

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

House Bill 419 (Delegate Proctor)
(Chairman, Joint Committee on Pensions)

Appropriations

State Retirement and Pension System - Administrative Expense Cap

This pension bill increases the maximum spending authority for administrative and operational expenses of the Board of Trustees for the State Retirement and Pension System of Maryland (SRPS) and the State Retirement Agency. The bill expands the base upon which the spending limit is calculated.

The bill takes effect July 1, 2000 and sunsets after June 30, 2003.

Fiscal Summary

State Effect: The bill increases the retirement agency's spending authority to administer the SRPS by \$6.0 million per year. The proposed FY 2001 budget provides that \$2,533,131 of the agency's special fund appropriation is contingent on enactment of this, or similar, legislation revising the limit on administrative and operational expenses.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The board of trustees pays its administrative and operational expenses and those of the State Retirement Agency from the assets of the SRPS. By law, payment of these expenses cannot exceed 0.22% of the payroll of active members.

Bill Summary: Under the bill, the amount of the administrative and operational expenses of

the board of trustees and the State Retirement Agency may not exceed 0.22% of the sum of: (i) the payroll of the members of the State systems; (ii) the allowances of the retirees and surviving beneficiaries of deceased members, former members, or retirees of the State systems; and (iii) the aggregated earnable compensation of the former members of the State systems as of their date of separation from employment.

Background: During the 1999 session, the board of trustees received authority to increase the agency's spending authority for administrative and operational expenses (SB 731, Chapter 595 of 1999). The expenses were increased from 20 basis points (0.2%) to 22 basis points (0.22%) of active payroll (approximately \$6.7 billion), resulting in approximately \$1.3 million in additional spending authority. The prior 20 basis point cap was in effect since 1985; there have been spending caps since the inception of the teachers' and employees' systems.

The growth in the agency's fiscal 2001 administrative expenditures will cause the agency to exceed its statutory spending cap even with the increase under Chapter 595. The agency's fiscal 2001 budget allowance for administrative expenses is \$17.5 million, but the agency's spending authority is only approximately \$15 million. As a result, \$2.5 million of the fiscal 2001 allowance is contingent on enactment of this, or similar, legislation to increase spending authority.

The retirement board initially requested that the Joint Committee on Pensions eliminate the spending cap altogether. The joint committee instead opted to expand the base upon which the statutory cap is calculated, so that it includes not only active payroll, but also the salaries of former vested members and total retirement benefit payments.

State Expenditures: Applying 22 basis points to this larger base, approximately \$9.4 billion, will provide an additional \$6.0 million in spending authority for the agency. (A legislative appropriation is still required for all agency spending.) The agency's \$3.6 million increase in administrative expenditures in fiscal 2001 immediately utilizes more than half of the additional spending authority under this proposed legislation.

The agency would still need a budget appropriation to spend the additional funds.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Retirement Agency, Department of Legislative Services

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