SB 334

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 334 (Senator Gladden)
Budget and Taxation

Employees' Pension System - Purchase of Service Credit

This bill allows members of the Employees' Pension System (EPS) to purchase up to 10 years of eligibility service credit to which they are not otherwise entitled at any time prior to retirement. EPS members may purchase that credit by making annual installment payments of 2% of earnable compensation, with the final balance resolved at the time of retirement. Installment payments would be held by the State Retirement and Pension System (SRPS) and earn 5% interest annually.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: None. The bill is not expected to increase the amount of service purchased by employees.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Only at the time of retirement, EPS members may purchase at full cost (employee and employer shares) up to 10 years of eligibility service credit to which they are not otherwise entitled for prior employment with:

- the State;
- a political subdivision of the State;
- an out-of-state school as a teacher;
- the federal government;
- an out-of-state political subdivision;
- a public or nonpublic school as a teacher; or
- a postsecondary school as a teacher (not more than five years).

Members of the Employees' Retirement System, the Teachers' Retirement System, and Teachers' Pension System are also eligible to purchase service credit at full cost, but are not included in this bill.

Background: The full cost of a service credit purchase is actuarially determined based on the member's age, average final salary, amount of service to be purchased, and whether the purchased credit affects eligibility for retirement. For instance, the cost of purchasing the thirtieth year of eligibility, which entitles a member to a normal service retirement, is considerably greater than purchasing the twentieth year of eligibility.

Current law allows full cost service purchases only at the time of retirement because that is the only time that a member's average final compensation can be known, which is a key factor in determining the cost of the purchase. Prior to 2005, SRPS allowed installment payments for full-cost purchases, based on projected cost estimates. However, the State Retirement Agency (SRA) reports that over a 30-year period, only about 100 members made installment payments toward full-cost purchases. Between 2000 and 2005, no members made installment payments. SRA believes that the reason might be that members could earn higher returns than 5% interest by investing in other retirement accounts, including the Maryland Supplemental Retirement Plans. In response to the lack of participation, Chapter 493 of 2005 eliminated the installment payment option.

State Fiscal Effect: The bill does not affect the State's pension liabilities or contributions because the employees pay the full cost of the credit. The General Assembly's actuary notes that its analysis of the system's rules for service purchases indicates that, based on the actuarial assumptions used, employees do not pay the full cost of the purchase. For instance, while the system assumes a 7.75% return on its investments, it requires employees to pay only 7% interest when they purchase credit. This bill's requirement that installment accounts earn 5% interest recovers some, but not all, of that loss. The net effect is assumed to be small. Based on past experience, the bill is not expected to increase the amount of service purchased, so there should be no fiscal effect.

SRA projects that the bill would require it to spend between $100,000 and $125,000 to reprogram its Legacy Computer System to track installment payments. However, the Department of Legislative Services (DLS) notes that the agency is scheduled to replace that system with an upgraded system with expanded, more agile capabilities within one year of the bill's effective date. Moreover, given the history of the installment payment program, DLS does not expect more than a handful of members, if any, to make installment payments. To the extent that they do, SRA can track those payments manually, much as it does with the Deferred Retirement Options Programs for the State Police and Law Enforcement Officers' systems. Once the new computer system is in place, those manual calculations can be transferred to the new system at no cost.

Additional Information

Prior Introductions: None.

Cross File: HB 955 (Delegate Carter) – Appropriations.

Information Source(s): State Retirement Agency, Department of Legislative Services

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mll/jr

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