HB 1228

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1228 (Delegate Rosenberg, *et al.*)
Appropriations

Maryland Voluntary Employee Accounts Program

This bill establishes a Voluntary Employee Accounts Program (VEAP) within the Maryland Supplemental Retirement Plans (MSRP) that allows non-State employers to enroll in the program to offer tax-deferred defined contribution retirement plans permitted by the Internal Revenue Code to their employees. It also allows employers to defer a portion of pretax compensation for participating employees to the employees' retirement accounts. Administrative expenses are paid from fees assessed against participants' accounts. The bill limits the State's liabilities with respect to the retirement plans, and indemnifies the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans against legal action.

The bill is effective July 1, 2008, but enactment is contingent on affirmative rulings from the Internal Revenue Service, the U.S. Department of Labor, and the Securities and Exchange Commission confirming the program's validity under U.S. law. If all necessary approvals are not received by July 1, 2011, the bill is null and void. Subject to the receipt of necessary approvals, the VEAP program is authorized to begin July 1, 2009.

Fiscal Summary

State Effect: Assuming federal approval, special fund expenditures by MSRP increase by $196,000 in FY 2009 and by $169,000 in FY 2010 for start-up legal and operating costs. In FY 2011, special fund revenues increase by $125,000 as VEAP assets accumulate and are assessed administrative fees to offset the cost of operating VEAP. Those revenues are projected to grow annually to reflect the growth in VEAP assets. By FY 2013, no material net fiscal effect because increased special fund expenditures are offset by special fund revenues from administrative fees collected from account holders.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	$0	$0	$125,000	$150,000	$175,000
SF Expenditure	196,000	169,500	153,500	159,600	166,000
Net Effect	($196,000)	($169,500)	($28,500)	($9,600)	$9,000

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

Local Effect: None.

Small Business Effect: Meaningful. Small businesses that do not currently offer tax-deferred retirement plans would be able to offer their employees an opportunity to save for retirement through VEAP. Employers that chose to participate would also have to set up payroll mechanisms that would allow employees to defer a portion of their pretax compensation to their retirement accounts.

Analysis

Current Law: MSRP allows State employees to open tax-deferred retirement savings plans permitted by the Internal Revenue Code. Currently, State employees may open three different types of accounts, known by the respective sections of the federal tax code by which they are authorized: 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. All three plans allow employees to defer a portion of their pretax 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 instructions provided 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. Revenue generated by the fee mostly goes toward providing educational and preretirement workshops for State employees to enhance their understanding of the need to save for retirement and of the savings options available to them. In addition, Nationwide Retirement Solutions, which actually administers the accounts, assesses an additional 0.14% fee on all account balances to cover its expenses.

For State employee members of the Employees' Pension System only, 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 since fiscal 2007, the maximum allowed by statute. The State match would not be available to VEAP members, although employers would be free to match their employees' contributions. In fiscal 2007, MSRP had 60,000 members and 14 employees.

Background: Recent studies have found that most Americans are not saving enough for retirement. The 2006 Retirement Confidence Survey by the Employee Benefit Research Institute found that only 70% of Americans are saving for retirement, 42% have attempted to calculate how much they need to save, and 52% have saved less than $50,000 toward their retirement. While there are an array of tax-favored private savings mechanisms available under federal tax code, including Individual Retirement Accounts, employer-sponsored 401(k) plans, and other defined contribution plans, they are clearly underutilized.

The fiscal 2008 *Joint Chairmen's Report* contained committee narrative requesting that MSRP conduct a study of the feasibility of a VEAP program like the one created by this bill. The required study was delivered to the General Assembly in January 2008. It highlighted the potential liabilities that the State could incur from sponsoring a VEAP program, but acknowledged that they were remote and avoidable by limiting the available investment options. It also recognized the potential long-term economies of scale that could be recognized by VEAP through centralized management of employee accounts for multiple small employers. However, the study warned that in the short term, the State would have to subsidize the program until it became self-sustaining, perhaps as long as five to seven years.

State Fiscal Effect: Special fund expenditures by MSRP could increase by $196,031 in fiscal 2009 for VEAP start-up costs. This estimate reflects the cost of hiring one administrative officer to provide technical assistance and education to participating employers and their employees. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses, including travel to provide workshops for new account holders. It also reflects the cost of retaining outside counsel to obtain the necessary approval from federal agencies and to consult on program design to ensure compliance with the federal Employee Retirement Income Security Act (ERISA).

Salary and Fringe Benefits	$41,551
Outside Legal Counsel	$150,000
Other Operating Expenses	4,480
Total FY 2009 State Expenditures	**$196,031**

Future year expenditures reflect one additional position for MSRP as the program matures and reaches the anticipated size of 10,000 new members, but declining costs for outside counsel. For the two regular positions, it includes: (1) full salaries with 4.4% annual increases and 3% employee turnover; (2) 2% annual increases in ongoing operating expenses; and (3) additional costs for travel to provide ongoing technical assistance and member services.

At the same time, special fund revenues would increase by an estimated $125,000 by fiscal 2011 from per-account administrative fees assessed by MSRP. New VEAP accounts would be subject to an administrative fee to cover operating expenses for MSRP. The fee assessed would depend on the number of new enrollees and the resulting administrative costs of serving their investment needs. With the exception of start-up costs in fiscal 2009 and 2010, it is assumed that the fees assessed and collected by MSRP would be sufficient to offset any increase in administrative costs, including the new positions.

Additional Information

Prior Introductions: None.

Cross File: SB 728 (Senator Madaleno) – Budget and Taxation.

Information Source(s): Maryland Supplemental Retirement Plans, Department of Legislative Services

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ncs/jr

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