

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

House Bill 509 (Frederick County Delegation)

Appropriations

Frederick County - Employees' Pension System - Contributory Pension Benefit

This pension bill allows employees of Frederick County who are still members of the Employees' Pension System (EPS) to become subject to the contributory and enhanced pension benefit structure. The bill authorizes the purchase of credit for service from July 1, 1998, when the pension system was enhanced, through July 1, 2000. Retirees would receive the 3% compound cost-of-living adjustment (COLA) versus the current 3% simple COLA. Frederick County must pay for the additional pension liabilities that result from the contributory pension benefit according to an amortization schedule approved by the Board of Trustees for the State Retirement and Pension System (SRPS).

The bill takes effect July 1, 2000 but is contingent on approval prior to that date by the Frederick County Board of Commissioners for the participation in the pension enhancement.

Fiscal Summary

State Effect: One-time increase in administrative expenditures (special funds) of approximately \$25,000 for the State Retirement Agency to implement the enhancement for Frederick County.

Local Effect: Additional annual payments by Frederick County of \$395,000 per year to the SRPS for the additional pension normal costs and liabilities of providing the enhancement to Frederick County employees who remain in the SRPS.

Small Business Effect: None.

Analysis

Background and Current Law: Chapter 530 (HB 987) of 1998 enhanced the pension benefit structure of the EPS for State employees and the Teachers' Pension System (TPS), providing a benefit of 1.2% of average final compensation for each year of service before July 1, 1998, and 1.4% of average final compensation for each year thereafter, with a mandatory 2% employee contribution. The COLA was enhanced from a 3% simple COLA to a 3% compound COLA. Chapter 176 of 1999 offered participating local governments in the SRPS the option to provide the enhanced benefit structure, with the employee contribution to their employees.

In addition, there are 29 units of local government that have withdrawn from the EPS of the SRPS. All have retirees and other beneficiaries who are receiving benefits paid by the EPS and almost all continue to have active members in the EPS. On withdrawal, they no longer enrolled new members in the EPS and in many cases gave existing employees the option to stay in the EPS or switch to the new local system. These withdrawn employers do not pay contributions as a percentage of payroll; rather, they make an amortized liability payment annually to the SRPS for their existing active members and retirees. This amortization payment is based on a schedule negotiated with the SRPS and verified by the State's actuary.

Active employees of the withdrawn employer do not receive the enhanced formula. The pre-1998 pension benefit is based on a two-tiered structure that is integrated with Social Security and provides a benefit that averages around 1.0% to 1.1% of average final compensation for each year of service, with a 3% simple COLA. No member contribution is required for salary below the Social Security wage base (currently \$76,200).

State Expenditures: The State Retirement Agency advises that administrative expenses to apply the enhanced benefit structure to the Frederick County employees will increase by approximately \$130,000, for communications costs, a contractual accounting employee, and reprogramming to the agency's existing computer system, plus an additional unspecified amount for contractual services to reprogram the agency's new computer system. Legislative Services believes that this estimate is excessive, given that the agency has stated that: (1) the new computer system will be operational by October 2000; and (2) reprogramming of the new computer system is relatively simple. Legislative Services therefore estimates the one-time administrative costs to be approximately \$25,000.

Local Expenditures: Currently there are 277 remaining active members of the EPS who are employees of Frederick County. The State's actuary estimates the net present value of the additional future normal costs and actuarial liabilities to be \$3.2 million. Amortizing these costs over 13 years (from fiscal 2000 through fiscal 2012) with level payments results in an annual payment of \$395,000 per year. This payment structure corresponds with the amortization schedule of the county's current liabilities with the SRPS. The actuary's estimate is slightly higher than that given to the county by the actuary last fall because of one additional year of liabilities and one less year of amortization.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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