

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 1443

(Delegate Elmore, *et al.*)

Appropriations

Budget and Taxation

State Retirement and Health Benefits - Early Service Retirement Allowance and
 Health Insurance Benefits - Eligibility

This bill allows an individual to purchase service credit in the Employees' Pension System (EPS) that is necessary to qualify for early retirement for a period of time during which the individual was employed as a contractual employee by the Wicomico County Health Department if the individual (1) was a member of EPS while employed by the Wicomico County Health Department between January 1, 1987 and July 1, 2001; and (2) has between 14 and 15 years of eligibility service credit. The bill also authorizes such an individual to enroll in the State Employee and Retiree Health and Welfare Benefits Program and receive the State premium subsidy while receiving a retirement allowance from the State.

The bill takes effect July 1, 2010, and terminates December 31, 2010.

Fiscal Summary

State Effect: General fund expenditures by the Department of Budget and Management (DBM) increase by \$13,500 in FY 2011 to provide subsidized health insurance coverage to one individual. Out-year costs reflect 7% medical inflation. No effect on State pension liabilities or contribution rates.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	13,500	14,400	15,400	16,500	17,600
Net Effect	(\$13,500)	(\$14,400)	(\$15,400)	(\$16,500)	(\$17,600)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Eligibility service credit is the service credit that determines whether a member is eligible for a service credit retirement allowance; creditable service credit determines the amount of the allowance for an eligible member.

Except in the first or last year of employment, an EPS member earns one full year of eligibility service credit for any year in which the member completes at least 500 hours of employment; eligibility service credit is not prorated for employment that is less than 500 hours. However, in the first or last year of employment, eligibility service credit is prorated if the member works less than 500 hours.

EPS members qualify for a normal (full) service retirement benefit after earning 30 years of eligibility credit or when they reach age 62 with at least 5 years of eligibility credit. Their initial retirement benefit is equal to the product of their average final compensation, years of service, and a multiplier of 1.2% for service credit earned before 1998 and 1.8% for service credit earned after 1998.

EPS members also qualify for an early service retirement if they have between 15 and 30 years of eligibility service credit and are between the ages of 55 and 62. Members who receive an early retirement benefit are subject to a benefit reduction equal to 0.5% of the normal service retirement benefit for each month before the member reaches age 62.

EPS members who leave State service prior to retirement with at least five years of eligibility service credit are entitled to a vested benefit when they reach normal retirement age (62). They are also entitled to an early retirement benefit (including the benefit reduction) when they reach age 55.

An employee does not earn EPS service credit for periods of contractual employment. However, in the year of retirement, a member of EPS may purchase up to 10 years of eligibility service credit for periods of employment with the State for which the member is not otherwise entitled to service credit, including contractual employment. The member must pay one-half of the employee's share of the cost and one-half of the employer's share of the cost.

A retired State employee may enroll in the State's Health and Welfare Benefits Program and receive the same health benefits and premium subsidies provided to a State employee if the retiree:

- ended State service with at least 10 years of creditable service and within 5 years before the age at which he/she would be eligible to retire;
- ended State service with at least 16 years of creditable service;
- ended State service on or before June 30, 1984;
- retired directly from State service with a State retirement allowance on or after July 1, 1984, and had at least 5 years of creditable service; or
- retired directly from State service with a State disability retirement allowance on or after July 1, 1984.

State Fiscal Effect: The State Retirement Agency (SRA) is aware of one individual to whom this bill applies. The individual worked for the Wicomico County Health Department during the time period specified in the bill; most county health department employees are considered State employees and, therefore, are members of EPS. When she separated from employment with the health department, she had 14 years and 1 month of eligibility service credit. Therefore, she is eligible for a vested benefit when she reaches age 62, but does not qualify for an early retirement allowance before that because she lacks 15 years of eligibility credit. She is currently age 60.

With the additional purchased eligibility service credit authorized by the bill, the affected individual becomes eligible for a monthly early retirement allowance of \$730, which is actuarially reduced from the vested allowance of \$803 available at age 62. Although the bill authorizes an inactive vested former member to purchase service credit, the bill does not affect State pension liabilities or contribution rates because the bill requires the member to pay for the credit in accordance with current law governing the purchase of service credit by active members.

State expenditures increase to provide subsidized health coverage to the affected individual. The annual State subsidy for retiree health coverage is estimated to be \$13,450 in fiscal 2011 and is assumed to increase annually by 7%. Long-term retiree health care actuarial liabilities also increase by approximately \$59,000.

Additional Information

Prior Introductions: None.

Cross File: SB 1012 (Senator Stoltzfus) - Budget and Taxation.

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

Fiscal Note History: First Reader - March 16, 2010
ncs/rhh Revised - House Third Reader - April 8, 2010

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