

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

House Bill 411 (Delegate W. Baker)
 Appropriations

Teachers' Pension System - Purchase of Service Credit

This pension bill expands the scope of pension service credit that a member of the Teachers' Pension System (TPS) may purchase at reduced cost.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: Based on assumed patterns of service purchase, State pension liabilities would increase by \$21.4 million, resulting in increased pension costs beginning in FY 2004 of \$1.2 million (general funds), increasing 5% per year thereafter based on actuarial assumptions. State Retirement Agency expenditures would increase by approximately \$20,000 annually to administer the bill.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	1,200,000	1,260,000	1,323,000	1,389,200
SF Expenditure	0	20,000	20,000	20,000	20,000
Net Effect	\$0	(\$1,220,000)	(\$1,280,000)	(\$1,343,000)	(\$1,409,200)

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

Bill Summary: The bill allows members of the TPS to purchase service credit for periods of employment as members of the Employees’ Retirement System (ERS) or Employees’ Pension System (EPS) for which the member is not otherwise entitled to service credit, at one-half of the full actuarial cost.

Current Law: Members of the ERS, EPS, Teachers’ Retirement System (TRS), and TPS may purchase up to ten years of service for prior service in a variety of contexts; however, the member must pay the full actuarial cost.

In addition, Chapter 363 of 2000 permits State employee EPS members to purchase up to ten years of employment *with the State* that is not covered (such as service withdrawn from the “old” retirement system and contractual service), at one-half of full actuarial cost. Similarly, Chapter 577 of 2001 permits members of the TPS to purchase at 50% actuarial cost up to ten years of eligible service credit *for periods of employment in the TRS or TPS for which the member is not otherwise entitled to receive credit.*

Current law regarding the type of service that may be purchased and at what cost is illustrated in **Exhibit 1**.

Exhibit 1: Current Rules for Pension Service Purchase

Plan	Service at Full-Cost Purchase	Service at 50%-Cost Purchase
Employees’ Retirement System	<ul style="list-style-type: none"> - out-of-state public or nonpublic school teaching - federal service - out-of-state service with a political subdivision - service with a political subdivision of the State if the member is not otherwise entitled to receive service credit from a State plan and the member is not receiving retirement benefits from a political subdivision of the State for the same period 	<ul style="list-style-type: none"> - None
Teachers’ Retirement System	<ul style="list-style-type: none"> - out-of-state public school teaching service, nonpublic school teaching, or postsecondary teaching service - leave of absence with Baltimore City that occurred on or before December 31, 1970 (not exceeding two years) - federal service - out-of-state municipal service - service with a municipal corporation of the State if the member is not otherwise entitled to receive service credit from a State plan 	<ul style="list-style-type: none"> - None

Employees' Pension System	<ul style="list-style-type: none"> - employment with the State* - the Division of Employment Service while the division was under federal control - the Maryland Tuberculosis Association as an operator of radiological equipment under the supervision of the Maryland Health Department - a political subdivision of the State - an out-of-state school as a teacher - federal service - an out-of-state political subdivision - a public school teacher 	<ul style="list-style-type: none"> - State employment for which the member is not otherwise entitled to service credit
Teachers' Pension System	<ul style="list-style-type: none"> - out-of-state public school - federal service - employment with a nonpublic school - employment with a political subdivision - postsecondary teaching - State employment - public school teaching - leave of absence with Baltimore City that occurred on or before December 31, 1970 (not exceeding two years) 	<ul style="list-style-type: none"> - service as a member of the TRS or the TPS for which the member is not otherwise entitled to service credit

*Overlaps with 50% service-purchase under EPS current rules.

Background: The amount necessary to purchase service 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, Chapter 363 of 2000 and Chapter 577 of 2001 were sponsored by the Joint Committee on Pensions to allow certain reduced price service purchases by EPS and TPS members, but only for service with employers that participate in the State pension system.

State Expenditures: Under the bill, the scope of service that could be purchased at one-half the actuarial cost by TPS members is expanded to include prior uncredited service in ERS or EPS. The State Retirement Agency advises that during a recent nine-month period, 20 members purchased reduced-price service for a total price of \$353,992 (or one-half of the full actuarial value) under the provisions of Chapters 369 and 577.

The amount of service that could be purchased under this bill cannot be precisely estimated at this time because it is not known how much such unaccredited service exists and how much of that unaccredited service a member would elect to purchase. For the purposes of this analysis, it is assumed that there will be 27 reduced price purchases of approximately \$472,000, based on annualization of the agency data and assuming an

increase in service purchases comparable to the level of increase resulting from the existing reduced-price service purchase provisions.

The actuary informally estimates the actuarial liabilities associated with such purchases at \$21.4 million. Amortizing this liability over 25 years results in a first year increase in State pension costs of \$1.2 million beginning in fiscal 2004, and increasing 5% per year thereafter based on actuarial assumptions. The additional costs would be reflected in State retirement aid to education.

The retirement agency advises that implementing this legislation would increase administrative expenditures by approximately \$20,000 annually in additional personnel costs such as overtime or contractual employment.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Retirement Agency, Milliman USA, Department of Legislative Services

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