

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE

House Bill 349 (Delegate Proctor)
 (Chairman, Joint Committee on Pensions)

Appropriations

Employees' Pension System - Purchase of Service Credit

This pension bill reduces by one-half the amount that a State employee member of the Employees' Pension System (EPS) must pay to the State Retirement and Pension System (SRPS) when purchasing service credit for previous employment with the State, including contractual service.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: State pension liabilities would increase by \$33 million, resulting in increased employer pension contributions of \$2.2 million in FY 2002 as a result of reducing purchase-of-service costs, increasing 5% per year thereafter based on actuarial assumptions.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Revenues	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
GF Expenditures	0.0	1.3	1.4	1.5	1.5
SF Expenditures	0.0	0.4	0.5	0.5	0.5
FF Expenditures	0.0	0.4	0.5	0.5	0.5
Net Effect	\$0.0	(\$2.2)	(\$2.4)	(\$2.5)	(\$2.6)

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: None.

Analysis

Bill Summary: In the year of retirement, a State employee member of the EPS may purchase credit for eligibility service of up to ten years for periods of employment with the State for which the member is not otherwise entitled to service credit. To purchase service credit under this subsection, a member must pay to the SRPS an amount equal to one-half of the annuity reserve and one-half of the pension reserve required to fund the additional allowance (i.e., one-half of the full actuarial cost).

Current Law: State employees currently may purchase up to ten years of service for prior service in a variety of contexts, including State employment; however, the member must pay the full actuarial cost.

Background: The amount necessary to purchase such credit at full cost can range from a minimal amount to several hundred thousand dollars, depending on the amount of credit being purchased and the additional benefits that will be received based on the additional service. On average, however, the full actuarial cost is between \$20,000 and \$50,000 for purchases of service (which on average range between six months and two years of credit). As a result, of the 1,500 SRPS members who requested estimates for purchases of service in fiscal 1999, only 100 members actually purchased service, of whom 30 are assumed to be State employee members of the EPS.

A report by the Department of Legislative Services examined two circumstances of prior State employment for which a member does not already receive pension service credit, either because: (1) the individual was employed on a contractual basis; or (2) the member terminated employment and forfeited his or her service credit, but later returned to State service.

Contractual Employees

During calendar 1998, the State employed approximately 8,700 contractual employees in various State agencies. This estimate does not include the almost 40,000 contractual employees -- both student and non-student -- employed over the course of a year by State institutions of higher education. Many contractual employees are hired to fill an employer's short-term needs, such as seasonal employment in State recreational facilities. Other contractual employees include State prisoners and mental hospital patients who perform work at those institutions.

During the fiscal crisis of the early 1990s, however, the State virtually halted the creation of new permanent positions and contractual employment was increasingly utilized for functions

that had previously been performed by permanent employees. Contractual employment with State agencies increased from approximately 5,600 in calendar 1986 to a peak of 9,400 in calendar 1994. (The number of permanent employees was essentially flat from 1994 to 1998).

Many of these contractual employees worked for the State for more than one year. As of May 1997, there were 2,592 State contractual employees with one or more years of service (or about 25% of the total contractual employees at the time) and 842 employees with two or more years of service. Several hundred had been in contractual status for four years or more. In response, the General Assembly provided funds in the fiscal 2000 budget for the conversion of approximately 1,461 long-term contractual positions to permanent status and funding for another 651 conversions are included in the Governor's proposed fiscal 2001 budget. This initiative, along with the opening of additional existing permanent positions due to retirement by older State workers and an increase in new permanent positions, have somewhat reduced the number of contractual employees.

While many of these contractual employees eventually became permanent, they do not receive pension credit for the period of their contractual employment. They cannot count this period of service toward their date of retirement eligibility, and it is not factored into the number of years of service for calculating their retirement benefits.

Former Employees' Retirement System Members

Of the 48,000 EPS members, about 10,000 are transferees from the "old" Employees' Retirement System (ERS) to the EPS. Of these transferees, a small minority terminated employment while an ERS member and returned to State service several years later as an EPS member after the ERS closed. Under ERS rules, if an ERS member withdraws his or her contributions, the member forfeits all benefit rights associated with that withdrawn account. There is no statutory provision, however, allowing redeposit of funds in the EPS. In order to receive credit for their prior State service, they must purchase it at full actuarial cost.

State Expenditures:

Contractual Employment

It is not possible to precisely estimate the amount of uncredited State service that EPS members may have because nothing in either their personnel files or their pension records indicates if they were employed by the State prior to becoming permanent employees and EPS members. Using a series of assumptions, it is roughly estimated that members of the EPS may have as many as 198,000 months of uncredited contractual service. This estimate is based on the following assumptions: (1) the 2,600 long-term contractual employees identified

in the Department of Budget and Management report have roughly two and one-half years of contractual service on average; and (2) another 20,000 EPS members have six months of contractual service on average.

Former Employees' Retirement System Members

The precise number of people in this situation cannot be reliably estimated. It is assumed that the group is small, numbering less than 1,000 EPS members. If each of these members has two and one-half years of uncredited service in the ERS, then the total additional uncredited service is 30,000 months.

Actuarial Costs

Despite the substantial amount of uncredited service that EPS members may have, it is assumed that only a small portion of members will take advantage of the reduced cost to purchase service (on the assumption that even if the cost is reduced from \$50,000 to \$25,000, that amount will still be too great for most State employees).

Assuming that purchases of service by State employee members of the EPS double from 30 to 60, and that each purchase is for two years of service credit, the State's actuary informally estimates that pension liabilities will increase by \$33 million. Amortizing these liabilities over 19 years (from fiscal 2002 through fiscal 2020) results in a first-year amortization payment of \$2.2 million in fiscal 2002, increasing 5% per year thereafter based on actuarial assumptions. These increased annual pension contributions are assumed to be associated 60% general funds, 20% special funds, and 20% federal funds.

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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