

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 844
Appropriations

(Delegate Niemann)

Budget and Taxation

Employees' Pension System - Transfer of Service Credit

This bill allows a limited number of employees in a county that participates in the Employees' Pension System to transfer prior eligibility service from the State's contributory pension system to the noncontributory system.

The bill takes effect July 1, 2006 and terminates December 31, 2006.

Fiscal Summary

State Effect: No discernable effect on State pension contribution rates. The State Retirement Agency is aware of only two individuals who would be affected by the bill.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill affects individuals who (1) were employed by the Office of the Public Defender on or before June 30, 2006; and (2) are employed on or after July 1, 2006 by the State's Attorney's Office in a county that: • participates in the Employees' Pension System as a participating governmental unit (PGU); and • did not elect to participate in the contributory pension system; and (3) has been a member of the Employees' Pension System for more than one year.

The bill allows these employees to transfer eligibility service credit earned in the Employees' Contributory Pension System while a State employee to the noncontributory portion of the Employees' Pension System in accordance with relevant State law.

Current Law: The Employees' Pension System has a contributory component and a noncontributory component. Under the contributory component, employees pay 2% of their annual compensation and earn a benefit at the rate of 1.4% of their average final contribution for each year of service. Under the noncontributory component, employees contribute 5% of the portion of their annual compensation that is higher than the Social Security Wage Base, which was \$90,000 in fiscal 2005. With most salaries below that level, most employees in the noncontributory component make no contribution toward their pension benefit. For each year of service, they earn a two-part benefit of 0.8% of their average final compensation below the Social Security Integration Level (\$35,648 in 2004) and 1.5% for average final compensation above the Integration Level. The Social Security Integration Level is the 35-year average of Social Security Wage Bases.

As the bill specifies, transfers of service credit from the contributory component to the noncontributory component are governed by Title 37 of the State Personnel and Pensions article. Under Title 37, service credit transfers from a contributory system to a noncontributory system must occur within one year of becoming a member of the noncontributory system. Upon request, employees who transfer their credit are refunded all employee contributions made while members of the contributory system.

Background: The contributory component was established by Chapter 530 in 1998. At the time, PGUs were given the option of joining the contributory system or remaining in the noncontributory system. All but nine PGUs opted for the contributory system.

State Fiscal Effect: The State Retirement Agency (SRA) is aware of two individuals who meet the criteria specified by the bill. Both joined the noncontributory system more than one year ago. The individuals will receive a refund of their accumulated contributions under the contributory portions of the Employees' Pension System and receive the reduced pension benefits under the noncontributory system. SRA does not expect the refunds due to the two individuals to be a significant amount.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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