

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 872
Appropriations

(Delegate Schuh, *et al.*)

Budget and Taxation

Employees' Pension System - Purchase of Service Credit - Washington Suburban
Transit Commission

This bill allows a member of the Employees' Pension System (EPS) who was employed between September 2005 and February 2006 by the Maryland Transit Administration (MTA) to purchase service credit at full cost (employer and employee share, with interest) for past employment with the Washington Suburban Transit Commission (WSTC). To purchase the credit, the member may use funds from the Montgomery County Government's 401(a) retirement plan that were deposited on behalf of the member during the period of employment with WSTC.

The bill takes effect July 1, 2009, and terminates on December 31, 2009.

Fiscal Summary

State Effect: Negligible increase in State pension liabilities and no discernible effect on State pension contributions.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Within one year of retirement, an EPS member may purchase up to 10 years of service credit for a period of employment with a nonparticipating governmental unit. The cost of the purchase is determined based on the member's average final compensation (AFC) used to calculate the retirement allowance. For an

EPS member, AFC is the average of his or her compensation for each of the final three years of employment. A member pays the full cost of the purchase (both employee and employer share, plus interest).

State Fiscal Effect: The State Retirement Agency (SRA) is aware of fewer than five individuals who qualify for the service credit purchase allowed by this bill. On average, they have between five and six years of service credit that may be purchased. Their credit purchases add to the State's pension liabilities in at least two ways. First, Legislative Services assumes that the cost of the service credit is calculated using either the member's compensation at the time of employment with WSTC, or their current compensation. In either case, those compensation levels are likely to be less than their AFC would be at the time of retirement, assuming that compensation increases over time. Therefore, the costs of the purchases are lower than if the members had to wait until retirement to purchase the credit (as required by current law).

Second, the General Assembly's consulting actuary has consistently advised that the actuarial factors that SRA uses to calculate the cost of credit purchases have not been updated since the 1980s and likely underestimate the true cost of purchased credit. Therefore, payments made by members for credit purchases are likely less than the present value of the liabilities they actually contribute to the system. However, given the small number of members who qualify for these credit purchases, and the limited number of years of credit they are expected to purchase, Legislative Services expects that the added liabilities are minimal and have no discernible effect on State pension contributions.

To the extent that the affected members are close to retirement age or eligibility, the value of the purchased credit may further exceed the cost of the purchase because the additional credit enables the members to retire sooner than expected. Sooner-than-expected retirements add to the pension system's liabilities because retirement allowances are paid over a longer period. The effect on liabilities is also expected to be minimal given the small number of affected members.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/rhh

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