

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE

Senate Bill 681 (Senator Conway)

Budget and Taxation

Optional Defined Contribution System - Eligibility

This pension bill allows members of the Employees' Retirement System (ERS) and the Correctional Officers' Retirement System (CORS) to participate in the State's \$600 deferred compensation matching program. The bill phases in eligibility for the matching program for these groups over three years based on salary.

The bill takes effect on June 1, 2000, with the first group of eligible employees receiving their match beginning July 1, 2000.

Fiscal Summary

State Effect: State expenditures (all funds) for the deferred compensation matching program would increase by \$1.8 million in FY 2001, increasing in FY 2002 and 2003 as the eligibility for the program expands. Revenues would not be affected.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
All Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	1,079,600	2,159,100	3,238,700	3,238,700	3,238,700
SF Expenditures	359,900	719,700	1,079,600	1,079,600	1,079,600
FF Expenditures	359,900	719,700	1,079,600	1,079,600	1,079,600
Net Effect	(\$1,799,300)	(\$3,598,600)	(\$5,397,800)	(\$5,397,800)	(\$5,397,800)

*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.

Analysis

Current Law: For State employee members of the Employees' Pension System (EPS, or "new" system), the State provides an employer match of up to \$600 per fiscal year to a member's deferred compensation plan. The match was enacted as part of the comprehensive pension reform under Chapter 530 (HB 987) of 1998. The only EPS members not currently eligible for the match are those EPS members who were originally ERS (or "old" system) members who transferred to the EPS after April 1, 1998. EPS members who are employees of a participating or withdrawn local government are also not eligible for the State-funded match.

ERS (or "old" system) members are generally not eligible for the match, except those ERS members who have elected Selection C (bifurcated benefit), under which they are essentially accruing EPS benefits on current service. CORS members are not eligible for the match.

Bill Summary: The bill allows members of the ERS, CORS, and currently excluded State members of EPS to participate in the State's \$600 deferred compensation matching program. The bill phases in eligibility for the matching program for these groups based on salary. Approximately one-third of the newly-covered employees who have the lowest salaries would become eligible on or after July 1, 2000. The second third would become eligible on or after July 1, 2001. The remainder would become eligible on or after July 1, 2002. Once an employee becomes eligible, the employee will remain eligible (regardless of any change of salary) so long as the member was employed in one of the eligible pension systems.

Background: The match for State EPS members took effect July 1, 1999. Approximately 49,000 State EPS members are eligible for the match, of whom approximately two-thirds, or about 33,000, are receiving the match, as illustrated below in **Exhibit 1**.

Exhibit 1

Deferred Compensation Matching Program Participation At Various Points in Time

	<u>July 15, 1998</u>	<u>Dec. 30, 1998</u>	<u>June 30, 1999</u>	<u>Aug. 31, 1999</u>	<u>Nov. 30, 1999</u>
Total Employees					
Eligible	46,750	47,264	48,105	49,128	49,128
Total Participation	15,000 (est.)	20,501	25,671	32,160	33,094
Percent Participation	33% (est.)	43%	53%	65%	67%

Note: Program open to Employees' Pension System members only. Participation may be in any of the three payroll plans, but most new enrollees have selected 401(k).

Source: PEBSCO

Legislative Services currently forecasts that participation will reach 78% by the end of fiscal 2000, and increase to the 85% equilibrium rate during fiscal 2001.

State Expenditures: There are currently 10,584 ERS and CORS members (approximately 40% ERS and 60% CORS). **Exhibit 2** shows the breakdown by salary.

Exhibit 2

<u>Salary Range</u>	<u>Active Members: ERS and CORS</u>
\$1 to \$25,000	883
\$25,000 to \$30,000	1,712
\$30,001 to \$35,000	4,183
\$35,001 to \$40,000	1,578
\$40,001 to \$45,000	1,019
\$45,001 and up	1,209
Total	10,584

Source: State Retirement Agency

Based on these brackets, and assuming a uniform distribution of salaries within the brackets, Legislative Services roughly estimates the following three tiers based on salary level:

Exhibit 3

Salary Range

First Third	\$1 to \$31,000
Second Third	\$31,001 to \$35,000
Final Third	\$35,001 and up

Source: Department of Legislative Services

The actual three tiers of salary levels would be determined by the Central Payroll Bureau and the Supplemental Retirement Plans based on information provided by the State Retirement Agency.

Given the existing awareness among State employees and the Supplemental Retirement Plans' experience in implementing the matching program for EPS members, it is assumed that participation in the program will reach the 85% equilibrium rate in the first year for each tier of members. The fiscal impact is summarized below in **Exhibit 4**.

Exhibit 4

	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>
First Third	\$1,799,280	\$1,799,280	\$1,799,280	\$1,799,280	\$1,799,280
Second Third	-	1,799,280	1,799,280	1,799,280	1,799,280
Final Third	-	-	1,799,280	1,799,280	1,799,280
Total	\$1,799,280	\$3,598,560	\$5,397,840	\$5,397,840	\$5,397,840

Source: Department of Legislative Services

While the number of CORS members has increased proportionally with the State's prison system, ERS membership has declined and will continue to do so as members retire from that closed system. Total eligible membership is therefore assumed to be constant. EPS members who transferred from the ERS after April 1, 1998, total less than ten employees and would not significantly impact the estimates above. It is assumed that the personnel costs eligible under the bill would be associated 60% general funds, 20% special funds, and 20% federal funds.

The Supplemental Retirement Plans can implement the matching program with existing resources; however, the agency would rely on the Central Payroll Bureau or the State Retirement Agency to determine eligibility based on salary. The State Retirement Agency and Central Payroll both advise that the bill does not give sufficient guidance in determining eligibility. The retirement agency advises that its payroll data lag that of Central Payroll by

approximately six weeks, while Central Payroll advises that the technical requirements would not allow it to determine eligibility by the required deadline.

Additional Comments: Federal pension law generally follows the principle of “antidiscrimination,” which means that pension provisions may not favor more highly paid employees. Because this proposal favors lower paid employees by making them eligible first, it appears that the proposal would comply with federal law, but an Attorney General’s opinion may be advisable prior to implementation.

Additional Information

Prior Introductions: SB 437 of 1999, a similar bill, received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: None.

Information Source(s): Comptroller’s Office (Central Payroll Bureau), State Retirement Agency, Supplemental Retirement Plans, Department of Legislative Services

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