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By: **Senator Kasemeyer (Chairman, Joint Committee on Pensions)**

Introduced and read first time: January 24, 2001

Assigned to: Budget and Taxation

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Committee Report: Favorable with amendments

Senate action: Adopted

Read second time: February 20, 2001

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CHAPTER \_\_\_\_\_

1 AN ACT concerning

2 **Retirement and Pensions - Funding - Accrued Liability**

3 FOR the purpose of altering the amortization period for certain unfunded actuarial  
4 liabilities of the State Retirement and Pension System, including those payable  
5 by participating governmental units; making technical changes; and generally  
6 relating to the amortization period for unfunded actuarial liabilities of the State  
7 Retirement and Pension System, including those payable by participating  
8 governmental units.

9 BY repealing and reenacting, with amendments,  
10 Article - State Personnel and Pensions  
11 Section 21-304 and 21-305.2  
12 Annotated Code of Maryland  
13 (1997 Replacement Volume and 2000 Supplement)

14 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
15 MARYLAND, That the Laws of Maryland read as follows:

16 **Article - State Personnel and Pensions**

17 21-304.

18 (a) In this section, "State member" does not include a member on whose behalf  
19 a participating governmental unit is required to make an employer contribution  
20 under § 21-305 or § 21-306 of this subtitle.

1 (b) (1) Each fiscal year, on behalf of the State members of each State system,  
 2 the State shall pay to the appropriate accumulation fund an amount equal to or  
 3 greater than the product of multiplying:

4 (i) the aggregate annual earnable compensation of the State  
 5 members of that State system; and

6 (ii) the sum of the normal contribution rate and the accrued  
 7 liability contribution rate, as determined under this section.

8 (2) The amount determined under paragraph (1) of this subsection for  
 9 each State system shall be based on an actuarial determination of the amounts that  
 10 are required to preserve the integrity of the funds of the several systems using:

11 (i) the entry-age actuarial cost method; and

12 (ii) actuarial assumptions adopted by the Board of Trustees.

13 (3) For the purpose of making the determinations required under this  
 14 section:

15 (i) the Employees' Retirement System and the Employees' Pension  
 16 System shall be considered together as one State system; and

17 (ii) the Teachers' Retirement System and the Teachers' Pension  
 18 System shall be considered together as one State system.

19 (c) (1) As part of each actuarial valuation, the actuary shall determine the  
 20 normal contributions, net of member contributions, on account of the State members  
 21 of each State system.

22 (2) For each State system, the normal contribution rate equals the  
 23 fraction that has:

24 (i) as its numerator, the sum of the normal contributions  
 25 determined under this subsection; and

26 (ii) as its denominator, the aggregate annual earnable  
 27 compensation of the State members of the State system.

28 (d) BEGINNING JULY 1, 2001, EACH YEAR THE BOARD OF TRUSTEES SHALL SET  
 29 CONTRIBUTION RATES FOR EACH STATE SYSTEM THAT SHALL AMORTIZE ALL  
 30 LIABILITIES ACCRUED:

31 ~~(1) [For each State system, the accrued liability contribution rate shall~~  
 32 ~~be computed] BEFORE JULY 1, 2001 as the percent of the aggregate annual earnable~~  
 33 ~~compensation of the State members of that State system that is sufficient to liquidate~~  
 34 ~~over 40 years beginning July 1, 1980, the amount, as of June 30, 1980, by which the~~  
 35 ~~total liabilities of that State system on account of State members exceeded the sum of:~~

1                   (i)       the assets of the accumulation fund and the annuity savings  
2 fund of that State system, other than assets to the credit of the participating  
3 governmental units; and

4                   (ii)       the present value of future normal contributions and future  
5 member contributions to that State system on behalf of or by State members[.];

6                   (2)       On the recommendation of the actuary, the Board of Trustees may  
7 adjust the accrued liability contribution rates to reflect, over the greater of 15 years or  
8 the time remaining to amortize the accrued liability[.]; AND

9                   (1)       ALL UNFUNDED LIABILITIES OR SURPLUSES ACCRUED AS OF JUNE  
10 30, 2000, OVER 20 YEARS; AND

11                   (2)       ON OR AFTER JULY 1, 2001, OVER 25 YEARS ANY NEW UNFUNDED  
12 LIABILITIES OR SURPLUSES THAT HAVE ACCRUED FROM JULY 1 OF THE PRECEDING  
13 FISCAL YEAR OVER 25 YEARS TO REFLECT:

14                   (i)       experience gains and losses; [and]

15                   (ii)       the effect of changes in actuarial assumptions; AND

16                   (III)      THE EFFECT OF LEGISLATION EFFECTIVE ON OR AFTER JULY 1,  
17 2001.

18                   (3)       [Except as provided in paragraphs (4) and (5) of this subsection, if  
19 the accrued liability is increased by legislation enacted after July 1, 1980, the  
20 additional liability shall be funded over 30 years beginning on July 1 coincident with  
21 or next following the effective date of the increase.

