SB 593

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 593 (Senator Madaleno, *et al.*)
Budget and Taxation

Optional Defined Contribution System - Membership

This bill allows members of the Employees' Retirement System (ERS) and the Correctional Officers' Retirement System (CORS) to participate in the tax-deferred defined contribution retirement plans administered by the Maryland Supplemental Retirement Plans (MSRP).

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: $3.0 million increase in State expenditures (all funds) in FY 2008 to provide a State match to new members who defer a portion of their compensation to a tax-deferred retirement plan. Administrative fees collected by MSRP from new participants would cover the increased cost of expanding membership in the supplemental retirement plans. Future year costs reflect annual 4.5% increases in personnel costs.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	$0	$0	$0	$0	$0
GF Expenditure	1.8	1.9	2.0	2.1	2.2
SF Expenditure	.6	.6	.7	.7	.7
FF Expenditure	.6	.6	.7	.7	.7
Net Effect	($3.0)	($3.2)	($3.3)	($3.5)	($3.6)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: MSRP allows State employees who are members of the Employees' Pension System (EPS) 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 (typically postsecondary 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 asset allocations determined 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 All investment earnings accrue tax-free, and account balances may be withdrawn when account holders reach retirement age or, in the case of the 457 plan, when they leave State employment.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. Revenues generated by the fee mostly go 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. Also, 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.

In fiscal 2006, 51% of eligible participants actively deferred a portion of their pre-tax compensation into one or more of the plans.

State Fiscal Effect: As of June 30, 2006, there are 10,121 members of ERS, which includes all members of CORS (CORS is subsumed within ERS). State expenditures (all funds) would increase by $3.0 million in fiscal 2008 to provide the State match to members who defer compensation to one or more plan. These costs are expected to be split 60% general funds, 20% special funds, and 20% federal funds. This analysis is based on the following assumptions:

- 50% of newly eligible members (5,060) defer a portion of their compensation into one or more account, consistent with current deferral rates;
- these individuals defer enough to entitle them to the full $600 State match; and
- the amount of the State match is not suspended or reduced in any year.

It is further assumed that administrative fees assessed and collected by MSRP would be sufficient to cover any increased costs. Out-year costs reflect annual 4.5% increases in personnel costs.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/jr

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