Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 749 (Delegate W. Baker, *et al.*)
Appropriations Budget and Taxation

Retirement and Pensions - Service Retirement Benefit

This pension bill allows active members of the Employees' Pension System (EPS) or Teachers' Pension System (TPS) to combine any such service with any service in the "old" Employees' Retirement System (ERS) or Teachers' Retirement System (TRS) if the member has a combined total of at least 30 years of service. The service is combined solely for the purpose of service retirement eligibility; benefit calculations would still be based on each component of the service and the applicable benefit formula, with the applicable average final compensation for each component.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: State pension liabilities could increase by approximately $2.0 million, resulting in increased State pension contributions of $114,000 beginning in FY 2004 and increasing 5% per year thereafter based on actuarial assumptions. The State Retirement Agency may incur $50,000 in administrative costs in FY 2003.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	$0	$0	$0	$0	$0
SF Expenditure	50,000	0	0	0	0
GF/SF/FF Exp.	0	114,000	119,700	125,700	132,000
Net Effect	($50,000)	($114,000)	($119,700)	($125,700)	($132,000)

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

Local Effect: Aggregate pension liabilities for participating local governments could increase by approximately $80,000, resulting in increased pension contributions of $8,000 beginning in FY 2004 and increasing 5% per year thereafter based on actuarial assumptions.

Small Business Effect: None.

Analysis

Current Law: Active members of the EPS or TPS with former service in the ERS or TRS may not combine or transfer their service. Rather, they are eligible to receive two benefits, each based on the applicable benefit formula, years of service in that system, and average final compensation at termination. Eligibility for normal service retirement (at 30 years under both the old and new plans) is based on the years of service accrued under the most recent period of employment; prior service may not be combined with existing service for this eligibility.

Background: The "old" systems (ERS and TRS) were closed to new enrollees in 1980 and all future State employees and teachers were enrolled in the "new" systems (EPS or TPS). Vested members of ERS or TRS who subsequently left employment had the option of withdrawing their service or keeping their "inactive vested" account, for which they would begin receiving a benefit when they reached retirement age eligibility. Thus, some employees with prior ERS or TRS service have become reemployed with participating employers and now have EPS or TPS accounts.

State Expenditures: The State Retirement Agency advised that there are approximately 300 active State members who have accounts under one of the old systems and one of the new systems. The actuary advises that allowing such members to combine this service for eligibility purposes (hence avoiding the early retirement reduction) will increase State liabilities by approximately $1 million. In addition, there are approximately 3,000 former vested members of the "old" systems who could come back in the future and open a "new" system account. Assuming 300 (or 10%) of these former members return and are allowed to combine their service under this proposal, pension liabilities would increase by another $1 million.

Amortizing the $2 million in additional pension liabilities over 25 years would result in an increase in State pension contributions of $114,000 beginning in fiscal 2004 and increasing 5% per year thereafter based on actuarial assumptions.

The State Retirement Agency may incur approximately $50,000 in costs in fiscal 2003 to administer the proposal, for additional overtime and/or contractual personnel costs, and for computer reprogramming.

Local Expenditures: It is estimated that there are approximately 15 active members employed by participating governmental units who have accounts both under the old systems and the new systems, with the potential for the return of another 15 former vested members. The liabilities associated with allowing these two groups to combine their service is estimated to be $80,000. Amorting these additional liabilities would result in an increase in pension contributions of $5,000 beginning in fiscal 2004 and increasing 5% per year thereafter based on actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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