

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

House Bill 534
Appropriations

(Delegate Proctor) (Chairman, Joint Committee on Pensions)

Budget and Taxation

Retirement and Pensions - Limitations on Benefits and Contributions

This emergency pension bill amends certain provisions of the State Personnel and Pensions Article to incorporate changes in federal tax law resulting from the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”). These changes include:

- removing any specific maximum dollar limit for annual compensation that would be used to determine the retirement allowance payable to a member of a State retirement or pension system, and instead referencing the section in the Internal Revenue Code (IRC) that addresses the current applicable dollar limitations;
- allowing direct rollovers of payments to be made to IRC § 403(b) annuities and certain types of IRC § 457 plan accounts;
- permitting the State Retirement and Pension System (SRPS) to include after-tax employee money in rollover distributions; and
- permitting members of the SRPS to purchase prior service with money from any fund source that is not specifically prohibited by the IRC.

Fiscal Summary

State Effect: None. Any administrative activities by the State Retirement Agency associated with implementation of the EGTRRA provisions could be handled with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Section 401(a)(17) of the IRC sets the new dollar limit on the annual compensation that can be used to determine the retirement allowance payable to a member at \$200,000, indexed for inflation for the next several years. This bill removes any specific limitation and only references § 401(a)(17) of the IRC in an attempt to avoid the necessity for a statutory amendment every time the limitation is adjusted in the IRC.

Additionally, the EGTRRA modified rollover distribution rules (i.e., rules governing the disbursement of money by the SRPS when a member terminates employment and takes a position covered by another pension plan) to allow direct rollovers to be made to IRC § 403(b) annuities and certain types of IRC § 457 deferred compensation plans. This bill clarifies that § 403(b) annuities and § 457 deferred compensation plan are eligible retirement plans for purposes of making rollover distributions.

Beginning in January 2002, the EGTRRA allows trustee-to-trustee transfers of after-tax employee money from a qualified plan to another qualified plan (assuming that the receiving plan is authorized to accept such rollovers). Accordingly, this bill permits the SRPS to include after-tax employee money in rollover distributions.

The EGTRRA also provides members with additional ways to purchase prior service. As a result of the new federal law, this bill provides members with the option of purchasing prior service with money from any fund source that is not specifically prohibited by the IRC.

Current Law: The State Personnel and Pensions Article currently provides that:

- the current limit on annual compensation that can be taken into account when determining the retirement allowance payable to a member is \$150,000;
- for purposes of direct rollovers, § 403(b) annuities and § 457 deferred compensation plans are not eligible retirement plans;
- the SRPS is prohibited from including in an eligible rollover distribution the part of any distribution that is not includable in gross income; and
- the SRPS is prohibited from allowing members of the Teachers' Pension System to purchase prior service with money from a § 403(b) annuity.

Background: The EGTRRA was signed into law by President George Bush on June 7, 2001, and took effect on January 1, 2002. This legislation provides numerous provisions that provide greater flexibility and portability to public pension plans and their members. The Board of Trustees for the SRPS was advised by the Office of the Attorney General and outside tax counsel that in order for the SRPS to avail itself of these favorable changes in federal law, the State Personnel and Pensions Article would need to be revised.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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