

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

Senate Bill 389 (Senator Kasemeyer)(Chairman, Joint Committee on Pensions)

Budget and Taxation

Appropriations

Employees' and Teachers' Retirement System - Average Final Compensation

This pension bill makes certain changes to the method by which the average final compensation (AFC) is calculated for pension benefit purposes by the State Retirement and Pension System (SRPS).

The bill takes effect July 1, 2001.

Fiscal Summary

State Effect: None. This bill codifies existing practice.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill makes two changes to the calculation of AFC. The first change applies to the Employees' Pension System (EPS), the Local Fire and Police System (LFP), the Law Enforcement Officers' Pension System (LEOPS), and the Teachers' Pension System (TPS). The bill specifies that if a member of these systems experienced any break in service during the three consecutive years that provide the member's highest average earnable compensation, the SRPS: (1) may not include in the computation of AFC the period of months of the breaks in service, that otherwise would be included in the computation; and (2) in order to generate the highest average earnable compensation for the member, the SRPS must extend the three-year period by an equal number of months immediately preceding or following that period.

The bill also provides that for a member of Selection C (bifurcated benefit option) of the Employees' Retirement System or the Teachers' Retirement System who is employed on a part-time basis, the AFC is calculated under the retirement system rules for retirement system service and under the pension system rules for pension system service.

Current Law: For the EPS, LFP, LEOPS, and TPS, average final compensation (AFC) is calculated as the average annual earnable compensation of the member during the three *consecutive* years that provide the highest average earnable compensation. For the retirement systems, current law does not directly specify the method of calculating AFC for part-time Selection C members.

Background: The SPRS requests this legislation to codify the retirement agency's long-standing practice, which has been to count only active months of employment (i.e., months with reported earnings) and to skip unpaid leaves of absence and breaks in employment when determining AFC for retiring members of the pension systems. Absent this interpretation, members with such periods of unpaid leave or breaks in service in their final years of employment would receive a lower AFC and hence a lower pension benefit.

Because the pension systems and retirement systems employ different methods for adjusting AFC based on part-time employment, the agency has calculated two separate AFCs for Selection C members, who receive a portion of the benefit based on each system. The board believes that it is appropriate to have that practice codified.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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