

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1048 (Delegate James) (Chairman, Joint Committee on Pensions)

Appropriations

Budget and Taxation

Special Pay Plans - Repeal

This bill repeals the provisions authorizing the creation of a Special Pay Plan for State employees.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: None. The Special Pay Plan has not been implemented.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Chapter 302 of 2004 created a Special Pay Plan for State employees and authorized the Secretary of Budget and Management to administer the plan. Special Pay Plans, allowed by Section 401(a) of the federal Internal Revenue Code, enable employees with unused sick leave, annual leave, vacation pay, or other types of special pay to deposit those balances in a tax-exempt account upon their termination or retirement. Withdrawals from Special Pay Plans are tax-exempt for individuals over the age of 55. All eligible State employees (*i.e.*, those with accumulated leave balances) are required to participate.

Chapter 164 of 2005 delayed implementation of the Special Pay Plan until July 1, 2006.

Background: Non-cash benefits like sick leave and personal leave accrue tax-free during employment, but are subject to taxes if they are cashed out upon retirement or termination. Special Pay Plans allow employees to retain the value of those benefits on a tax-exempt basis if they leave them in the plans until age 55.

During the 2005 interim, the Joint Committee on Pensions heard testimony from the Maryland Supplemental Retirement Plan (MSRP) that a primary obstacle to the implementation of a Special Pay Plan is lack of approval from the Internal Revenue Service (IRS). The IRS rejected proposals for Special Pay Plans submitted by Florida and South Carolina, the latter of which was similar to the proposed Maryland plan. Counsel to the Board of Trustees of MSRP indicated that it would be unproductive to submit a proposal to the IRS without addressing the concerns that the IRS raised with respect to the two plans it rejected.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 28, 2006
ncs/jr

Analysis by: Michael C. Rubenstein

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