

Department of Legislative Services

Maryland General Assembly

2002 Session

FISCAL NOTE

Revised

House Bill 1255

(Delegates Getty and Elliott)

Appropriations

Budget and Taxation

Teachers' Retirement System - Purchase of Service Credit - Refund

This pension bill allows a retiree of the Teachers' Retirement System who purchased no more than four years of service at full cost based on an incorrect benefit estimate provided by the State retirement system to receive a refund of the amount of the service purchase (plus interest) if the retiree meets certain requirements. If the retiree applies for such a refund, the retirement system will adjust the retiree's benefit to reflect the reduction in service credit and will deduct from the refund any overpayments based on the retiree's adjusted retirement allowance.

The bill takes effect July 1, 2002 and remains in effect until December 31, 2002.

Fiscal Summary

State Effect: None. The proposed benefit adjustment is roughly actuarially equivalent to the member's current benefit.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: None applicable.

Background: The State Retirement Agency provides approximately 12,000 benefit estimates per year. A member can request a benefit estimate at any time during

employment. These estimates are for the member's planning purposes only. Actual benefits are based on the agency's calculations at the time of the member's actual retirement. The issue of accuracy of benefit estimates was studied by the Joint Committee on Pensions during the 2000 interim. Several constituents testified that they received benefit estimates that varied significantly from the retirement benefit they ultimately received. The State Retirement Agency noted that its processes are 99.8% accurate. The agency explained that its errors arose, for the most part, in certain contexts in which the agency's current mainframe computer system (which dates from the 1970s) cannot properly calculate benefits. In these contexts, adjustments are made manually by agency staff. Although the agency has quality control processes to capture these potential errors before they occur, the agency advised that it cannot guarantee 100% accuracy. The agency stated that implementation of a new computer system to calculate retirement benefits should help to reduce errors in circumstances where manual operations are currently required.

Legislative Services is not aware of any public pension plan that is allowed to pay any benefits other than those correctly calculated at the time of retirement. Other states that provide benefit estimates make clear to members that the estimates are just that and provide no guarantee of actual benefit payments.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 1, 2002
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