HB 1086

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1086 (Prince George's County Delegation and Montgomery County Delegation)

Appropriations

Maryland-National Capital Park and Planning Commission - Employees - Retirement System
PG/MC 124-06

This bill requires the Maryland-National Capital Park and Planning Commission (M-NCPPC) to establish a contributory retirement system for all full- and part-time employees. It also requires the commission to provide health insurance benefits to its retirees that are equivalent to health benefits provided to employees.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: None.

Local Effect: M-NCPPC expenditures could increase by $5.6 million over the next 10 years, beginning in FY 2008. The increased expenditures result from the mandated employer contribution rate for employee pensions exceeding the actuarially-determined rate.

Small Business Effect: None.

Analysis

Bill Summary: Both the commission and its employees will contribute to the new retirement system. Employees may not be required to contribute more to the new system than they already contribute as of June 30, 2006, unless they agree to a higher contribution through collective bargaining. Moreover, the employer contribution, which is based on an actuarial valuation, may not be lower than the highest rate paid by a full-time employee.

Current Law: M-NCPPC currently operates four separate retirement plans, two for non-union employees and two for sworn park police officers, whose benefits are established through collective bargaining. **Exhibit 1** shows characteristics of all four plans.

Exhibit 1
M-NCPPC Retirement Plans

	Members	**Contribution**	**Benefit**	**Full Retirement**
Plan A (closed 1978)	Sworn and non-sworn	6% sworn 7% non-sworn	2.0%	30 years, or age 60 with 5 years
Plan B	Non-sworn	3% up to SS wage base; 6% above SS wage base	2.0% until SS; 1.5/2.0 after	30 years, or age 60 with 5 years
Plan C	Sworn	8%	2.4% for first 25 years; 2.0% after	25 years, or age 55 with 5 years
Plan D	Sworn	7%	2.27% for first 22 years; 2.0% after	22 years, or age 55 with 5 years

Background: M-NCPPC is a bi-county agency established by the State in 1927 to acquire and administer a regional system of parks in Montgomery and Prince George's counties. It also administers a general plan for land development in both counties. It was a participating governmental unit in the Employees' Retirement System until it withdrew in 1972 and started its own pension plan (Plan A).

New accounting standards issued by the Government Accounting Standards Board (GASB) require governmental employers to account for liabilities associated with the employers' commitment to provide health benefits to retirees, as well as other post-employment benefits (OPEB) not including pensions. For public employers that offer subsidized health insurance to their retirees, OPEB liabilities can be substantial. A 2005 actuarial valuation found that the State of Maryland's OPEB liabilities exceeded $20 billion. M-NCPPC advises that a 2004 valuation of its OPEB liability found a $14 million unfunded liability. Although GASB is not requiring employers to pre-fund OPEB liabilities, those liabilities that appear on public employers' accounting statements can hurt their bond ratings, making it more expensive for them to borrow money.

Local Expenditures: As of June 30, 2005, M-NCPPC reports having 2,001 active employees, of whom 86% participate in Plan B and 7% participate in Plan C. Under the terms of this bill, the commission's pension contribution could not fall below 8% of payroll because that is the highest current employees' contribution (in Plan C). The commission could conceivably lower that employee contribution rate, but since Plan C serves sworn police officers, any reduction in their contribution rate would have to be negotiated through collective bargaining.

The bill requires the commission to pay employer pension contributions in excess of actuarially-determined contribution rates. Under its current pension plan configuration, the commission's blended employer contribution exceeds 8%, but its actuary predicts that it will fall below that level in the next few years, approaching 7% of payroll before beginning to rise again. During those intervening years, under this bill the commission would have to maintain its employer contribution at 8% even though the actuarially-determined rate would be lower than 8%. According to the commission's actuary, that excess contribution would cost the commission an estimated $5.64 million over the next 10 years, beginning in fiscal 2008, which is the first year that the rate is expected to drop below 8%.

The bill could have additional long-term fiscal effects by restricting the commission's ability to address its unfunded liability for retiree health care costs. By requiring it to offer the same health benefits to retirees that it offers to employees, the bill limits the commission's ability to explore options for reducing its current or future OPEB liabilities. A General Assembly Task Force to Study Retiree Health Care Funding Options has recommended the formation of a blue ribbon commission to study options for reducing the State's OPEB liabilities, including making changes to health benefits the State offers to retirees. This bill would preclude M-NCPPC from doing the same, unless it also reduced employee health benefits.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland-National Capital Park and Planning Commission, Maryland State Retirement Agency, Department of Legislative Services

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