

Department of Legislative Services  
 Maryland General Assembly  
 2001 Session

FISCAL NOTE  
 Revised

House Bill 277  
 Appropriations

(Delegate D'Amato, *et al.*)

Budget and Taxation

**Employees' Pension System - Purchase of Service Credit**

This pension bill allows a member of the Employees' Pension System (EPS) who, as of July 1, 2001, has been employed by the State for at least 40 years on a full-time or part-time basis to purchase credit for eligibility service of up to ten years for which the member is not otherwise entitled to service credit. A member who purchases service credit under this bill is required to pay the State Retirement and Pension System (SRPS) the member contributions the member would have made for the period of employment for which service credit is being purchased (plus interest) rather than the full actuarial cost required under current law.

The bill takes effect July 1, 2001.

**Fiscal Summary**

**State Effect:** State pension liabilities could increase by \$190,000, resulting in increased annual pension costs of \$13,500 (all funds) beginning in FY 2003, and 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/SF/FF Exp. | 0       | 13,500     | 14,200     | 14,900     | 15,600     |
| Net Effect    | \$0     | (\$13,500) | (\$14,200) | (\$14,900) | (\$15,600) |

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** The bill does not apply to an employee of a participating governmental unit or a former participating governmental unit that has withdrawn or to any period of employment during which an individual participated in the optional retirement program. A member may pay for service credit purchased under the bill at any time before retirement. The back payment of member contributions may be made on an installment basis by contributing at least 2% of earnable compensation per year with the appropriate final adjustments being made in the year the member retires.

A member who purchases service credit under the bill may not purchase more than a total of ten years of service credit for periods of employment with the State. For service credit purchased under the bill, a year or a part of a year of employment equals one year of service credit.

**Current Law:** Members of the EPS may purchase service credits for employment with: the State; the Division of Employment Services while the division was under federal control; the Maryland Tuberculosis Association as a radiological equipment operator under the supervision of the Maryland Health Department; a political subdivision in the State; an out-of-state school as a teacher; the federal government; an out-of-state political subdivision; or a public school as a teacher. Members may purchase up to ten years of service credits within a year of their retirement date. They must pay the amount equal to the annuity and pension reserves required to fund the additional allowance -- i.e., the full actuarial cost.

Chapter 363 of 2000 permits State employees who are EPS members to purchase up to a maximum ten years of State employment not credited to their accounts for one-half of the full actuarial cost. However, virtually no members have done so to date because the cost remains prohibitively high even at half-price.

**State Expenditures:** It is estimated that approximately 40 State employees will have 40 years of service as of July 1, 2001. Assuming that 20% of these members were eligible for an additional three years of service under the bill and that no payment of employee contributions was required, the State's actuary informally estimates that system liabilities would increase by \$190,000. Amortizing these liabilities over 18 years (through fiscal 2020) would result in additional pension contributions of \$13,500 in fiscal 2003. Future year payments would increase by 5% per year based on actuarial assumptions.

## 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 – February 5, 2001  
ef/jr Revised – House Third Reader – March 26, 2001

---

Analysis by: Matthew D. Riven

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