Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 1297 (Delegate Rawlings, *et al.*)
Appropriations

Teachers' Retirement and Pension Systems - Employment by Private Contractors

This pension bill allows a member of the Teachers' Retirement System (TRS) or the Teachers' Pension System (TPS) who is hired by a third-party contractor to work in a reconstituted school to withdraw his or her previous member contributions while employed by the contractor. The member could redeposit those contributions (plus regular interest) if the member returns to employment with a board of education. Upon redeposit, the member would receive credit for the prior service accompanying those contributions. These members could also purchase up to five years of service credit for employment with the private contractor.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: State pension liabilities could increase by $4.0 million as a result of less-than-full cost pension service purchases, resulting in additional State pension contributions of $271,000 in FY 2002, and increasing thereafter based on actuarial assumptions.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	$0	$0	$0	$0	$0
GF Expenditures	0	271,000	284,600	298,800	313,700
Net Effect	$0	($271,000)	($284,600)	($298,800)	($313,700)

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

Local Effect: None. Teacher pension costs are borne by the State.

Small Business Effect: None.

Analysis

Bill Summary: Members of the TRS or TPS who are employees of the new Baltimore City Board of School Commissioners or a board of education and are hired by a third- party contractor to work in a school that is reconstituted by order of the Maryland State Board of Education may:

- withdraw their accumulated contributions at any time that they are employed by the third-party contractor to work in a school that is reconstituted by order of the Maryland State Board of Education;

- be reinstated as members of their respective systems (even though TRS is currently a closed system) if they are rehired by the new Baltimore City Board of School Commissioners or a county board of education at any time while the order of reconstitution remains in effect or at the termination of the contract with the third-party contractor;

- restore any prior service credit to which the individuals were entitled by redepositing the withdrawn accumulated contributions with interest to date of redeposit, or accept a reduction to their retirement allowances based on the actuarial equivalent of the accumulated contributions withdrawn and not redeposited; and

- purchase, at any time prior to retirement, up to five years of service for their employment with a third-party contractor to work in a school that is reconstituted by order of the Maryland State Board of Education, if they complete a claim form provided by the Board of Trustees and pay in a lump sum the appropriate employee contributions plus 4% interest to date of payment (less than full actuarial cost).

Current Law: Teachers and other educational staff of the public schools throughout Maryland are employees of the local boards of education and are enrolled in the TRS or TPS of the State Retirement and Pension System. The State pays the retirement contributions for these TRS and TPS members.

TRS members are able to withdraw and redeposit contributions, but only if they are vested. Under current rules, vested TPS members may withdraw their contributions and receive a deficiency on their account but would still be considered to be members. Under either the TRS or TPS, members can purchase service credit for certain periods of teaching when they were not TRS or TPS members, but that purchase is limited to ten years and is at full actuarial cost. These provisions cover "nonpublic school" teaching and out-of-state teaching.

Background: On February 1, 2000, the Maryland State Board of Education (MSDE) voted to reconstitute three elementary schools in the Baltimore City Public School System that are not meeting the State's educational standards. MSDE's action is the first time the State has moved to assume the management of a low-performing school since the State began identifying reconstitution-eligible schools in 1994.

MSDE is evaluating three contractors, or third-party administrators, interested in assuming the overall management of a school. MSDE is reviewing the bidders' management plans and is expected to announce a decision shortly. MSDE advises that the contractors are expected to be given an initial five-year contract subject to renewal and will be required at specific intervals to show that the school is making progress toward meeting the State's standards. The contractors will take over the schools on July 1 and will select and employ the teachers and staff for the school. The contractors will be independent employers not subject to existing collective bargaining agreements, but they will be required to follow State regulations regarding teacher certification and background checks. Teachers and staff currently at the schools may apply to remain there. Those not selected may be reassigned to another school by the local school system. The current teachers and staff will continue to operate and work at the schools until the contractor assumes management on July 1.

State Expenditures: The Baltimore City Board of Education advises that there are currently up to 132 teachers and other professional employees in the three schools to be placed under the control of a third-party contractor. It is not known how many of those teachers will remain at those schools and how many will be transferred to other Baltimore City schools.

This bill has not been presented to the State's actuary for a formal valuation. The State's actuary informally estimates that if all 132 teachers' system members are employed with the private contractor for five years and seek to purchase that service, net State pension liabilities will increase by $4.0 million. These liabilities reflect the difference between the full actuarial cost of the service and the amount paid by the member. Amortizing these additional liabilities over 19 years (from fiscal 2002 through fiscal 2020) results in a first- year amortization payment of $271,000 in fiscal 2002, increasing 5% per year based on actuarial assumptions. To the extent that: (1) fewer existing employees are hired by the contractor; (2) the employees are employed with the contractor for less than five years; or (3) the employees do not return to employment with a participating employer or for some other reason do not seek to purchase the service, then the actuarial costs will be lower. Although the less-than-full-cost purchase will not take place for several years, the actuarial liabilities are incurred at the time of the change in law, and the amortization of these liabilities would begin as part of the next actuarial valuation in fiscal 2002.

The proposed withdrawal and redeposit provisions will have a minimal impact because there would be no net loss of employer contributions. The only loss to the State would be the difference between the interest paid by the member (4% for TPS, 5% for TRS) and 8% (the assumed actuarial return). The difference in interest rates on the redeposited member contributions will have a minimal fiscal impact.

Additional Information

Prior Introductions: None.

Cross File: SB 866 (Senators Hoffman and McFadden) - Budget and Taxation.

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

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