

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 440 (Delegate Hubers, *et al.*)
Appropriations

Optional Retirement Program - Community Colleges - Employer and Employee Contributions

This pension bill increases the State employer contribution for participants in the Optional Retirement Program (ORP) who are employed by a community or regional community college. The contribution increases from 7.25% to 9.25% of salary as of July 1, 2002. The bill also requires these ORP members to contribute 2% of salary as a member contribution.

Fiscal Summary

State Effect: Retirement expenditures would increase by \$1.9 million beginning in FY 2003, reflecting the July 1, 2002 increase. Future year expenditure growth reflects actuarially assumed payroll growth.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	1.9	2.0	2.1	2.2
Net Effect	\$0	(\$1.9)	(\$2.0)	(\$2.1)	(\$2.2)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None. The State pays the pension costs of local community college faculty members.

Small Business Effect: None.

Analysis

Current Law: The State contributes 7.25% of earnable compensation on behalf of participants in the Optional Retirement Program. Individuals eligible to participate in the ORP include professional employees at a community college or regional community college established under Title 16 of the Education Article. A member may elect to participate in the ORP or the appropriate State pension system (usually, the Teachers' Pension System, but in some cases the Employees' Pension System).

Background: The ORP is a defined contribution pension system. The State's liability is limited to its annual employer contribution. Investment decisions are made by the member, who absorbs the risk of adequacy of benefit at retirement.

The State currently contributes 7.25% of salary on behalf of all participants in the ORP, with no mandatory member contribution. By comparison to the State's defined benefit systems, the State contributes 4.73% of salary on behalf of members of the Employees' Pension System and 9.35% of salary on behalf of members of the Teachers' Pension System. (Both of these contribution rates include unfunded liability costs associated with the pre-1980 retirement systems, which do not apply to the ORP.)

The State's ORP is similar in structure to that offered by other states. Traditionally, higher education faculty members, who may change employers several times during a career, have preferred defined contribution plans because they provide for greater portability. The majority of new faculty members select the ORP. (This is less true at the community colleges, where faculty often remain at one institution for their career.)

The following table lists the employer and member contributions of neighboring public higher education institutions:

<u>Jurisdiction</u>	<u>Employer Contribution</u>	<u>Employee Contribution</u>
Maryland	7.25%	---
New Jersey	8%	5%
Delaware	11%	4%
Pennsylvania	9.29%	5%
West Virginia	6%	8%
Virginia	10.4%	---

State Expenditures: Expenditures by the State on behalf of local community colleges would increase by approximately \$1.9 million in fiscal 2003, reflecting the July 1, 2002 increase date.

Future year expenditures reflect annualization and 5% payroll growth. This estimate is based on actuarial assumptions that reflect increases in both salaries and headcount.

Additional Information

Prior Introductions: HB 224 of 2000, a similar bill, was passed by the House of Delegates but was not reported from the Senate Budget and Taxation Committee.

Cross File: SB 309 (Senator Van Hollen, *et al.*) – Budget and Taxation.

Information Source(s): Maryland Higher Education Commission, Maryland Association of Community Colleges, Department of Legislative Services

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