participation by retirement system members is higher than the 33% statewide average. Based on these factors, Legislative Services estimates that first-year participation in the matching program will be approximately 75%, increasing to 85% the next year and plateauing at that level.

Given that the ERS is a closed retirement system and that all members have at least 19 years of service, it is likely that the retirement rate among the group will be high and therefore total program costs will decline over time. Assuming that 10% of the current group (or 493 employees) retire each year, the total cost will peak in fiscal 2001 at \$2.3 million (all funds) and decrease each year thereafter. It is assumed that these additional expenditures would be 60% general funds, 20% special funds, and 20% federal funds.

**SB 437 - Employees' Retirement System
Estimated Matching Program Participation**

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Eligible Employees	4,934	4,441	3,947	3,454	2,960
Participation	75%	85%	85%	85%	85%
Total Cost (\$ Millions)	\$2.2	\$2.3	\$2.0	\$1.8	\$1.5

The Supplemental Retirement Plans advises that it can handle the additional participation with existing budgeted resources.

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

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ncs/jr

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