

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 375 (Senator McFadden, *et al.*) (Chair, Joint Committee on Pensions)

Budget and Taxation

Appropriations

State Retirement and Pension System - Imposition of Administrative Fees on Employers

This bill authorizes the Board of Trustees of the State Retirement and Pension System (SRPS) to adopt regulations that allow it to impose an administrative fee on any employer that does not provide enrollment paperwork for new employees in a timely fashion.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: Potential minimal increase in special fund revenues for the State Retirement Agency from the collection of administrative fees from delinquent employers. Potential minimal increase in expenditures (all funds) for delinquent State agencies that are subject to the new fees. No discernable effect on State pension liabilities or contribution rates.

Local Effect: Potential minimal increase in expenditures for participating governmental units (PGUs) that are subject to the new administrative fees.

Small Business Effect: None.

Analysis

Current Law: The board is authorized to adopt regulations providing for the administration of the several systems, the management of assets, and the transaction of its business. SRPS has no mechanism for penalizing employers that do not provide enrollment paperwork for new employees in a timely fashion.

Background: SRPS is a multi-employer pension plan that receives monthly electronic payroll records from every State agency and 113 PGUs. For every new employee, an employer is supposed to provide the system with an enrollment application, a designation of beneficiary form, and a copy of a birth certificate or other proof of birth date. The data in those forms are used to develop annual Personal Statements of Benefits mailed out to every member and for the annual actuarial valuation that determines State and PGU contribution rates.

When the agency receives payroll records for an employee for whom it does not have an enrollment form, the employee is entered into the system's database as an Automatic Enrollment (AE). Artificial data are then entered for each AE. Until the agency receives authentic data, the artificial data are used for benefit statements and for the actuarial valuation, resulting in imprecise calculations. The State Retirement Agency reports there are currently 9,603 AEs in its database, which account for almost 5% of active members.

State Fiscal Effect: State agencies that are delinquent in forwarding member enrollment forms to the State Retirement Agency would be subject to administrative fees, but they could avoid the fees by improving their human resource operations.

All administrative expenses for SRPS administration are special fund expenditures drawn from the pension fund, and all revenues for SRA revert back to the pension fund. Special fund revenues for SRA from the administrative fees would likely increase, but not by sufficient amounts to affect State pension liabilities or State pension contributions. However, the likely reduction in the number of AEs entered into the system's database will yield more accurate and reliable data for members and the actuary.

Local Expenditures: PGU employers that are delinquent in forwarding member enrollment forms to SRA would be subject to administrative fees, but they could avoid the fees by improving their human resource operations.

Additional Information

Prior Introductions: None.

Cross File: HB 472 (Delegate Griffith)(Chair, Joint Committee on Pensions) – Appropriations.

Information Source(s): Department of Legislative Services

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