

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 115 (Senator Kelley, *et al.*)
Budget and Taxation

Task Force to Study the Maryland Teachers' Pension System and the Teachers' Retirement System

This bill establishes a Task Force to Study the Maryland Teachers' Pension System and the Maryland Teachers' Retirement System to review and evaluate the viability of the teachers' pension and retirement systems to assess the financial and actuarial condition of the systems in order to determine whether the systems are adequately positioned to provide benefits for State and local teachers and other employees of boards of education, public libraries, and community colleges in the State.

The Department of Budget and Management (DBM) and the State Retirement Agency (SRA) will staff the task force. The task force must submit a report of its findings and recommendations to the Governor and the General Assembly by January 10, 2005.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: Special fund expenditures could increase by up to \$115,000 in FY 2005 for actuarial consulting services. Any expense reimbursements for task force members and agency staffing costs are assumed to be minimal and absorbable within existing budgeted resources.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	115,000	0	0	0	0
Net Effect	(\$115,000)	\$0	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Background: The Teachers' Retirement System and Teachers' Pension System are funded through employee and employer contributions. The current actuarial funding level of the combined systems is 92.8%. Through budget reconciliation legislation in the 2002 session, the General Assembly altered the formula used to calculate the State's employer contribution rate so that the rate will remain constant so long as the teachers' systems are actuarially funded from 90% to 110% on an actuarial basis. For fiscal 2005, the rate will be 9.35% of pay. Members of the retirement system contribute 5% or 7% of pay, and members of the pension system contribute 2% of pay.

State Expenditures: While both DBM and SRA have identified staffing costs associated with the task force, the Department of Legislative Services (DLS) estimates that such agency costs are minimal and could be covered with existing budgeted resources.

SRA also estimates that the task force would require between \$10,000 and \$100,000 in actuarial services from the State's actuary. DLS concurs with the agency's assessment that actuarial services will be required. Fiscal 2004 rates for the State's actuary are approximately \$400 per hour for a consulting actuary, \$350 per hour for an actuary, and \$200 for an assistant actuary. Based on these rates and a reasonable assumption that three weeks of full-time staffing could be required to run several complex pension scenarios, actuarial consulting costs would be \$115,000.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mam/mdr

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