

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1111 (Delegate Walkup. *et al.*)

Appropriations

**Kent County Board of Education - Participation by Supportive Service Employees
in Employees' Pension System**

This pension bill includes the supportive service employees of the Kent County Board of Education in the Employees' Pension System (EPS) of the State Retirement and Pension System (SRPS). Participation by these employees is mandatory. Existing employees will receive service credit for service prior to the effective date as certified by the board of education; employees who become an EPS member after the effective date will not receive past credit.

The bill takes effect June 1, 2000.

Fiscal Summary

State Effect: None. The bill would not directly affect government operations or finances.

Local Effect: Annual pension contributions by the Kent County Board of Education would increase by approximately \$19,400 versus its current plan, depending on the amount of assets transferred from its current pension plan to the EPS.

Small Business Effect: None.

Analysis

Current Law: The Kent County Board of Education has operated a retirement plan for its support staff employees since 1974. The local plan is a contributory defined benefit plan for supportive services personnel who work six hours or more per day. Teachers and other employees eligible for the Teachers' Pension System participate in that subsystem of the

SRPS and the State pays those pension contributions.

Background: The board of education seeks to close its existing plan for support services employees and place its supportive staff in the EPS, as a member of the “municipal pool” of the SRPS. The board of education intends to join the EPS as of July 1, 2000.

A local governmental unit would not ordinarily require legislation to participate in the municipal pool. Because its existing plan has different benefits, rights, and regulations than the EPS, the board of education seeks legislation that would modify certain provisions of State pension law relating to participation of a governmental unit as it relates solely to Kent County’s participation.

First, participation under the bill is mandatory for the support services employees who are employed on the day that the board of education begins participation in the EPS. The board of education preferred that participation be mandatory for existing employees, even though current State law provides that participation is optional for existing employees of newly-participating governmental units. The board of education was concerned that if an existing employee opted not to participate in EPS, he or she would receive no pension at all, because the local plan will be terminated.

Second, members of the existing plan earned 1.25% of average final salary for each year of service. Because the benefit multiplier in the enhanced EPS is 1.2% for all service prior to July 1, 1998, the board of education proposes granting an additional month of service for every 24 months of service credited in the local system. This “extra” service will help equate past service in the new system to the 1.25% benefit of the former system. While this issue is not specifically addressed in the bill, the bill provides that the transferring employees receive prior credit as certified by the board of education, and it is assumed that the board of education will factor the additional credit into its certification. Because the board bears its own costs as a participant in the municipal pool, there is no impact on the SRPS or on other participating governments because of this adjustment.

The third issue relates to part-time employees. The local plan currently excludes all employees who traditionally worked less than six hours per day. These part-time employees have not contributed to or participated in the local plan. To provide them with retroactive service credits for participation, as State law requires, would be inequitable to the employees who have paid contributions to the local plan. The bill provides that employees who were not members of the local plan as of the effective date of participation may not claim prior service credit; their participation will be prospective only.

Local Expenditures: The board of education currently has 62 support service employees (53 full-time and nine part-time) with a total estimated payroll of \$1.3 million. Based on the 1998 municipal valuation, the State’s actuary estimates that the board of education will be

required to contribute \$162,539 to the EPS beginning in fiscal 2001, and increasing 5% per year based on actuarial assumptions. This amount is based on a 3.7% base municipal contribution rate (as a percentage of salary), a 2.42% of salary surcharge for participating in the enhanced version of the EPS, and \$80,542 in amortization payments for the liabilities associated with the prior service being transferred to the municipal pool.

To the extent that the board of education transfers assets from its local plan to the municipal pool, the unfunded liabilities and corresponding amortization payments will decline. The board of education advises that it intends to transfer approximately \$800,000 in assets, which would reduce its amortization payment to the EPS to \$22,950 and its total annual contribution to \$104,947, or approximately 7.8% of salary.

These pension contributions to the EPS would be offset by the discontinued payments by the board of education to its current plan. The board of education advises that, if it continued to operate to its local plan, it would contribute \$85,562 in fiscal 2001. Based on the board of education's projections regarding the asset transfer, its annual employer contributions would therefore be \$19,385 higher under the EPS versus its current plan.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 1, 2000
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