

Department of Legislative Services

Maryland General Assembly

2002 Session

FISCAL NOTE

Senate Bill 204

(The President) (Governor's Salary Commission)

Budget and Taxation

Retirement and Pensions - Service Retirement Benefits - Governor

This pension bill increases the annual retirement allowance for Governors who have served at least one full term of office by basing the allowance on the salary of the Governor's final year in office rather than the average salary of the Governor's final term.

The bill takes effect July 1, 2002 but is contingent on the failure of Senate Bill 202/House Bill 258, which would provide a larger increase in the pension for former Governors.

Fiscal Summary

State Effect: State pension liabilities would increase depending on the differential of salary during the course of the Governor's term. Based on the proposed increase in the Governor's salary, this increase in liabilities (and corresponding increase in State pension contributions) would be minimal.

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 during the final year of the Governor's last term of office, as compared to the current benefit, which provides one-third of the annual salary received

during the last term of office. Thus, under current law, the pension is based on the average salary during the last term, while under the bill it would be the last year's salary, which would be the highest salary of the term. Similarly, the pension benefit of a Governor who has served two full terms in office is changed to provide an allowance equal to one-half of the annual salary received during the final year of the Governor's last term of office, as compared to the current benefit, which provides one-half of the annual salary received during the Governor's last term of 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, any increase in the Governor's allowance described above would also translate into an increase for any surviving spouses.

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:

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

Traditionally, the commission has set one salary level that applies throughout the Governor's term of office. Prior to the first commission's report in 1978, the Governor's salary was set in the Maryland Constitution and also remained constant throughout the term of office. There was therefore no need to adjust the pension calculation to reflect changes in salary during the term of office upon which the Governor's pension would be based.

To calculate a pension benefit based on the salaries proposed in the resolution, it is either necessary to average them or select a year. The commission recommends selecting the last year.

State Expenditures: The impact of the legislation will vary depending on the difference between the average salary over a four-year term and the salary in the final year of the term. Based on the proposed salary differential in the resolution, the actuary informally estimates that any increase in pension contributions will be minimal.

Additional Information

Prior Introductions: None.

Cross File: HB 259 (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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