22                   (4)]       If the accrued liability is increased by legislation that provides for  
23 early retirement of State employees, the additional liability shall be funded over a  
24 period of 5 years beginning on:

25                   (i)       July 1, 1997 for legislation effective June 1, 1996; and

26                   (ii)       July 1, 1998 for legislation effective June 1, 1997.

27                   [(5)       If the accrued liability is increased by legislation effective July 1,  
28 1998, that provides for changes in the method of computing the retirement allowance  
29 of members of the Employees' Pension System or the Teachers' Pension System, the  
30 additional liability shall be funded over a period of 20 years beginning on July 1,  
31 1999.

32                   (6)]       (4)       If the accrued liability is increased by legislation effective June  
33 1, 1998, that provides for the early retirement of employees of the University System  
34 of Maryland who are members of the Employees' Pension System or the Employees'  
35 Retirement System, the additional liability shall be determined by the actuary and  
36 funded over a period of 5 years beginning on July 1, 1999 by payment of an annual

1 accrued liability contribution by the University System of Maryland and the Medical  
2 System as provided in § 21-307(i) and (j) of this subtitle.

3 21-305.2.

4 (a) In this section, "employees' systems" means the Employees' Pension  
5 System and the Employees' Retirement System.

6 (b) As part of each actuarial valuation, the actuary shall determine the  
7 accrued liability contributions on account of members of the employees' systems who  
8 are employees of participating governmental units.

9 (c) Except as provided in [subsections] SUBSECTION (d) [and (e)] of this  
10 section, ~~EACH YEAR THE BOARD OF TRUSTEES SHALL SET THE CONTRIBUTION RATE~~  
11 ~~FOR THE PARTICIPATING GOVERNMENTAL UNITS THAT AMORTIZE ALL LIABILITIES~~  
12 ~~ACCRUED BEFORE JULY 1, 2001, [the accrued liability contribution rate for the~~  
13 ~~participating governmental units shall be computed] as the percent of the aggregate~~  
14 ~~earnable compensation of the members of the employees' systems who are employees~~  
15 ~~of participating governmental units that is sufficient to liquidate over 40 years~~  
16 ~~beginning July 1, 1980, the amount, as of June 30, 1980, by which the total liability of~~  
17 ~~the employees' systems on account of participating governmental units exceeded the~~  
18 ~~sum of:~~

19 (1) the assets to the credit of the participating governmental units in the  
20 accumulation fund and the annuity savings fund of the employees' systems; and

21 (2) the present value of future normal contributions, future special  
22 accrued liability contributions, future withdrawal liability contributions, and future  
23 member contributions on behalf of or by members who are employees of participating  
24 governmental units.

25 (d) ~~On the recommendation of the actuary, the Board of Trustees shall adjust:~~

26 (1) ~~the amount determined under subsection (c)(1) of this section to~~  
27 ~~account for:~~

28 (i) ~~the sum of the outstanding balance of the surplus allocated to~~  
29 ~~each participating governmental unit under § 21-305.4(b) of this subtitle as of the~~  
30 ~~valuation date; and~~

31 (ii) ~~the sum of the outstanding balance of the deficit allocated to~~  
32 ~~each participating governmental unit under § 21-305.4(c) of this subtitle as of the~~  
33 ~~valuation date; and~~

34 (2) ~~the amount determined under subsection (c)(2) of this section to~~  
35 ~~account for the present value of future contributions for members of the Employees'~~  
36 ~~Retirement System required under § 21-305(b)(2)(iii) of this subtitle.~~

37 (e) ~~[On the recommendation of the actuary, the Board of Trustees may adjust~~  
38 ~~the accrued liability contribution rate to reflect] EACH YEAR THE BOARD OF~~

~~1 TRUSTEES SHALL SET CONTRIBUTION RATES FOR THE PARTICIPATING  
2 GOVERNMENTAL UNITS THAT AMORTIZE ALL LIABILITIES ACCRUED ON OR AFTER~~

~~3 (C) BEGINNING JULY 1, 2001, EACH YEAR THE BOARD OF TRUSTEES SHALL  
4 SET CONTRIBUTION RATES FOR EACH STATE SYSTEM THAT SHALL AMORTIZE:~~

~~5 (1) ALL UNFUNDED LIABILITIES OR SURPLUSES ACCRUED AS OF JUNE  
6 30, 2000, OVER 20 YEARS; AND~~

~~7 JULY 1, 2001 OVER 25 YEARS~~

~~8 (2) ANY NEW UNFUNDED LIABILITIES OR SURPLUSES THAT HAVE  
9 ACCRUED FROM JULY 1 OF THE PRECEDING FISCAL YEAR OVER 25 YEARS TO  
10 REFLECT:~~

~~11 (+) (I) experience gains and losses;~~

~~12 (-) (II) the effect of changes in actuarial assumptions; and~~

~~13 (+) (III) the effect of legislation [enacted after July 1, 1980] EFFECTIVE  
14 ON OR AFTER JULY 1, 2001.~~

15 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect  
16 July 1, 2001.