HB 1414

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1414 (Delegates Rosenberg and Madaleno)
Appropriations

Voluntary Employee Accounts Program

This bill establishes a Voluntary Employee Accounts Program within the Maryland Supplemental Retirement Plans. The new program would allow non-State employees to open retirement savings accounts permitted by the Internal Revenue Code. It would also allow them to defer a portion of their pre-tax compensation to their retirement accounts. Administrative expenses would be paid from fees assessed against participants' accounts. The program is contingent on the receipt of a private letter ruling from the Internal Revenue Service confirming the program's validity.

The bill is effective July 1, 2006.

Fiscal Summary

State Effect: No net effect. Special fund revenues and expenditures both increase by $80,300 in FY 2007 based on fees assessed on participants' accounts to pay for the cost of administering the new Voluntary Employee Accounts Program.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	$80,300	$110,000	$116,400	$123,300	$130,600
SF Expenditure	80,300	110,000	116,400	123,300	130,600
Net Effect	$0	$0	$0	$0	$0

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

Local Effect: None.

Small Business Effect: Minimal. Small businesses that do not currently offer tax-deferred retirement plans would be able to offer their employees an opportunity to save for retirement through the Voluntary Employee Accounts Program. They would also have to set up a payroll mechanism that would allow employees to defer a portion of their pre-tax compensation to their retirement accounts.

Analysis

Current Law: The Maryland Supplemental Retirement Plans (MSRP) allows State employees to open tax-deferred retirement savings plans permitted by the Internal Revenue Code. Currently, State employees may open three different types of accounts: 401(k), 457, or 403(b). The first two are available to all State employees, but the 403(b) is available only to State employees working in educational institutions. All the plans allow employees to defer a portion of their pre-tax compensation to their accounts, subject to limits established in federal law. All contributions are invested in mutual funds or a contract pool with a fixed interest rate according to instructions provided by each account holder. All investment earnings accrue tax-free, and account balances may be withdrawn when account holders reach retirement age or, in the case of the 457 plan, when they leave State employment.

State law allows MSRP to assess account fees to cover its administrative expenses. The current fee is 0.05% of each account balance. Revenue generated by the fee mostly goes toward providing educational and pre-retirement workshops for State employees to enhance their understanding of the need to save for retirement and of the savings options available to them. In addition, Nationwide Retirement Solutions, which actually administers the accounts, assesses an additional 0.23% fee on all account balances to cover its expenses.

The State matches employee contributions to their retirement savings plans, up to $600 annually per account. The match was suspended for two years due to budgetary constraints, but was restored in fiscal 2006, up to $400. It has been increased to $600 for fiscal 2007, the maximum allowed by statute. The State match would not be available to members of the new Voluntary Employee Accounts Program, although employers would be free to match their employees' contributions.

State Fiscal Effect: New accounts under the Voluntary Employee Accounts Program would be subject to an administrative fee to cover operating expenses for MSRP. The fee assessed would depend on the number of new enrollees and the resulting administrative costs of serving their investment needs.

Special fund expenditures could increase by estimated $80,332 in fiscal 2007 which accounts for the bill's July 1, 2006 effective date. This estimate reflects MSRP's expectations that it will have to add two new positions to serve 10,000 new account holders. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses, including travel to provide workshops for new account holders.

Positions	2
Salaries and Fringe Benefits	$77,122
Travel and Other Operating Expenses	3,210
Total FY 2007 State Expenditures	**$80,332**

Special fund revenues from the account fees would increase by an equal amount to cover these costs. Future year expenditures reflect (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Supplemental Retirement Plans, Maryland State Retirement Agency, Department of Legislative Services

Fiscal Note History: First Reader - March 13, 2006
ncs/jr

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510