

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 866 (Delegate McComas)
 Appropriations

Alternate Contributory Pension Selection - Participation

This bill applies the pension benefit enhancement for members of the Employees' Pension System (EPS) and Teachers' Pension System (TPS) enacted under Chapter 110 of 2006 to TPS/EPS members who retired between January 1, 2006 and April 25, 2006. Retirees affected by this bill would receive retroactive benefit adjustments using the enhanced benefit formula from July 1, 2006 through June 30, 2007.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: State accrued pension liabilities increase by \$18.6 million. Amortizing those liabilities over 25 years results in State pension contributions increasing by \$1.1 million in FY 2009, 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	687,000	714,600	743,400	772,800
SF Expenditure	0	229,000	238,200	247,800	257,600
FF Expenditure	0	229,000	238,200	247,800	257,600
Net Effect	\$0	(\$1,145,000)	(\$1,191,000)	(\$1,239,000)	(\$1,288,000)

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

Local Effect: Pension liabilities for participating governmental units (PGUs) increase by \$2.9 million. Amortizing those liabilities over 25 years results in PGU pension contributions increasing by \$175,000 in FY 2009. Those contributions increase thereafter according to actuarial assumptions.

Small Business Effect: None.

Analysis

Current Law: Chapter 110 of 2006 created the Alternate Contributory Pension Selection (ACPS) benefit tier for active members of TPS, EPS, and Selection C under either the Teachers' Retirement System (TRS) or Employees' Retirement System (ERS). Under ACPS, the pension benefit multiplier for eligible members increased from 1.4% of average final compensation (AFC) for each year of service since 1998 to 1.8% of AFC for each year of service since 1998. For service prior to 1998, TPS/EPS members continue to receive the higher of 1.2% for each year of service or the sum of 0.8% of AFC up to the Social Security integration level and 1.5% of AFC over that level. Chapter 110 was effective July 1, 2006 and did not apply to any individuals who retired prior to that date.

While State employees participate in ACPS as a condition of their employment, Chapter 110 gave approximately 120 PGUs the opportunity to elect to participate in ACPS or remain in the previous benefit tier; PGUs have until July 1, 2007 to make their decision.

Background: Chapter 23 and 24 of 1979 closed TRS and ERS to new members and established EPS and TPS in their place. TRS/ERS members had the option of remaining in the "old" systems or transferring to the "new" systems. Some members opted for a split option, known as Selection C, which allowed them to retain their TRS/ERS benefits for service credit earned under those systems, and earn TPS/EPS benefits going forward. Because their current benefits mirror those of EPS/TPS members, Selection C members were included in the 2006 benefit enhancement. However, they are not included in this bill.

State Fiscal Effect: The State Retirement Agency (SRA) reports that 1,100 EPS/TPS members retired between January 1, 2006 and April 25, 2006. For the purpose of this estimate, the General Assembly's actuary estimates that 21% of the EPS retirees are from PGUs, based on data provided by SRA. In the absence of demographic data on those retirees, the actuary further estimates that their average retirement age is 62; to the extent that the average age is less, total costs could be higher than those provided below.

Based on these assumptions, State accrued pension liabilities increase by \$18.6 million. Amortizing those liabilities over 25 years results in State pension contributions increasing by \$1.1 million in fiscal 2009, and increasing thereafter according to actuarial assumptions.

Local Fiscal Effect: Based on the same assumptions given above, PGU pension liabilities increase by \$2.9 million. Amortizing those liabilities over 25 years results in PGU pension contributions increasing by \$175,000 in fiscal 2009. Those contributions increase thereafter according to actuarial assumptions.

Additional Comments: As noted earlier, Chapter 110 took effect July 1, 2006. This bill excludes EPS/TPS members who retired between April 25, 2006 and July 1, 2006.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 19, 2007
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