Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 812 (Delegates Elliott and Getty)
Appropriations

State Retirement and Pension System - Estimates of Benefits

This pension bill provides that if the board of trustees of the State Retirement and Pension System (SRPS) or the State Retirement Agency provides an estimate of retirement benefits as a part of its counseling within a year before retirement and the actual benefit is lower than the estimate by more than 1%, the retiree is entitled to receive an allowance that equals the estimate.

The bill takes effect July 1, 2000, and is retroactive to apply to retirees who retired on or after January 1, 1999.

Fiscal Summary

State Effect: The State Retirement Agency's administrative expenses (special funds) could increase by $156,900 in FY 2001 for additional staff to audit benefit estimates. Future year growth reflects annualization and salary growth. State pension contributions (all funds) could increase by up to $175,000 each year beginning in FY 2002 and increasing cumulatively, depending on the number of cases in which benefit estimates exceed actual benefits.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
SF Revenues	$0	$0	$0	$0	$0
SF Expenditures	156,900	187,100	195,900	205,100	214,700
Net Effect	($156,900)	($187,100)	($195,900)	($205,100)	($214,700)

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

Local Effect: Increase in pension contributions for local governmental units that participate in the State Retirement and Pension System, depending on the additional amount of benefits paid.

Small Business Effect: None.

Analysis

Current Law: The State Retirement Agency pays death, disability, and retirement benefits in accordance with the State laws that govern the various systems within the State Retirement and Pension System (SRPS). If the retirement agency errs in calculating the amount of benefit due the members and beneficiaries of the various systems, then pension law requires that the agency correct the error and adjust the benefits accordingly.

State Expenditures: The State Retirement Agency calculates about 10,000 benefit estimates for its members each year. The agency advises that it is aware of fewer than three members whose benefit estimates differed by more than 1% from their actual retirement benefit. (There may be additional members whose benefit differed by more than 1% but who did notify the agency of the difference.)

Assuming that one-half of 1% of benefit estimates differ by 1%, then the SRPS would be required to pay the estimated benefit rather than the actual benefit in approximately 50 cases each year. It should be noted that these instances would include not only errors by the agency, but also situations in which the member's circumstances changed during the period between the benefit estimate and actual retirement.

The fiscal impact of the bill would arise from two sources.

Administrative Expenses

First, the agency advises that to avoid additional payments under the bill's provisions, it would require additional staff and resources to audit benefit estimates before they are given to members. This would require confirmation of the member's personal information and multiple checks of the retirement counselor's calculations. (The agency is currently in the midst of an upgrade to a new computer system; in the meantime, many calculations are done manually.) Legislative Services estimates that based on 10,000 estimates a year, the agency would need four additional auditors to confirm the accuracy of benefit estimates.

Special fund expenditures could increase by an estimated $156,900 in fiscal 2001, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring the four additional auditors (assuming Grade 15) to perform the audits of estimates. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Actuarial Costs

If the SRPS is required to provide a benefit based on a benefit estimate that is higher than the actual retirement benefit earned, there will be a resulting increase in actuarial liabilities for the SRPS. The amount of such increase in liabilities cannot be reliably estimated at this time and would depend on the number of applicable cases and the amount of additional liabilities in each case. The bill has not been presented to the State's actuary for a formal valuation. Informally, however, the State's actuary advises that in one actual instance, the benefit estimate overestimated actual benefits by approximately $50,000, expressed as the net present value of the liabilities associated with the difference in benefits. Amortizing these liabilities over 19 years (from fiscal 2002 to fiscal 2020) would result in additional amortization annual payments by the State of approximately $3,500 beginning in fiscal 2002 and increasing 5% per year thereafter based on actuarial assumptions.

If there were 50 cases a year, State pension contributions could increase by $175,000 per year for those cases, plus the accumulation of the additional contributions of all the prior year cases. With the additional auditors, the number of cases resulting from agency errors should be reduced. It should be noted, however, that the auditors would only be able to identify agency errors; they would not be able to prevent circumstances in which incorrect information is given to the agency for the benefit estimate or in which the member's situation changed between the estimate and retirement.

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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