

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

Senate Bill 166 (Senator Haines)
 Budget and Taxation

State Retirement and Pension System - Purchase of Service Credit

This pension bill permits certain members of the employees' and teachers' systems to purchase pension service credit at a reduced price for certain prior unaccredited service.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: Based on assumed patterns of service purchase, State pension liabilities would increase by \$85.6 million, resulting in increased pension costs beginning in FY 2004 of \$4.8 million (all funds), increasing 5% per year thereafter based on actuarial assumptions. State Retirement Agency expenditures would increase by approximately \$20,000 annually to administer the bill.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	20,000	20,000	20,000	20,000	20,000
GF/SF/FF Exp.	0	4,800,000	5,040,000	5,292,000	5,556,700
Net Effect	(\$20,000)	(\$4,820,000)	(\$5,060,000)	(\$5,312,000)	(\$5,576,700)

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

Local Effect: None. The State pays the retirement costs associated with local teachers and librarians.

Small Business Effect: None.

Analysis

Current Law: Members of the Employees’ Retirement System (ERS), Employees’ Pension System (EPS), Teachers’ Retirement System (TRS) and Teachers’ Pension System (TPS) may purchase up to ten years of service for prior service in a variety of contexts; however, the member must pay the full actuarial cost.

In addition, Chapter 363 of 2000 permits State employee EPS members to purchase up to ten years of employment *with the State* that is not covered (such as service withdrawn from the “old” retirement system and contractual service), at one-half of full actuarial cost. Similarly, Chapter 577 of 2001 permits members of the TPS to purchase at 50% actuarial cost up to ten years of eligible service credit for periods of employment in the TRS or TPS for which the member is not otherwise entitled to receive credit.

Current law regarding the type of service that may be purchased and at what cost is illustrated in **Exhibit 1**.

Exhibit 1: Current Rules for Pension Service Purchase

Plan	Service at Full-Cost Purchase	Service at 50%-Cost Purchase
Employees’ Retirement System	<ul style="list-style-type: none"> - out-of-state public or nonpublic school teaching - federal service - out-of-state service with a political subdivision - service with a political subdivision of the State if the member is not otherwise entitled to receive service credit from a State plan and the member is not receiving retirement benefits from a political subdivision of the State for the same period 	- None
Teachers’ Retirement System	<ul style="list-style-type: none"> - out-of-state public school teaching service, nonpublic school teaching, or postsecondary teaching service - leave of absence with Baltimore City that occurred on or before December 31, 1970, (not exceeding two years) - federal service - out-of-state municipal service - service with a municipal corporation of the State if the member is not otherwise entitled to receive service credit from a State plan 	- None

Employees' Pension System	<ul style="list-style-type: none"> - employment with the State* - the Division of Employment Service while the division was under federal control - the Maryland Tuberculosis Association as the operator of radiological equipment under the supervision of the Maryland Health Department - a political subdivision of the State - an out-of-state school as a teacher - federal service - an out-of-state political subdivision - a public school teacher 	- State employment for which the member is not otherwise entitled to service credit
Teachers' Pension System	<ul style="list-style-type: none"> - out-of-state public school - federal service - employment with a nonpublic school - employment with a political subdivision - postsecondary teaching - State employment - public school teaching - Leave of absence with Baltimore City that occurred on or before December 31, 1970, (not exceeding two years) 	- service as a member of the TRS or the TPS for which the member is not otherwise entitled to service credit

*Overlaps with 50% service-purchase under EPS current rules.

Background: The amount necessary to purchase service credit at full cost can range from a minimal amount to several hundred thousand dollars, depending on the amount of credit being purchased and the additional benefits that will be received based on the additional service. On average, however, the full actuarial cost is between \$20,000 and \$50,000 for purchases of service (which on average range from six months to two years of credit). As a result, Chapter 363 of 2000 and Chapter 577 of 2001 were sponsored by the Joint Committee on Pensions to allow certain reduced price service purchases by EPS and TPS members, but only for service with employers that participate in the State pension system.

