
By: **Senator Neall**

Introduced and read first time: February 4, 2000

Assigned to: Budget and Taxation

A BILL ENTITLED

1 AN ACT concerning

2 **State Employees - Retirement and Pensions - Postretirement Health**
3 **Funding System**

4 FOR the purpose of creating a Postretirement Health Funding System to assist in
5 funding the postretirement health insurance subsidy for State employees;
6 providing a certain method for funding the Postretirement Health Funding
7 System; providing a certain method for the disbursement of funds from the
8 Postretirement Health Funding System; and generally relating to State
9 employees, the State Retirement and Pension System, and the State's
10 postretirement health insurance subsidy.

11 BY repealing and reenacting, with amendments,
12 Article - State Personnel and Pensions
13 Section 21-102 and 21-304
14 Annotated Code of Maryland
15 (1997 Replacement Volume and 1999 Supplement)

16 BY adding to
17 Article - State Personnel and Pensions
18 Section 33-101 to be under the new title "Title 33. Postretirement Health
19 Funding System"
20 Annotated Code of Maryland
21 (1997 Replacement Volume and 1999 Supplement)

22 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
23 MARYLAND, That the Laws of Maryland read as follows:

24 **Article - State Personnel and Pensions**

25 21-102.

26 The State Retirement and Pension System consists of:

27 (1) the Correctional Officers' Retirement System, established on July 1,
28 1974;

- 1 (2) the Employees' Pension System, established on January 1, 1980;
- 2 (3) the Employees' Retirement System, established on October 1, 1941;
- 3 (4) the Judges' Retirement System, which consists of:
- 4 (i) the contributory plan, established on July 1, 1969; and
- 5 (ii) the noncontributory plan, established on April 7, 1904;
- 6 (5) the Legislative Pension Plan;
- 7 (6) the Local Fire and Police System, established on July 1, 1989;
- 8 (7) the Law Enforcement Officers' Pension System, established on July
9 2, 1990;
- 10 (8) the State Police Retirement System, established on July 1, 1949;
- 11 (9) the Teachers' Pension System, established on January 1, 1980;
- 12 (10) the Teachers' Retirement System, established on August 1, 1927;
- 13 [and]
- 14 (11) THE POSTRETIREMENT HEALTH FUNDING SYSTEM, ESTABLISHED
15 ON JULY 1, 2000; AND

16 [(11)] (12) any other system or subsystem that the Board of Trustees
17 administers.

18 21-304.

19 (a) In this section, "State member" does not include a member on whose behalf
20 a participating governmental unit is required to make an employer contribution
21 under § 21-305 or § 21-306 of this subtitle.

22 (b) (1) Each fiscal year, on behalf of the State members of each State system,
23 the State shall pay to the appropriate accumulation fund an amount equal to or
24 greater than the product of multiplying:

25 (i) the aggregate annual earnable compensation of the State
26 members of that State system; and

27 (ii) the sum of the normal contribution rate and the accrued
28 liability contribution rate, as determined under this section.

29 (2) The amount determined under paragraph (1) of this subsection for
30 each State system shall be based on an actuarial determination of the amounts that
31 are required to preserve the integrity of the funds of the several systems using:

32 (i) the entry-age actuarial cost method; and

1 (ii) actuarial assumptions adopted by the Board of Trustees.

2 (3) For the purpose of making the determinations required under this
3 section:

4 (i) the Employees' Retirement System and the Employees' Pension
5 System shall be considered together as one State system; and

6 (ii) the Teachers' Retirement System and the Teachers' Pension
7 System shall be considered together as one State system.

8 (c) (1) As part of each actuarial valuation, the actuary shall determine the
9 normal contributions, net of member contributions, on account of the State members
10 of each State system.

11 (2) For each State system, the normal contribution rate equals the
12 fraction that has:

13 (i) as its numerator, the sum of the normal contributions
14 determined under this subsection; and

15 (ii) as its denominator, the aggregate annual earnable
16 compensation of the State members of the State system.

17 (d) (1) For each State system, the accrued liability contribution rate shall be
18 computed as the percent of the aggregate annual earnable compensation of the State
19 members of that State system that is sufficient to liquidate over 40 years beginning
20 July 1, 1980, the amount, as of June 30, 1980, by which the total liabilities of that
21 State system on account of State members exceeded the sum of:

22 (i) the assets of the accumulation fund and the annuity savings
23 fund of that State system, other than assets to the credit of the participating
24 governmental units; and

25 (ii) the present value of future normal contributions and future
26 member contributions to that State system on behalf of or by State members.

27 (2) On the recommendation of the actuary, the Board of Trustees may
28 adjust the accrued liability contribution rates to reflect, over the greater of 15 years or
29 the time remaining to amortize the accrued liability:

30 (i) experience gains and losses; and

31 (ii) the effect of changes in actuarial assumptions.

32 (3) Except as provided in paragraphs (4) and (5) of this subsection, if the
33 accrued liability is increased by legislation enacted after July 1, 1980, the additional
34 liability shall be funded over 30 years beginning on July 1 coincident with or next
35 following the effective date of the increase.

1 (4) If the accrued liability is increased by legislation that provides for
2 early retirement of State employees, the additional liability shall be funded over a
3 period of 5 years beginning on:

4 (i) July 1, 1997 for legislation effective June 1, 1996; and

5 (ii) July 1, 1998 for legislation effective June 1, 1997.

