HB 805

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

House Bill 805 (Delegates Getty and Elliott)
Appropriations Budget and Taxation

State Retirement and Pension System - Estimate of Pension Benefits

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This pension bill addresses circumstances under which the Board of Trustees of the State Retirement and Pension System (SRPS) or the State Retirement Agency provides an estimate of retirement benefits as a part of its counseling within a year before retirement, and the actual benefit is lower than the estimate by more than 1%. The bill provides that if the board of trustees finds that a retiree acted to the retiree's detriment with respect to an estimate of retirement benefits described above, the board may: (1) increase the retiree's allowance to an amount not more than the estimate and agreed to by the board of trustees and the retiree; or (2) refund any reasonable costs incurred by the retiree, as determined by the board of trustees, that resulted from the retiree's reliance upon the estimate, including reasonable attorney's fees, court costs, and other expenses.

The bill takes effect July 1, 2001 and applies retroactively to retirees who retired on or after January 1, 1999.

Fiscal Summary

State Effect: State pension contributions would increase depending on the number and magnitude of incorrectly calculated benefit estimates. The additional expenditures cannot be precisely estimated at this time, but could be $200,000 per year or higher.

Local Effect: Pension contributions by local governmental units that participate in the SRPS could increase significantly, depending on the number and magnitude of incorrectly calculated benefit estimates.

Small Business Effect: None.

Analysis

Current Law: If the State Retirement Agency errs in calculating the amount of benefit due the members and beneficiaries of the various systems of the SRPS , then the board of trustees is required to correct the error and adjust the benefits (upward or downward) accordingly. There is no provision governing the accuracy of benefit estimates provided prior to retirement, nor is the State Retirement Agency required to provide such estimates.

Background: The State Retirement Agency provides approximately 12,000 benefit estimates per year. A member can request a benefit estimate at any time during employment. These estimates are for the member's planning purposes only. Actual benefits are based on the agency's calculations at the time of the member's actual retirement.

HB 812 of 2000, a similar bill to this one, was referred to the Joint Committee on Pension's interim schedule by the House Appropriations Committee. Several constituents testified at the bill hearing and the joint committee's meeting that they received benefit estimates that varied significantly from the retirement benefit they ultimately received. The State Retirement Agency noted that its processes are 99.8% accurate. The agency explained that its errors arose, for the most part, in certain contexts in which the agency's current mainframe computer system (which dates from the 1970s) cannot properly calculate benefits. In these contexts, adjustments are made manually by agency staff. Although the agency has quality control processes to capture these potential errors before they occur, the agency advised that it cannot guarantee 100% accuracy. The agency stated that implementation of a new computer system to calculate retirement benefits should help to reduce errors in circumstances where manual operations are currently required. The joint committee voted to monitor the agency's promised improvement in future performance.

Legislative Services is not aware of any public pension plan that is allowed to pay any benefits other than those correctly calculated at the time of retirement. Other states that provide benefit estimates make clear to members that the estimates are just that and provide no guarantee of actual benefit payments.

State Expenditures: The retirement agency advises that it is aware of 27 retirees over a two and one-half year period who received estimates that exceeded actual benefits by 1% or more. Annualizing this error rate would result in the SRPS paying additional annual benefits of $18,300 to the first group of approximately ten retirees for their (or their beneficiaries') lifespans, another $18,300 per year to another ten retirees the next year, and so on. In addition, it is assumed that the agency would have to pay approximately $25,000 per year to reimburse retirees for "out of pocket" costs such as attorney's fees and other expenses.

Assuming that their error rate continues, the actuary informally estimates that these additional payments and other costs would increase the State's pension liabilities by approximately $2.8 million. Amortizing these liabilities over 18 years (through fiscal 2020) would result in additional pension contributions of $201,200 in fiscal 2003. Future year payments would increase by 5% per year based on actuarial assumptions.

The agency advises that these costs could be reduced because the new computer system should reduce the agency's error rate. Legislative Services notes that while such a reduction is possible, the implementation of the new computer system -- in conjunction with this bill -- also exposes the agency to potentially much higher liability -- if an error in the calculation of benefits exists in the new system's programming. For illustrative purposes, approximately 5,800 SRPS members retire each year with retirement payments of approximately $115.0 million. Any systemic calculation error generated by the new system could result in over-estimated benefits of a magnitude significantly higher than the current error rate, with a corresponding impact on the system in additional benefit payments and out-of-pocket expense reimbursements.

The agency advises that the discretionary authority of the board could result in reduced administrative and legal expenses because the board could dispose of disputes on its own authority. Legislative Services believes that it is more likely that the agency's legal expenses would increase significantly due to the discretionary nature of the decision process under the bill.

Additional Information

Prior Introductions: HB 812 of 2000, a similar bill, was referred to summer study by the House Appropriations Committee.

Cross File: None.

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

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