

Department of Legislative Services  
Maryland General Assembly  
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 487

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

Budget and Taxation

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**Teachers' Pension System - Ineligible Positions - Transferring Membership**

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This bill requires a member of the Teachers' Pension System who is promoted to an ineligible position for membership in TPS to transfer to either the Employees' Pension System or, if available, a local pension plan for which the member qualifies. If the member transfers to EPS, the member's employer must pay the employer's EPS contribution. Transfers from TPS to a local pension plan are governed by Title 37 of State pension law.

The bill takes effect July 1, 2008 and applies only prospectively to any TPS member who is promoted to an ineligible position in the future.

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**Fiscal Summary**

**State Effect:** No discernable effect on State pension liabilities or contribution rates.

**Local Effect:** Potential modest increase in local expenditures to pay the employer pension contributions for TPS members who are promoted to ineligible positions.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** A teacher who is a member of TPS and who is promoted to a position that is not eligible for TPS membership, typically central office administration, may maintain enrollment in TPS. However, a nonmember hired directly into an ineligible position must join either EPS, if the employer participates in the plan, or a local pension plan that includes school board employees.

Title 37 of the State Personnel and Pension article allows members to transfer from TPS to a local contributory pension plan if, within one year of changing jobs, they complete a claim for the transfer of service credit and deposit into the local pension fund:

- the accumulated employee contributions from EPS;
- the difference, if any, between EPS employee contribution rates and the rates the employee would have paid if he or she had been a member of the local plan, including interest; and
- the accumulated contributions that would have been deducted from members of the local plan during the time that EPS was noncontributory, including interest.

The State pays all employer contributions for members of TPS, but local governments who participate in EPS as participating governmental units (PGUs) pay the employer pension contributions for their members.

**Background:** Five local school systems currently do not participate in EPS as PGUs: Baltimore City and Baltimore, Charles, Montgomery, and Wicomico counties. These counties operate local pension plans for county employees, including school board employees who are not eligible for TPS.

EPS was noncontributory for most members prior to July 1, 1998. From 1998 to 2006, the employee contribution rate was 2% of earnable compensation. Chapter 110 of 2006 increased the employee contribution rate to 5% of earnable compensation, phased in over three years.

**State Fiscal Effect:** The bill is prospective in nature, so it does not affect any current TPS members who have retained their membership after being promoted to an ineligible position. Therefore, there is no immediate effect on State pension liabilities or contribution rates. However, the State will realize modest savings in pension liabilities and contribution rates over what it would have paid in the future for TPS members promoted to ineligible positions.

**Local Fiscal Effect:** Local expenditures will likely increase in the future to pay the employer pension contributions for TPS members promoted to ineligible positions. Since the bill does not affect current TPS members who were already promoted to those positions, and Legislative Services cannot predict how many TPS members will be promoted in the future, the General Assembly's actuary cannot calculate the likely effect on local expenditures.

## **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 641 (Delegate Griffith) (Chair, Joint Committee on Pensions) – Appropriations.

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

**Fiscal Note History:** First Reader - February 18, 2008  
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