6 (5) If the accrued liability is increased by legislation effective July 1,
7 1998, that provides for changes in the method of computing the retirement allowance
8 of members of the Employees' Pension System or the Teachers' Pension System, the
9 additional liability shall be funded over a period of 20 years beginning on July 1,
10 1999.

11 (6) If the accrued liability is increased by legislation effective June 1,
12 1998, that provides for the early retirement of employees of the University System of
13 Maryland who are members of the Employees' Pension System or the Employees'
14 Retirement System, the additional liability shall be determined by the actuary and
15 funded over a period of 5 years beginning on July 1, 1999 by payment of an annual
16 accrued liability contribution by the University System of Maryland and the Medical
17 System as provided in § 21-307(i) and (j) of this subtitle.

18 (E) EACH FISCAL YEAR, ON BEHALF OF EACH REGULAR STATE EMPLOYEE,
19 THE STATE SHALL PAY TO THE ACCUMULATION FUND OF THE POSTRETIREMENT
20 HEALTH FUNDING SYSTEM AN AMOUNT SPECIFIED IN TITLE 33 OF THIS ARTICLE.

21 TITLE 33. POSTRETIREMENT HEALTH FUNDING SYSTEM.

22 33-101.

23 (A) THERE IS A POSTRETIREMENT HEALTH FUNDING SYSTEM.

24 (B) THE SYSTEM SHALL BE ESTABLISHED IN ACCORDANCE WITH § 401(H) OF
25 THE INTERNAL REVENUE CODE.

26 (C) THE PURPOSE OF THE POSTRETIREMENT HEALTH FUNDING SYSTEM IS TO
27 ASSIST THE STATE IN FINANCING THE POSTRETIREMENT HEALTH INSURANCE
28 SUBSIDY, AS SPECIFIED IN § 2-508 OF THIS ARTICLE.

29 (D) FOR FISCAL YEAR 2001 AND EACH FISCAL YEAR THROUGH FISCAL YEAR
30 2010, ON BEHALF OF ALL REGULAR STATE EMPLOYEES, THE STATE SHALL PAY TO
31 THE ACCUMULATION FUND OF THE POSTRETIREMENT HEALTH FUNDING SYSTEM
32 AN AMOUNT EQUAL TO OR GREATER THAN THE LESSER OF:

33 (1) 13% OF THE AGGREGATE ANNUAL EARNABLE COMPENSATION OF
34 ALL REGULAR STATE EMPLOYEES; OR

35 (2) EXCEPT AS PROVIDED IN SUBSECTION (E), THE DIFFERENCE
36 BETWEEN THE TOTAL STATE CONTRIBUTIONS UNDER § 21-304(B) OF THIS ARTICLE
37 FOR THE CURRENT FISCAL YEAR AND THE PREVIOUS FISCAL YEAR.

1 (E) FOR A FISCAL YEAR IN WHICH CURRENT STATE CONTRIBUTIONS UNDER §
2 21-304(B) ARE LESS THAN OR EQUAL TO THE CONTRIBUTIONS UNDER THAT SECTION
3 FOR THE PREVIOUS FISCAL YEAR, THE STATE IS NOT OBLIGATED TO MAKE ANY
4 CONTRIBUTION TO THE POSTRETIREMENT HEALTH FUNDING SYSTEM.

5 (F) THE ASSETS OF THE POSTRETIREMENT HEALTH FUNDING SYSTEM SHALL
6 BE INVESTED IN THE SAME MANNER AS THOSE OF THE OTHER SYSTEMS OF THE
7 STATE RETIREMENT AND PENSION SYSTEM.

8 (G) FOR FISCAL YEAR 2001 THROUGH FISCAL YEAR 2010, NO PAYMENTS MAY
9 BE MADE FROM THE ACCUMULATION FUND OF THE POSTRETIREMENT HEALTH
10 FUNDING SYSTEM.

11 (H) FOR FISCAL YEAR 2010 AND EACH FISCAL YEAR THEREAFTER, THE STATE
12 RETIREMENT AND PENSION SYSTEM SHALL TRANSFER TO THE STATE FOR THE SOLE
13 PURPOSE OF ASSISTING IN THE PAYMENT OF THE STATE'S POSTRETIREMENT
14 HEALTH INSURANCE SUBSIDY THE LESSER OF:

15 (1) ONE-QUARTER OF THE PRIOR YEAR'S INVESTMENT GAINS OF THE
16 POSTRETIREMENT HEALTH FUNDING SYSTEM TO THE GENERAL FUND; OR

17 (2) THE AMOUNT NECESSARY TO PAY THE ANNUAL HEALTH INSURANCE
18 PREMIUMS AND OTHER COSTS THAT CONSTITUTE THE STATE'S POSTRETIREMENT
19 HEALTH INSURANCE SUBSIDY SPECIFIED IN § 2-508 OF THIS ARTICLE.

20 (I) IF FOR ANY REASON THE STATE DISCONTINUES THE POSTRETIREMENT
21 HEALTH INSURANCE SUBSIDY SPECIFIED IN § 2-508 OF THIS ARTICLE OR A
22 SUCCESSOR SUBSIDY, THE ASSETS OF THE POSTRETIREMENT HEALTH FUNDING
23 SYSTEM SHALL BE TRANSFERRED TO THE STATE RETIREMENT AND PENSION
24 SYSTEM AND DISTRIBUTED AMONG ITS REMAINING SYSTEMS BASED ON THE
25 PERCENTAGE OF STATE EMPLOYEES, FORMER STATE EMPLOYEES, AND STATE
26 EMPLOYEE RETIREES IN EACH SYSTEM.

27 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
28 June 1, 2000.