

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 78

(Senators Della and McFadden)

Budget and Taxation

Appropriations

Retirement and Pensions - Baltimore City Child Support Enforcement Employees

This pension bill applies only to a member of the Employees' Retirement System (ERS) or Employees' Pension System (EPS) who: (1) was an employee of the State prior to November 1, 1996; (2) as of November 1, 1996 was employed by a private vendor to provide child support enforcement services in Baltimore City; and (3) resumed employment with the State as of November 1, 2002. An eligible member receives service credit for the time the member was employed by the private vendor through October 31, 2002, subject to an actuarial reduction if member contributions are not repaid.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: State pension liabilities would increase by approximately \$2.0 million, resulting in an increase in State pension contributions of \$103,000 (all funds) in fiscal 2005, increasing 5% per year thereafter based on actuarial assumptions.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	61,800	64,900	68,100	71,500
SF Expenditure	0	20,600	21,600	22,700	23,800
FF Expenditure	0	20,600	21,600	22,700	23,800
Net Effect	\$0	(\$103,000)	(\$108,100)	(\$113,500)	(\$119,100)

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

Local Effect: None. Baltimore City's child support enforcement activities are operated by the State.

Small Business Effect: None.

Analysis

Current Law: These employees are not eligible to receive service credit – either at no cost or through a service purchase – for previous employment with a private employer.

Background: Under Chapter 491 of 1995, effective November 1, 1996, the Baltimore City Child Support Services Agency of the Department of Social Services was privatized. State employees who continued to work for the private vendor could no longer retain membership in the State Retirement and Pension System. They did not accrue service credits during this period of employment with a private employer, which depending on the employee, could have extended from November 1, 1996 until November 1, 2002. The private employer did, however, match up to 4% of member contributions into their 401(k) accounts.

As of November 1, 2002, the former State employees who were still employed by the private vendor resumed employment with the State. Their former ERS or EPS accounts were restored and reactivated as was required under provisions of Chapter 491. Chapter 491, however, did not address the issue of service credits for the period of employment with the private vendor from November 1996 through October 2002.

State Expenditures: The State Retirement Agency advises that approximately 51 members would be affected. Specific salary data is not available, so the average State salary for each year of the period is used (for instance, \$36,728 for fiscal 2002). For EPS members, the State would absorb the full actuarial cost of the 20 months of service accrued from November 1, 1996 to July 1, 1998. For the 52 months of service from July 1, 1998 to November 1, 2002, the member pays the missed employee contributions, at regular interest (4% or 5%). It is assumed that all members would make the appropriate contributions, which are estimated at \$3,348 per person, for the purchase of the 52 months of service; if they do not, their benefit is actuarially reduced accordingly.

The State's actuary informally estimates that providing the additional six years of service credit would increase State pension liabilities by \$2.0 million, after taking into account the member payments. Amortizing these liabilities over 25 years results in an increase in State pension contributions of \$103,000 in fiscal 2005, increasing 5% per year thereafter based on actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: HB 812 (Delegate Gaines, *et al.*) – Appropriations.

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

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