

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

Senate Bill 93 (Senator Kasemeyer)
 (Chairman, Joint Committee on Pensions)

Budget and Taxation

Appropriations

Teachers' Pension System - Purchase of Service Credit

This pension bill permits members of the Teachers' Pension System (TPS) to purchase at reduced price up to ten years of eligible service credit for periods of employment in the Teachers' Retirement System (TRS) or TPS for which the member is not otherwise entitled to receive credit. Such service could be purchased at one-half of the full actuarial cost.

The bill takes effect July 1, 2001.

Fiscal Summary

State Effect: Based on assumed patterns of service purchase, State pension liabilities would increase by \$26.7 million, resulting in increased pension costs beginning in FY 2003 of \$1.9 million, increasing 5% per year thereafter based on actuarial assumptions.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	1,894,000	1,988,700	2,088,200	2,192,600
Net Effect	\$0	(\$1,894,000)	(\$1,988,700)	(\$2,088,200)	(\$2,192,600)

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

Local Effect: None. The State pays the retirement costs associated with local teachers and librarians.

Small Business Effect: None.

Analysis

Current Law: TPS members may purchase up to ten years of service for prior service in a variety of contexts, including prior service not credited in the TPS or TRS; however, the member must pay the full actuarial cost. 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 from six months to 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.

Background: Similar legislation was enacted last year (HB 349, Chapter 363 of 2000) to permit State employees who are members of the Employees' Pension System to purchase up to ten years of employment with the State that is not covered (such as service withdrawn from the "old" retirement system and contractual service), at one-half of full actuarial cost.

State Expenditures: Two groups of TPS members would become eligible to purchase reduced-price service credit. The first group includes former TRS members who terminated employment and withdrew their contributions (forfeiting their credit), but returned to employment several years later as a TPS member after the TRS closed. Another group of TPS members terminated employment while in the TPS and were not reemployed (and reenrolled in the TPS) until after the system's break-in-service period expired. In either case, the lost credit must be purchased at full cost under current law.

From July 1, 2000 through January 1, 2001, the retirement agency has received 466 requests from members of the TPS to purchase previous service while members of the teachers' systems. The individual circumstances, including years of service, average final compensation, adjustment factors (such as accumulated sick leave) will vary among those members seeking to purchase service. For the purposes of this fiscal note, however, it is assumed that within this group, approximately 20 members (with an average final compensation of \$48,000 each) will elect to purchase service credits under this proposal. Of these 20, it is assumed that ten members will purchase service to add two years of service credits (going from 30 years of service to 32 years), at an estimated full actuarial cost of \$24,000 per member, reduced to \$12,000 per member. It is assumed that the other ten members will buy two years in order to shorten retirement eligibility (moving from 28 years to 30 years and retirement eligibility), at an estimated full actuarial cost of \$86,000 per member, reduced to \$43,000 per member. The total

reduction in the purchase price is therefore estimated to be \$550,000. Similar reductions would occur each year.

Based on the above assumptions, the State's actuary informally estimates that teachers' systems' liabilities will increase by \$26.7 million. Amortizing these liabilities over 18 years (through fiscal 2020) would result in additional pension contributions of \$1,894,000 in fiscal 2003. Future year payments would increase by 5% per year based on actuarial assumptions.

The retirement agency advises that implementing this legislation would increase administrative expenditures by approximately \$20,000 in additional personnel costs; Legislative Services advises that the additional workload could be handled with existing resources.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader – January 22, 2001
jm/jr

Analysis by: Matthew D. Riven

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510