SB 686

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

Senate Bill 686 (Senator Kasemeyer)
Budget and Taxation Appropriations

Optional Retirement Program - Supplemental Annuities

This bill permits a public institution of higher education to establish supplemental retirement plans that provide supplemental retirement accounts offered by a designated company in accordance with § 401(a), § 403(b), or § 457 of the Internal Revenue Code (IRC), or any other provision of federal law that authorizes supplemental retirement accounts. An institution may authorize its eligible employees to participate in these plans.

The bill takes effect June 1, 2002 and applies retroactively to supplemental accounts authorized and supplemental annuity contributions made after December 31, 2001.

Fiscal Summary

State Effect: None. The bill's provisions could be administered by State institutions of higher education with existing resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Members of the faculty, and certain other professional employees, of the State's public institutions of higher education are eligible for the Optional Retirement Program (ORP). Eligible employees who elect this defined contribution pension program do so in lieu of the State's defined benefit pension plans such as the Employees' Pension System or Teachers' Pension System.

On behalf of ORP members, the State contributes 7.25% of the member's pay into the member's ORP account. There is no mandatory member contribution

The four authorized ORP vendors are also authorized to offer supplemental accounts to ORP members under § 403(b) of the IRC. The authorized vendors are also authorized to offer supplemental accounts to other non-ORP eligible employees at the institutions. These university employees currently may elect to have a supplemental account with the Maryland Supplemental Retirement Plans utilizing any of three payroll deferral vehicles: 403(b), 457, or 401(k) of the IRC. Each IRC provision has slightly different provisions regarding the maximum amount of deferrals, the time and method of withdrawals, etc. The ORP vendors are not authorized to offer 457 or 401(k) supplemental accounts.

Background: The Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") was signed into law by President 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 bill harmonizes the different provisions of the three types of plans, creating a maximum contribution of $11,000 per year for each plan. Most relevant for this bill, the federal tax act allows employees to hold both a 403(b) and 457 account and contribute the maximum to each allowing up to $22,000 in annual tax-deferred contributions.

State Expenditures: The bill would allow the four ORP vendors to offer multiple supplemental accounts to eligible members. It is assumed that the institutions can comply with the bill's provisions with existing resources. Any additional expenses associated with the bill would be incurred by the vendors; these expenses would be more than offset by the additional revenues the vendors would receive from these additional accounts.

Additional Information

Prior Introductions: None.

Cross File: HB 705 (Delegate Rosenberg) – Appropriations.

Information Source(s): Maryland Supplemental Retirement Plans, Morgan State University, University System of Maryland, Department of Legislative Services

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Analysis by: Matthew D. Riven

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510