HB 1562

Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 1562 (Delegate Serafini)
Appropriations

General Assembly Compensation Commission - Legislative Pension Plan

This proposed constitutional amendment requires the General Assembly Compensation Commission (GACC) to establish a Legislative Pension Plan (LPP) that provides retirement benefits that are equal to benefits provided under the Employees' Pension System (EPS).

Fiscal Summary

State Effect: None. If the constitutional amendment is approved by the General Assembly and the voters, State pension liabilities and annual contributions decrease beginning in FY 2016.

Local Effect: If approved by the General Assembly, this constitutional amendment will be submitted to the voters at the 2010 general election. It should not result in additional costs for local boards of elections.

Small Business Effect: None.

Analysis

Current Law:

General Assembly Compensation Commission

A constitutional amendment, approved by the voters in 1970, created the nine-member GACC and specified that the commission submit salary and allowance recommendations to the legislature every four years. Members of the General Assembly and State and local government officers and employees are not eligible for appointment to the commission.

The constitutional provisions, Article III, Section 15, provide that:

- The compensation commission must submit its compensation, allowances, and pension recommendations to the General Assembly by formal resolution within 15 days after the beginning of the last regular General Assembly session in a four-year term of office. In 2010, the commission was required to submit its resolution proposing compensation and allowances for the 2011-2014 General Assembly term by January 27, 2010.
- Rates of compensation and pensions must be uniform for all members of the General Assembly, except that the officers of the Senate and the House of Delegates (traditionally, the President and the Speaker) may receive higher compensation.
- Compensation allowances may not be less than the dollar amounts prior to the establishment of the first compensation commission in 1970.
- Through a joint resolution, the General Assembly may reduce or reject, but may not increase, any item in the resolution.
- The commission's resolution, with any reductions concurred in by joint resolution of the General Assembly, has the force of law and takes effect at the beginning of the next General Assembly.
- The provisions of each resolution govern until superseded by a subsequent resolution.

The *Report of the General Assembly Compensation Commission* was published on January 12, 2010.

The Maryland Constitution, as interpreted by the Attorney General, gives GACC exclusive jurisdiction over salaries, meal and lodging expense allowances, travel allowances, employee benefit programs, and the legislative retirement system. This exclusive jurisdiction extends only to payments made to the legislators themselves.

Legislative Pension Plan

LPP is the only pension plan administered by the State Retirement and Pension System that is optional for eligible members; all other plans are required for eligible members as a condition of their employment. Only elected members of the General Assembly are eligible for membership in LPP. LPP members contribute 5% of their salary for up to 22 years and 3 months; contributions are not required beyond that time. They are vested in the plan after eight years (two terms). Vested members are eligible for a full service retirement allowance upon reaching age 60, as long as they are no longer serving in the General Assembly. Their annual retirement allowance is 3% of the salary of a current member of the General Assembly for each year of service credit, but is capped at two-thirds of the salary of a current member (currently $43,500).

For the purpose of calculating employer contributions, LPP is combined with the Employees' Retirement System (ERS), EPS, and Correctional Officers' Retirement System for the annual actuarial valuation. Therefore, employer contributions for LPP are the same as those for the combined employees' plans.

Employees' Pension System

EPS was established in 1980 to provide a defined benefit retirement plan for regular State employees. State employees who are not judges or public safety personnel are members of EPS as a condition of their employment. **Exhibit 1** shows key features of EPS and LPP.

Exhibit 1
Comparison of Maryland State Retirement Plans

	EPS	LPP
Vesting	5 years of service	8 years of service
Employee Contribution	5% of salary	5% of salary (for 22 years, 3 months)
Service Retirement Conditions	Age 62 or 30 years	Age 60
Retirement Allowance	1.8% of salary for years of service after 7/1/98; plus 1.2% of salary for years of service prior to 7/1/98	3% of current legislative salary per year of service
Post Retirement Adjustments	Limited to 3% annual COLA	Based on salary of active legislators

Source: Department of Legislative Services

State Fiscal Effect: As shown in Exhibit 1, significant differences exist between LPP and EPS. Of all the plan variables, however, only the vesting term under EPS (five years, compared with eight years under LPP) can be considered more favorable to its members than comparable features under LPP. Employee contributions under the two plans are identical, but LPP members stop paying after 22 years and 3 months. LPP members can retire sooner than EPS members, and the LPP benefit multiplier is substantially higher than the multiplier for EPS members. In addition, EPS retirees are subject to an actuarial reduction to their retirement allowance if they elect to provide a survivor benefit for a spouse or beneficiary; LPP members are not subject to a similar reduction.

According to the General Assembly's consulting actuary, all of these factors combine to make the LPP benefit more generous to its members than an EPS benefit. If approved by the General Assembly and the voters, therefore, this constitutional amendment would reduce State pension liabilities. However, GACC meets only every four years, and the next scheduled meeting is in 2013, during which the commission will recommend compensation and benefit levels for the term that begins in January 2015. Therefore, any redesign of the LPP in accordance with this constitutional amendment will not have an effect until fiscal 2016. Based on projections carried out by the General Assembly's consulting actuary, State pension contributions decrease by approximately $1 million in fiscal 2016; those savings would increase annually according to actuarial assumptions.

Local Fiscal Effect: The Maryland Constitution requires that proposed amendments to the constitution be publicized either (1) in at least two newspapers in each county, if available, and in at least three newspapers in Baltimore City once a week for four weeks immediately preceding the general election; or (2) by order of the Governor in a manner provided by law. State law requires local boards of elections to publicize proposed amendments to the constitution either in newspapers or on specimen ballots; local boards of elections are responsible for the costs associated with these requirements. It is anticipated that the budgets of local election boards will contain funding for notifying qualified voters about proposed constitutional amendments for the 2010 general election in newspapers or on specimen ballots.

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 - April 6, 2010
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