Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 674 (Delegates Turner and Arnick)
Appropriations

Employees' and Teachers' Pension System - Eligibility Service for Prior Service

This pension bill provides that a former member of the Employees' Pension System (EPS) or Teachers' Pension System (TPS) is entitled to pension service credit for prior service on or before June 30, 1998, if the former member returns to employment and becomes a member who is subject to the contributory EPS or TPS on or before June 30, 2003.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: Increase in pension liabilities of $15.6 million, resulting in increased employer pension contributions of $1.1 million in FY 2002, increasing in future years based on actuarial assumptions. Revenues would not be affected.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
All Revenues	$0	$0	$0	$0	$0
GF Expenditures	0	868,900	912,400	958,000	1,039,400
SF Expenditures	0	97,200	102,100	107,200	112,500
FF Expenditures	0	97,200	102,100	107,200	112,500
Net Effect	$0	($1,063,300)	($1,116,500)	($1,172,300)	($1,264,400)

Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect
Numbers may not total due to rounding.

Local Effect: Contributions by local government units that participate in the State Retirement and Pension System (SRPS) and that elected the enhancement could increase in aggregate by $127,000 per year, based on an increase in liabilities of $1.8 million.

Small Business Effect: None.

Analysis

Current Law and Background: Chapter 530 of 1998, the pension enhancement legislation, specified that members who had left employment prior to July 1, 1998, did not receive the pension enhancement provided under the legislation. Some of these former members have since returned to State or local employment and have been enrolled in the contributory EPS or TPS. Under current law, when these former vested members return to employment with the State or other participating employers, they cannot combine their previous and new service credits.

Current law affects returning former vested members in two ways. First, the average final compensation used for their first block of service will be based on their salary at their first termination, which would presumably be lower than their average final compensation at final retirement. Prior to the pension system enhancement, members could combine their blocks of service and apply their "final" average final compensation.

Second, the pension enhancement provided 1.2% of average final compensation for service before June 30, 1998. Previously, the formula was integrated with Social Security, but calculated in such a way that it provided approximately 1% of average final compensation for most members, and the calculated benefit was declining each year. This phenomenon will likely continue for all former vested members, including those who return to employment with the State or a participating employer.

State Expenditures: The bill applies to former employees who were participants in the EPS or TPS prior to enhancement and who return to the enhanced EPS or TPS on or before June 30, 2003. These former members may or may not have vested (i.e., worked more than five years) during their first stretch of employment. It is assumed that there is minimal fiscal impact from granting previous service to nonvested members because they will receive less than five years of previous service credit at the new formula (on average a year or two). Moreover, as the period from June 30, 1998, recedes, fewer such employees will return to employment.

Granting previous credit to vested members, however, will have an actuarial impact because the benefit for the vested member's former service will be at a higher accrual rate and will be based on a higher average final compensation. Because the actuary's valuation already reflects the cost of providing the higher average final compensation, that cost is not included in this estimate.

The State's actuary, Milliman & Robertson, estimates that providing the higher accrual rate on past service to former vested members who return to State employment will increase State pension liabilities by $15.6 million. These additional liabilities are amortized over 19 years (from fiscal 2002 through fiscal 2020), resulting in a first-year amortization payment of $1.1 million in fiscal 2002 and increasing 5% per year thereafter based on actuarial assumptions.

These estimates are based on the assumption that in fiscal 2000, 398 former vested members of the TPS will return to employment and receive credit for service before July 1, 1998, and 276 former vested State employee members of the EPS will return and receive similar credit. Each year thereafter, it is assumed that 20% fewer teachers and State employees will return to employment with service prior to July 1, 1998 -- cutting off at June 30, 2003.

Of the $1.1 million in additional amortization payments, it is assumed that 100% of the TPS costs are general funds and 60% of the EPS costs are general funds. Twenty percent of the EPS costs are assumed to be special funds and 20% federal funds.

The State Retirement Agency advises that to implement the bill's changes, it will require an additional $20,000 in administrative expenses for combining accounts. Legislative Services believes this estimate to be excessive and advises that the agency can implement these changes with existing resources. Legislative Services notes that the agency had previously implemented related provisions for the EPS and TPS before these provisions were inadvertently deleted.

Local Expenditures: For local governments that participate in the SRPS and elected the enhancement, pension liabilities could increase by $1.8 million, resulting in additional amortization payments of $127,000 beginning in fiscal 2002 and increasing 5% per year thereafter based on actuarial assumptions. It is not possible to allocate these additional costs among the participating local governments at this time.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 28, 2000
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