State Expenditures: Under the bill, the scope of service that could be purchased at one-half the actuarial cost is illustrated in **Exhibit 2** (with new provisions in bold).

Exhibit 2: Rules for Pension Service Purchase Under SB 166

Plan	Service at Full-Cost Purchase	Service at 50%-Cost Purchase
Employees' Retirement System	<ul style="list-style-type: none"> - out-of-state public school teaching service or nonpublic school teaching - federal service - out-of-state service with a political subdivision 	- Service with a political subdivision of the State if the member is not otherwise entitled to receive service credit from a State plan and the member is not receiving retirement benefits from a political subdivision of the State for the same period

Teachers' Retirement System	<ul style="list-style-type: none"> - out-of-state public school teaching service, nonpublic school teaching, or postsecondary teaching service - federal service - out-of-state municipal service 	<ul style="list-style-type: none"> - Leave of absence with Baltimore City that occurred on or before December 31, 1970, (not exceeding two years) - Employment with a municipal corporation of the State if the member is not otherwise entitled to credit from a State plan - employment with the State - public school teaching in the State - nonpublic school teaching in the State - employment with a political subdivision in the State - postsecondary teaching in the State
Employees' Pension System	<ul style="list-style-type: none"> - an out-of-state school as a teacher - federal service - an out-of-state political subdivision 	<ul style="list-style-type: none"> - State employment - the Division of Employment Service while the division was under federal control - the Maryland Tuberculosis Association as the operator of radiological equipment under the supervision of the Maryland Health Department - a political subdivision of the State - public school teaching in the State
Teachers' Pension System	<ul style="list-style-type: none"> - out-of-state public school - federal service - out-of-state nonpublic school service - out-of-state postsecondary teaching service 	<ul style="list-style-type: none"> - State employment - public school teaching in the State - nonpublic school teaching in the State - a political subdivision in the State - postsecondary teaching in the State - Leave of absence with Baltimore City that occurred on or before December 31, 1970, (not exceeding two years)

The State Retirement Agency advises that during a recent nine-month period, 20 members purchased reduced-price service for a total price of \$353,992 (or one-half of the full actuarial value) under the provisions of Chapters 369 and 577.

The amount of service that could be purchased under this bill cannot be precisely estimated at this time because it is not known how much such unaccredited service exists and how much of that unaccredited service a member would elect to purchase. It is known, however, that for each of the four systems affected, the scope of eligible reduced-price service is significantly expanded. In particular, for the teachers' systems, the reduced price would now apply to non-teacher service (such as employment with the State or any local government in Maryland) as well as for teaching not done as a member of the TRS or TPS, such as teaching with a nonpublic school in Maryland or as a substitute teacher in a public school. The latter category could include a large percentage of the approximately 92,000 teachers' system members, many of who may have been substitute teachers before becoming permanent teachers.

It is therefore reasonable to assume that service purchased under this bill could be at four times the level of that provided under Chapters 363 and 577. Annualizing the agency data and adjusting for the higher rate of purchase results in assumed purchases by 108 members for a total purchase value of \$1.9 million each year.

The actuary informally estimates the actuarial liabilities associated with such purchases at \$85.6 million. Amortizing this liability over 25 years results in a first year increase in State pension costs of \$4.8 million beginning in fiscal 2004, and increasing 5% per year thereafter based on actuarial assumptions. The distribution of the additional expenditures among State agencies cannot be precisely determined, but is assumed to be disproportionately applicable to State retirement aid to education.

The retirement agency advises that implementing this legislation would increase administrative expenditures by approximately \$20,000 annually in additional personnel costs such as overtime or contractual employment. Legislative Services advises that given the large amount of potential service purchase requests (which must be processed by hand) the actual administrative expenses could be higher.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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