HB 1280

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1280 (Delegate Kach)
Appropriations

Employees' Retirement System and Employees' Pension System - Retirees and Beneficiaries - Retirement Allowance

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This bill provides a 6% benefit enhancement to retirees of the Employees' Retirement System (ERS) or Employees' Pension System (EPS) who retired on or before June 30, 2007.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: State accrued pension liabilities increase by $386.7 million. Amortizing that amount over 25 years results in State pension contributions increasing by $23.8 million in FY 2009 and thereafter according to actuarial assumptions. One-time special fund expenditure of $50,000 in FY 2008 by the State Retirement Agency to reprogram its computer system.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	14,266,800	14,837,400	15,431,400	16,048,200
SF Expenditure	50,000	4,755,600	4,945,800	5,143,800	5,349,400
FF Expenditure	0	4,755,600	4,945,800	5,143,800	5,349,400
Net Effect	($50,000)	($23,778,000)	($24,729,000)	($25,719,000)	($26,747,000)

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

Local Effect: Accrued pension liabilities for participating governmental units (PGUs) increase by $104.4 million. Amortizing that amount over 25 years results in PGU pension contributions increasing by $6.4 million in FY 2009. Future year increases reflect actuarial assumptions.

Small Business Effect: None.

Analysis

Current Law: At retirement, ERS members subject to Selection A or B receive a benefit equal to:

Years of Creditable Service	x	Average Final Compensation (AFC)	x	1.8%

Selection A members receive an annual uncapped cost-of-living adjustment (COLA) equal to the increase in the Consumer Price Index for all urban consumers (CPI-U). Selection B members receive an annual COLA equal to the increase in CPI-U, capped at 5%.

EPS members who retired before June 30, 1998 received an annual retirement benefit equal to:

Years of Creditable Service	x	AFC up to the Social Security Integration Level	X	0.8%

Plus

Years of Creditable Service	x	AFC above the Social Security Integration Level	X	1.5%

EPS members who retired after June 30, 1998, but before July 1, 2006, received a retirement benefit equal to:

Years of Creditable Service Before 1998	x	AFC	x	1.2%

Plus

Years of Creditable Service After 1998	x	AFC	x	1.4%

EPS members who retire after June 30, 2006 receive an enhanced benefit formula enacted under Chapter 110 of 2006, which provides a retirement benefit equal to:

Years of Creditable Service Before 1998	x	AFC	x	1.2%

Plus

Years of Creditable Service After 1998	x	AFC	x	1.8%

EPS members who retired before 1998 receive a simple annual COLA equal to 3% of their initial retirement benefit; those who retired after 1998 receive a compound annual COLA equal to the increase in CPI-U, capped at 3%.

Finally, ERS members subject to Selection C receive ERS benefits for the portion of their creditable service earned while members of ERS and EPS benefits for the portion of their service under Selection C. Their COLA is also prorated based on their service.

State Fiscal Effect: As of June 30, 2006, there were 24,271 ERS retirees whose average annual retirement benefit was $15,732. There were also 26,216 EPS retirees whose average annual retirement benefit was $8,904. With 3% annual COLAs, by June 30, 2007, their average annual benefits will be $16,204 and $9,171, respectively. Based on recent past experience, the General Assembly's actuary estimates that by July 1, 2007, there will be an additional 433 ERS retirees (24,704 total) and 1,750 EPS retirees (27,966 total).

As a result, the bill's provisions increase State accrued pension liabilities by $386.7 million. Amortizing that amount over 25 years results in State pension contributions increasing by $23.8 million in fiscal 2009 and increasing thereafter according to actuarial assumptions. Those costs are assumed to be split 60% general funds, 20% special funds, and 20% federal funds.

The State Retirement Agency notes that the bill would require major programming changes to its Legacy Computer System. It estimates the cost of those changes to be between $50,000 and $200,000. Based on past experience, the Department of Legislative Services believes the cost will be approximately $50,000.

Local Fiscal Effect: Approximately 120 local governments participate in the State Retirement and Pension System as PGUs. Accrued pension liabilities for all PGUs combined increase by $104.4 million. Amortizing that amount over 25 years results in

PGU pension contributions increasing by $6.4 million in fiscal 2009. Future year increases reflect actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Mercer Human Resources Consulting, Maryland State Retirement Agency, Department of Legislative Services

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