SB 583

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 583 (Senator Kramer) (Chair, Joint Committee on Pensions)
Budget and Taxation Appropriations

Alternate Contributory Pension Selection - Clarifications

This bill allows, under specific conditions, members of the Employees' Pension System (EPS) and Teachers' Pension System (TPS) who are subject to the alternate contributory pension selection (ACPS) to combine their current eligibility service credit with vested and nonvested service credit earned during prior employment. It also updates various provisions of pension law to reflect the enactment of ACPS under Chapter 110 of 2006.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: Accrued pension liabilities increase by an estimated $886,000 due to former vested and nonvested members returning to State employment and combining their prior service credit with new credit earned under ACPS. Amortizing those liabilities over 25 years results in State pension contributions increasing by $54,000 in FY 2010 and increasing thereafter according to actuarial assumptions.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	0	54,000	101,000	165,000
Net Effect	$0	$0	($54,000)	($101,000)	($165,000)

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

Local Effect: Local participating governmental unit (PGU) pension liabilities increase by $225,000 due to former vested and nonvested members returning to local employment and combining their prior service credit with new credit earned under ACPS. PGU pension contributions increase by $14,000 in FY 2010, and grow according to actuarial assumptions.

Small Business Effect: None.

Analysis

Bill Summary: TPS and EPS members who complete at least one year of service under ACPS and who have a *vested* account from prior service under a different benefit structure may combine their current and prior service credit. To combine service credit, a member must complete a claim for prior service credit and pay the difference between the previous employee contribution rate and the current contribution rate for all of the prior service credit being claimed, plus 5% interest.

TPS and EPS members who complete at least one year of service under ACPS and have a *nonvested* account from prior service may combine current and prior service credit as long as the intervening separation was less than four years and they return to employment by June 30, 2010. They, too, must complete a claim for prior service credit and pay the difference in employee contribution rates plus interest. Although this provision technically applies to any prior service earned under TPS and EPS, including service credit earned in either the contributory or noncontributory tiers, in practical terms it applies only to service credit earned in the noncontributory tier. This is because other provisions of pension law allow members to buy prior service credit earned under the contributory tier without being subject to the four- year limitation.

Former members that have withdrawn from EPS/TPS and received a refund of their employee contributions and return to service under ACPS may re-purchase their prior service credit by paying the full employee cost plus interest.

PGUs that elect to participate in ACPS by June 30, 2007 must pay any additional liabilities associated with ACPS in accordance with an amortization schedule determined by the Board of Trustees of the State Retirement and Pension System.

The bill's remaining provisions are technical in nature.

Current Law: Only EPS/TPS members subject to the enhanced contributory pension selection (ECPS) in effect from 1998 to 2006 may combine their current service credit with a prior vested or nonvested account. Since prior accounts for ECPS participants would have been earned under the noncontributory system, members subject to ECPS have to pay the 2% employee contribution required by ECPS for all of their prior service credit.

Background: Chapters 23 and 24 of 1979 established EPS and TPS as noncontributory pension systems for all members except for those in the upper echelon of the salary schedule. The two systems remained noncontributory until Chapter 530 of 1998 established the ECPS benefit tier that provided a benefit of 1.4% of average final compensation (AFC) for each year of service while requiring a 2% employee contribution for all members. At the time, similar provisions were made for former members with vested and nonvested accounts to combine that prior service with service earned under ECPS. Chapter 110 of 2006 created the ACPS, the third benefit tier for EPS/TPS members. ACPS provides a benefit of 1.8% of AFC retroactive to 1998, and an employee contribution of 5%, which is phased in over three years. All current and future State employees and teachers in EPS/TPS participate in ACPS.

In 1998, PGUs who participated in EPS had the option to remain in the noncontributory system or join ECPS. All but six of the PGUs opted for ECPS. In 2006, PGUs were given one year to decide whether to join ACPS. To date, the same six systems have remained in the noncontributory tier, while all but 13 of 108 PGUs in ECPS have elected to join ACPS.

State Fiscal Effect: Accrued pension liabilities increase to the extent that members and former members with vested and nonvested accounts return to service for at least one year under ACPS and combine their prior service credit with credit earned under ACPS. As of June 30, 2006, there were 26,805 former members of EPS with vested accounts. Under the provisions of this bill, those individuals are eligible to return to State service under ACPS and combine their prior vested service under EPS with new service earned under ACPS. However, the Maryland State Retirement Agency does not maintain records on the number of individuals who have withdrawn from the system with nonvested accounts and received refunds of their employee contributions. Under the terms of this bill, those individuals can return to State employment under ACPS, re-purchase their prior credit, and combine their prior service credit with new service credit earned under ACPS. Therefore, this analysis is based on the following assumptions:

- 1% of former vested members as of June 30, 2006 return to State service in fiscal 2008 and combine their prior service credit with new credit earned under ACPS; the number of individuals who return to employment decreases by 20% each year;
- half as many nonvested members as vested members return to work and combine their service credit;
- vested former members have an average of five years of prior service; nonvested members have an average of two years of prior service.

Based on these assumptions, the General Assembly's actuary estimates that State pension liabilities increase by $886,000. Amortizing those liabilities over 25 years results in State pension contributions increasing beginning in fiscal 2010 ($54,000) and increasing thereafter according to actuarial assumptions.

Local Fiscal Effect: Based on the same assumptions used above, the General Assembly's actuary estimates that actuarial liabilities for PGUs increase by $225,000. Amortizing those liabilities over 25 years results in PGU pension contributions increasing by $14,000 in fiscal 2010 and increasing thereafter according to actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/jr

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