Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 348 (Delegate Proctor)
(Chairman, Joint Committee on Pensions)
Appropriations

Retirement and Pensions - Transfers to or from Contributory Employees' Pension System or Teachers' Pension System

This pension bill alters the terms for the transfer of service credit to or from the contributory Employees' Pension System and Teachers' Pension System as it affects employee contributions.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: Minimal reduction in transfers of employee contributions to the State Retirement and Pension System (SRPS) for individuals transferring from a State or local contributory system, resulting in negligible impact on State pension contribution rates.

Local Effect: Minimal increase in transfers of employee contributions to a local contributory system for individuals transferring from the State's Employees' Pension System or Teachers' Pension System, resulting in a minimal reduction in local pension contributions.

Small Business Effect: None.

Analysis

Current Law: Title 37 of the State Personnel and Pensions Article allows members to transfer among public pension plans and receive pension credit in their new system for their service in their old system. Section 37-203(a)(2) of that title, however, requires an individual from one contributory pension system (i.e., a system that requires a member contribution in addition to an employer contribution) to another contributory pension system to transfer all the member's contributions to the new system. Two subsystems of the State Retirement and Pension System (SRPS) -- the Employees' Pension System (EPS) and the Teachers' Pension System (TPS) -- became contributory systems as a result of the 1998 pension enhancement (Chapter 530 of 1998). The enhancement legislation increased the pension formula to 1.4% of average final compensation for each year of service (1.2% for service before July 1, 1998) and requires a 2% contribution as of July 1, 1998.

Background: When Baltimore County child support enforcement workers were transferred to the State Department of Human Resources in 1999, it was not clear whether they were required to transfer all member contributions or only contributions since July 1, 1998, when the EPS became a contributory system. The Baltimore County pension system is independent of the State system and requires a 5% member contribution. It provides a benefit equal to 1.8% of average final compensation times the member's years of service.

The State Retirement Agency initially took the position that because the EPS is now a contributory system, the transferring members must transfer all member contributions. The Baltimore County employees successfully appealed this determination, arguing that they were advised that their transfer from the Baltimore County System to the EPS would require payment of employee contributions only since July 1, 1998, the date employee contributions began for EPS members. The board of trustees of the SRPS is now requiring only that the Baltimore County transferees contribute 2% of earnable compensation since July 1, 1998. All other prior member contributions will be refunded.

The board advises, however, that absent a statutory change, all other transferees, including child support enforcement personnel from Howard County who are to be transferred as of July 1, 2000, will be required to transfer all employee contributions.

Bill Summary: This pension bill alters the terms for the transfer of service credit to or from the contributory EPS and TPS and another State or local pension system.

The bill exempts transfers of service credit to or from the State's contributory Employees' Pension System and Teachers' Pension System from §37-203, which normally governs transfers of employee contributions. Instead, transfers to or from these systems will be governed as follows:

1. Transfers from a contributory system to the contributory EPS or TPS

An individual transferring service credit from a State or local contributory system to the contributory EPS or TPS must contribute 2% of the individual's average final compensation since July 1, 1998, plus regular interest. All other employee contributions are refunded on the individual's request.

2. Transfers from a noncontributory system to the contributory EPS or TPS

An individual transferring service credit from a State or local noncontributory system to the contributory EPS or TPS after June 30, 1998 receives the EPS or TPS benefit for the individual's past service, less an actuarial reduction for the 2% contributions that the individual would have made since July 1, 1998 (plus regular interest). It is assumed, but not stated in the bill, that such an individual could pay the State Retirement and Pension System for the missed contributions and eliminate the actuarial deficiency.

3. Transfers from the contributory EPS or TPS to a noncontributory system

An individual transferring service credit from the contributory EPS or TPS to a State or local noncontributory system receives a refund from the SRPS of the individual's contributions on request.

4. Transfers from the contributory EPS or TPS to a contributory system

An individual transferring service credit from the contributory EPS or TPS to a State or local contributory system must deposit with the new system: (1) all the individual's contributions made to the EPS or TPS; and (2) any other additional payments necessary to make up the difference between what the individual actually contributed and the contributions the individual would have made under the new system for period of service being transferred. If the individual elects not to make the additional payments, the individual's benefit is actuarially reduced.

State Expenditures: Only the bill's first provision has an impact on the SRPS. Under the second and third components of the bill -- involving transfers to or from the EPS or TPS and a noncontributory system -- there is no impact on the SRPS because there is no change to current law. The fourth provision impacts local governments receiving members of the contributory EPS or TPS.

Under the bill's first provision, there will be a small decrease in transfers of employee contributions for individuals transferring from a contributory pension system to the contributory EPS or TPS. For illustrative purposes, assume a Baltimore County system member with 25 years of service and an average salary over that span of $30,000, who would have contributed approximately $72,000, assuming 5% interest. Under the SRPS board's interpretation of current law, the member is required to transfer the $72,000 in contributions to the SRPS. Under the bill, the transferring individual will be required to transfer only what a State employee member of the EPS during the same period making the same salary would have contributed, that is 2% since July 1, 1998, or approximately $1,575. The difference, or $70,425, will be refunded to the individual. It should be noted that individual's contributions in the Baltimore County system would have helped to finance a benefit equal to approximately 45% of average final compensation for 25 years of service versus an EPS benefit of 30.2% of average final compensation for the same service.

For actuarial purposes, only $1,575 in employee contributions is required to finance the member's benefit, so the additional contributions would have been a windfall to the SRPS, but would have had a negligible effect on the State's employer contribution rates. The State Retirement Agency estimates that between 50 and 100 employees transfer to or from the State system to a local system each year.

The agency advises that it will require an additional $30,000 in administrative expenditures to implement this bill associated with contractual personnel and computer programming. Legislative Services believes the agency could implement the bill with existing resources.

Local Expenditures: Under the bill's fourth provision, a local government may actuarially reduce the pension benefit of an individual transferring from the contributory EPS or TPS to the local government's contributory pension system. For illustrative purposes, assume the converse of the scenario above, in which a member of the contributory EPS transfers to Baltimore County after 25 years of service. Under the SRPS board's interpretation of current law, the member is required to transfer only $1,575 and receive the same benefit as a Baltimore County employee who contributed $72,000. Baltimore County is required to absorb the difference. Under the bill, Baltimore County could charge the member for the missed contributions or actuarially reduce the member's benefit, eliminating the actuarial loss for the county.

Additional Comments: The bill does not affect employer pension contributions. Under Title 37, employer assets are not transferred when a member transfers from a State or local public pension system in Maryland.

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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