

Department of Legislative Services  
Maryland General Assembly  
2002 Session

FISCAL NOTE

Senate Bill 868

(Senator Hafer)

Budget and Taxation

Appropriations

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**Employees' Pension System - Participating Governmental Units - Contributory  
Pension Benefit**

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This pension bill provides participating governmental units (PGUs) that participate in the State Retirement and Pension System with an additional window of opportunity to transfer their employees from the pre-1998 Employees' Pension System (EPS) to the enhanced, contributory EPS benefit structure. This window would extend from July 1, 2002, the effective date of the bill, to December 31, 2002.

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**Fiscal Summary**

**State Effect:** Administrative expenditures by the State Retirement Agency (special funds) could increase by up to \$180,000 in FY 2003 only, depending on the number of PGUs that transfer to the enhanced EPS.

**Local Effect:** PGUs that elect the enhanced EPS would be required to annually pay an "enhanced benefit surcharge" of 2.42% of payroll. In addition, they would be required to pay approximately three years of missed surcharges plus interest.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** Participating governmental units (PGUs) that did not elect participation in the enhanced EPS during the initial window in 1999 are not eligible to offer their employees the enhanced EPS benefit.

**Background:** Chapter 530 (HB 987) of 1998 created an enhanced benefit structure within EPS for State employees. Under the enhanced EPS, the pension benefit is 1.2% of average final compensation for each year of service prior to July 1, 1998 and 1.4% for service on and after July 1, 1998. An employee contribution of 2% is mandatory. Absent a consensus on the part of PGUs as to whether to finance the enhancement for PGU members of EPS, the PGUs were excluded from the enhancement at that time. They retained the existing EPS benefit structure, which is integrated with Social Security and provides a benefit that varies depending on the member's salary but is generally equivalent to 1.0% to 1.1% of average final compensation for each year of service. Most employees (those earning less than the Social Security taxable wage base) pay no member contribution.

Chapter 176 (SB 363) of 1999 permitted existing PGUs to elect participation in the enhanced Employees' Pension System (EPS). They had a window to elect participation in the enhanced EPS from July 1, 1999 through December 31, 1999. For those employers that elected, the effective date of participation for the affected membership was retroactive to July 1, 1998. Members paid the 2% contribution owed from July 1, 1998 to participate in the enhanced EPS. This back contribution was without interest if paid prior to July 1, 2000 (but interest was charged if billed on or after July 1, 2000). If the back contribution was not paid prior to retirement, an annuity deficiency was included in the enhanced benefit calculation.

**State Expenditures:** The State Retirement Agency advises that depending on the number of PGUs that elect participation, administrative costs could increase by between \$100,000 and \$180,000 in fiscal 2003 only. This increase reflects additional personnel expenditures (either overtime or additional contractual staff) and computer programming costs. Legislative Services advises that if employers with only a few employees transfer, such a transfer could be handled with existing resources.

**Local Expenditures:** Of the 99 participating governmental units in the SRPS at the time of the initial election, 88 elected participation in the enhanced EPS. This proposal offers the other 11 PGUs a window of opportunity, through December 31, 2002, to elect that enhancement. If a PGU makes such an election, all eligible employees would become subject to the provisions of the enhanced EPS. Employees would be required to pay back contributions on the 2% employee contribution (without interest, initially) or be subject to an actuarial deficiency.

The 11 non- participating PGUs are:

Anne Arundel County Economic Opportunity Commission  
Catoctin and Frederick Soil Conservation District

City of Crisfield  
Crisfield Housing Authority  
City of Cumberland  
City of Cumberland Police\*  
Garrett County Commission  
Garrett County Roads Board  
City of North Beach  
Prince Georges' County Government  
Prince Georges' County Crossing Guards

\*subsequently elected participation in the Local Fire and Police System

As of June 30, 2001, there are 5,826 active (including vested) members, retirees, and beneficiaries in the 11 participating governmental units that remained in the unenhanced Employees' Pension System, the majority of them employed by Prince George's County.

It is not known which PGUs will elect to transfer to the enhanced EPS. Those PGUs that elect the enhanced EPS would be required to annually pay an "enhanced benefit surcharge" of 2.42% of payroll, which is currently charged to the other PGUs that have elected the enhancement. In addition, these PGUs would be charged for the liabilities accrued between 1999 (when the enhanced EPS was created for the municipal pool) and 2003. The actuary informally estimates that these liabilities would be equivalent to the three years of missed surcharges plus interest.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1287 (Delegate Edwards) – Appropriations is identified as a crossfile although it is not identical.

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

**Fiscal Note History:** First Reader - March 12, 2002  
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Analysis by: Matthew D. Riven

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

