

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE
Revised

House Bill 224 (Chairman, Appropriations Committee)
 (Departmental - University System of Maryland)

Appropriations

**Optional Retirement Program - Employer Contribution Rate and Mandatory
 Employee Contributions**

This departmental pension bill increases the State employer contribution for participants in the Optional Retirement Program (ORP), primarily higher education faculty members. The contribution increases from 7.25% to 9.25% of salary. The bill also requires these ORP members to contribute 2% of salary as a member contribution.

The bill takes effect January 1, 2001 and applies to faculty at the University System of Maryland, its constituent institutions, Baltimore City Community College, and Morgan State University as of that date. ORP members at St. Mary's College, the Maryland Higher Education Commission, and other community colleges would receive the increase as of July 1, 2001.

Fiscal Summary

State Effect: Retirement expenditures would increase by \$4.8 million in FY 2001, of which approximately \$3.4 million is general funds. Future year expenditure growth reflects inclusion of the additional institutions and actuarially assumed payroll growth.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
GF Expenditures	(3.4)	(9.0)	(9.4)	(9.9)	(10.4)
Other Higher Ed. Exp.	(1.4)	(3.1)	(3.2)	(3.4)	(3.5)
Net Effect	(\$4.8)	(\$12.1)	(\$12.7)	(\$13.3)	(\$14.0)

*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: The University System of Maryland has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: The State contributes 7.25% of earnable compensation on behalf of participants in the Optional Retirement Program. An individual is eligible to participate in the ORP if the individual is eligible for membership in a retirement system or a pension system and is:

- (1) a member of the faculty of an employing institution;
- (2) a professional employee at a community college or regional community college established under Title 16 of the Education Article;
- (3) an employee of the University System of Maryland who is not in a position designated to be treated in the same manner as a classified service employee under Section 12-111 of the Education Article;
- (4) an employee of Morgan State University who is not subject to the provisions of Division I of the State Personnel and Pensions Article; or
- (5) an employee of St. Mary's College of Maryland who is in a position determined by the Board of Trustees of the College to be a professional or faculty position.

A member may elect to participate in the ORP or the appropriate State pension system (usually, the Teachers' Pension System, but in some cases the Employees' Pension System).

Background: The ORP is a defined contribution pension system. The State's liability is limited to its annual employer contribution. Investment decisions are made by the member, who absorbs the risk of adequacy of benefit at retirement.

The State currently contributes 7.25% of salary on behalf of all participants in the ORP, with no mandatory member contribution. By comparison to the State's defined benefit systems, the State contributes 5.71% of salary on behalf of members of the Employees' Pension System and 10.95% of salary on behalf of members of the Teachers' Pension System. (Both of these contribution rates include unfunded liability costs associated with the pre-1980 retirement systems, which do not apply to the ORP.)

The State's ORP is similar in structure to that offered by other states. Traditionally, higher education faculty members, who may change employers several times during a career, have preferred defined contribution plans because they provide for greater portability. The majority of new faculty members select the ORP. (This is less true at the community colleges, where faculty often remain at one institution for their career).

The following table lists the employer and member contributions of neighboring public higher education institutions:

<u>Jurisdiction</u>	<u>Employer Contribution</u>	<u>Employee Contribution</u>
Maryland	7.25%	---
New Jersey	8%	5%
Delaware	11%	4%
Pennsylvania	9.29%	5%
West Virginia	6%	8%
Virginia	10.4%	---

State Expenditures: Expenditures by the university system and its constituent institutions would increase by approximately \$4.8 million in fiscal 2001, reflecting the January 1 implementation date as illustrated below (in millions):

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
University System of Maryland	\$4.67	\$9.80	\$10.29	\$10.80	\$11.35
Baltimore City Community College	.03	.06	.06	.06	.06
Morgan State University	.09	.20	.21	.22	.23
MHFC	-	.02	.02	.02	.02
St. Mary's College	-	.20	.21	.22	.23
Community Colleges	-	1.79	1.88	1.97	2.07
Total	\$4.79	\$12.06	\$12.66	\$13.30	\$13.96

Numbers may not total due to rounding.

It is not possible to determine the exact proportion attributable to State general funds. It is assumed that 70% of personnel costs are associated with State general funds and the other 30% with other restricted and unrestricted funding sources at the university system institutions, Morgan State University, and St. Mary's College. The additional personnel costs

are assumed to be 100% general funds at the community colleges and MHEC. Future year expenditures reflect annualization and 5% payroll growth. This estimate is based on actuarial assumptions that reflect increases in both salaries and headcount.

The university system advises that funds will be reallocated within the institutions' fiscal 2001 budgets to fund this increase.

The Comptroller's Office advises that it will require \$34,300 in one-time data processing costs to alter the contribution rate for the eligible ORP members. Legislative Services believes that while there will be some minor additional programming costs, these costs can be absorbed with existing resources.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): University System of Maryland, Department of Legislative Services

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