Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

Senate Bill 105 (Chairman, Budget and Taxation Committee, *et al.*)
(Departmental – Baltimore City Community College)

Budget and Taxation Appropriations

Retirement and Pension Systems - Baltimore City Community College - Nonfaculty Employees

This departmental pension bill allows certain nonfaculty employees of the Baltimore City Community College (BCCC) to transfer between retirement systems and become eligible for the $600 employer match to the deferred compensation retirement program.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: State personnel expenditures would decrease in FY 2003 by $298,600 (general funds) due to reduced pension contributions offset by increased deferred compensation contributions, decreasing further in FY 2004 and thereafter due to payroll growth.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	$0	$0	$0	$0	$0
GF Expenditure	(298,600)	(317,600)	(337,600)	(358,700)	(380,900)
Net Effect	$298,600	$317,600	$337,600	$358,700	$380,900

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None. BCCC is a State agency.

Small Business Effect: BCCC has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary: The bill allows nonfaculty employees of BCCC who are members of the Teachers' Pension System (TPS) on October 1, 2002 to transfer membership to the Employees' Pension System (EPS) on or before December 31, 2002. Future such employees would be enrolled in the EPS. Once enrolled in the EPS, these employees would become eligible for the State's $600 employer to deferred compensation programs.

Current Law: State employee members of the EPS are eligible to receive an employer match of up to $600 per fiscal year against their contributions to one of the State's three tax deferred retirement savings plans.

BCCC employees are enrolled in the various systems of the State Retirement and Pension System of Maryland (SRPS) on the following basis:

BCCC Assignment to SRPS Pension Plan

Employee Group	Defined Benefit Plan	Eligible for $600 Match?	Defined Contribution Opt-out?
Faculty	TPS	No	Yes – Optional Retirement Plan
Professional (nonfaculty)	**TPS**	**No**	**Yes – Optional Retirement Plan**
Clerical	**TPS**	**No**	**No**
Maintenance	EPS	Yes	No

This assignment structure is similar to that used for local community colleges. It differs from the assignment structure used for employees of other State institutions of higher education. At those institutions, clerical and nonfaculty professional employees are assigned to the EPS, and hence are eligible for the $600 match, as illustrated below:

Other State Higher Education Institution Assignment to SRPS Pension Plan

Employee Group	Defined Benefit Plan	Eligible for $600 Match?	Defined Contribution Opt-out?
Faculty	TPS	No	Yes – Optional Retirement Plan
Professional (nonfaculty)	**EPS**	**Yes**	**Yes – Optional Retirement Plan**
Clerical	**EPS**	**Yes**	**No**
Maintenance	EPS	Yes	No

Background: BCCC was transferred to the State in 1990 and its employees became State employees at that time. The pension and other benefit costs of these employees were assumed to become identical to that of other State employees at that time, including those of other State institutions of higher education.

Employees of local community colleges are not State employees; they are employees of the local institution. The State pays the pension costs of clerical, professional, and faculty (but not maintenance) employees of these institutions as part of the State's aid on behalf of local education. These employees are not eligible for the State's $600 matching program; although they are eligible for any deferred compensation program that the local institution or local government may offer.

The classification of the professional (nonfaculty) and clerical staff of BCCC into the TPS (like other community colleges) rather than EPS (like State higher education) has no impact on the staff because the benefit structures of the two programs are identical. Due to differences in the demographics and existing unfunded liabilities of the two groups, however, the State's pension actuary sets different employer contribution rates for the two plans. For fiscal 2003, the actuary has certified a rate of 9.87% of compensation for the TPS and 5.74% for the EPS. Under both plans, members contribute 2% of compensation.

The $600 matching program was created as part of the general pension enhancement in 1998. The intent of the matching program was to increase participation in tax deferred retirement savings as a means for members to supplement their existing defined benefit retirement program and Social Security and to provide greater portability. Eligibility for the match was limited to State employee members of the EPS.

State Expenditures: BCCC advises that it has 265 employees, with a payroll of $11.8 million, who would be eligible to transfer under the bill, and it is assumed that 85% of eligible employees would transfer. This estimate is based on projected participation in the match program, and there is no incentive for a member to transfer from TPS to EPS other than to receive the match. The impact on expenditures as a result of this bill can be divided in two components: (1) an expenditure reduction due to transfer of these employees from TPS to EPS; and (2) an expenditure increase due to deferred compensation match participation.

Applying the lower EPS rate to 85% of the eligible payroll results in lower State pension contributions of $433,750 in fiscal 2003. Future year reductions reflect annualization and actuarially assumed payroll growth of 5% per year.

Participation in the matching program is expected to increase State expenditures by $135,200 in fiscal 2003, assuming that 85% of the newly eligible employees (and 100% of transferees) participate and receive the full $600. Future year expenditure increases reflect an assumed 2.5% annual growth in the number of positions.

Net expenditure reductions are estimated at $298,600 in fiscal 2003, increasing in the out-years as discussed above.

The actuary advises that transferring a relatively small group of members from one system to another (each with approximately 80,000 members) would not materially affect the plans' demographics. Further, the bill does not require a transfer of employer assets from TPS to EPS. Hence, there should be no impact on future year contribution rates.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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