SB 202

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

Senate Bill 202 (The President)
(Governor's Salary Commission)

Budget and Taxation Appropriations

Pensions - Service Retirement Benefits for Governors and Surviving Spouses

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This pension bill increases the annual retirement allowance for Governors who have served at least one full term of office and changes the calculation of future cost-of-living adjustments (COLAs) for these former Governors.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: State pension liabilities would increase by approximately $856,000, resulting in increased pension contributions of $47,700 beginning in FY 2004 and increasing 5% per year thereafter based on actuarial assumptions.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	$0	$0	$0	$0	$0
GF/SF/FF Exp.	0	47,700	50,100	52,600	55,200
Net Effect	$0	($47,700)	($50,100)	($52,600)	($55,200)

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 changes the calculation of the pension benefit of a Governor who has served one full term in office to provide an allowance equal to one-third of the annual salary received by the *current* Governor in office, as compared to the current benefit, which provides one-third of the annual salary that the *retired* Governor received when he left office. Similarly, the pension benefit of a Governor who has served two full terms in office is increased to provide an allowance equal to one-half of the annual salary received by the current Governor in office, as compared to the current benefit, which provides one-half of the annual salary that the retired Governor received when he left office.

Because current law provides for the surviving spouse of a former Governor to receive one-half of the Governor’s allowance upon the former Governor’s death, the increase in the Governor’s allowance described above would also translate into an increase for any surviving spouses.

The bill also eliminates a specific pension provision that provided a $12,500 allowance for former Governors who served at least one full term of office as Governor before January 17, 1979. Deletion of this provision would allow at least one former Governor to receive an increased pension based on the new formula described above.

Finally, the bill eliminates the existing provision for COLAs based on the consumer price index, to a maximum of 3%. Instead, future year increases will be based on “peer salaries,” i.e., the salary of the current Governor.

Current Law: See discussion above.

Background: These changes were proposed by the Governor’s Salary Commission, which meets quadrennially to recommend annual salary levels for Maryland’s Governor and Lieutenant Governor. The commission also recommends benefit levels for the current and former Governors, including pension benefits for former Governors and their spouses.

Under a separate resolution (HJ 7/SJ 6), the commission proposes increasing the Governor’s salary from the current $120,000 to as follows:

Year of Term	Governor	% Over Current Salary
First	$135,000	12.5
Second	$140,000	16.7
Third	$145,000	20.8
Fourth	$150,000	25.0

Regarding pensions, the commission recommends shifting to a "peer salary" basis for pension contributions, whereby pensions of former officials are adjusted to reflect increases in the salaries of the officials currently holding those positions. Currently, the Judges' Retirement System and the Legislative Pension Plan provide post-retirement increases based on peer salaries.

Deletion of the provision specifying a lower benefit for Governors who served before January 17, 1979 would allow at least one former Governor to receive an increased pension based on the new formula described above.

State Expenditures: Incorporating the above proposed salary increases with the historical trend in Governor salary increases produces a compound average annual salary increase of 3.5%. This level of growth also would be the increase that retired Governors would receive based on the "peer salary" structure proposed in the bill. This level of increase is higher than the 3.0% "simple" COLA under current law. (A "simple" COLA calculates the increase from the original allowance rather than the allowance as increased by prior COLAs.)

The actuary informally estimates that the increased COLA and the increased pension for the Governor who served before January 17, 1979 would increase State pension liabilities by $856,000. Amortizing these liabilities over 25 years would result in a first year (fiscal 2004) increase in State pension contributions of $47,700, increasing 5% per year thereafter based on actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: HB 258 (The Speaker) (Governor's Salary Commission) – Appropriations.

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

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ncs/jr

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