

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE

House Bill 362 (Delegate Doorv. *et al.*)

Appropriations

**Employees' Pension System - Retired Employees of the University of Maryland
 Medical System Corporation - Cost-of-Living Adjustment**

This pension bill increases the cost-of-living allowance (COLA) for members of the Employees' Pension System who are retirees of the University of Maryland Medical Corporation, from a 3% simple COLA to a 3% compound COLA.

The bill takes effect July 1, 2000, and is retroactive to July 1, 1998.

Fiscal Summary

State Effect: Total increase in pension normal costs and liabilities of \$3.1 million, resulting in annual pension expenditures by the University of Maryland Medical System (UMMS) (off-budget private corporation) of \$201,500 in FY 2002, increasing 5% per year based on actuarial assumptions.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
UMMS Revenues	\$0	\$0	\$0	\$0	\$0
UMMS Expend.	0	201,500	211,600	222,100	233,300
Net Effect	\$0	(\$201,500)	(\$211,600)	(\$222,100)	(\$233,300)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law and Background: In 1984, the UMMS was “privatized.” In 1989, State employees who had worked for the University Hospital when that agency was part of State government were offered an incentive program by UMMS to switch from State employment to corporate employment (UMMS-C, for short). As part of that incentive program, those employees who switched remained members of the State Retirement and Pension System (as part of a closed group), with UMMS treated as a withdrawn governmental unit and paying the appropriate pension liabilities for these employees. In short, these members remained in the Employees’ Pension System (EPS) or the Employees’ Retirement System (ERS), but as the employees of a withdrawn employer.

Those employees who did not elect to participate in the incentive program remained State employees (UMMS-S for short) and active members of their respective State pension system (either the EPS or the ERS) under the University of Maryland while working for UMMS.

UMMS-C members of the EPS receive the pre-enhancement, two-tiered pension benefit formula and retirees receive a 3% simple COLA. These UMMS-C members, like employees of withdrawn governmental units, are not eligible for either the pension enhancement under Chapter 530 of 1998 (HB 987), which granted a 3% compound COLA to retirees of the EPS. Nor were they eligible for the early retirement incentive under Chapter 347 of 1996 for State employees (SB 1) and Chapter 675 of 1998 (HB 199) for other University of Maryland and UMMS-S personnel.

A compound COLA bases the annual adjustment on the prior year’s benefit while a simple COLA bases the annual adjustment on the member’s initial benefit.

State Expenditures: There are currently 527 UMMS-C active employees who are EPS members and another 535 former vested members and 217 retirees. The State’s actuary estimates the present value of the additional future liabilities for granting the compound COLA to be \$3.1 million. Amortizing these costs over 20 years would result in a first year amortization payment of \$201,495 in fiscal 2002, increasing by 5% per year based on actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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