SB 567

Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 567 (Senator McFadden)(Chair, Joint Committee on Pensions)
Budget and Taxation Appropriations

State Retirement and Pension System - Noncontributory Former Vested Members - Vested Retirement Allowance

This bill repeals provisions that allow members of the noncontributory portion of the Employees' Pension System (EPS) to withdraw their member contributions and interest and still receive a pension benefit based solely on employer contributions.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: None. The bill applies only to eight local participating governments.

Local Effect: Any effect on participating governmental unit (PGU) pension liabilities and employer contributions is expected to be negligible.

Small Business Effect: None.

Analysis

Current Law: State Retirement and Pension System members become vested after five years of service. If they leave qualifying employment after five years but before qualifying for a normal service retirement benefit, they may claim a vested benefit (or allowance) when they reach normal retirement age (which varies by plan). If they leave qualifying employment before vesting, they may request a return of their employee contributions, with interest.

Vested members may also request a return of contributions when they leave employment instead of waiting to claim a vested benefit when they reach retirement age. In most cases, former members who withdraw their employee contributions are not entitled to a deferred benefit. The exception to this rule is the noncontributory portion of EPS, which allows vested former members to withdraw any employee contributions and still receive a deferred pension benefit based solely on employer contributions made on his or her behalf.

Background: EPS was established in 1980 as a noncontributory plan for most State and PGU employees. However, any compensation above the Social Security wage base was subject to a 5% employee contribution. Only a small fraction of State and PGU employees earned more than the wage base, which is adjusted annually for inflation and was $106,800 in 2009. Chapter 530 of 1998 transformed EPS into a contributory plan, requiring employee contributions of 2% on all earnable compensation and enhancing retirement benefits. All State employees were required to participate in the contributory EPS, but PGUs were given the opportunity to choose the contributory plan or remain in the noncontributory plan. All but 8 of approximately 120 PGUs opted for the enhanced plan. Chapter 110 of 2006 again enhanced retirement benefits for EPS members and required a 5% employee contribution. PGUs were once again given the option of enrolling in the enhanced plan, but the same eight PGUs opted to remain in the noncontributory plan. Most of these PGUs are small entities except for Prince George's County Government.

Local Fiscal Effect: To the extent that employer contributions made on behalf of withdrawn PGU employees of the affected PGUs (primarily Prince George's County) remain in the pension fund instead of being paid out as deferred benefits, the bill may generate a modest decrease in PGU pension liabilities. However, only a small number of PGU employees earn more than the current Social Security wage base and are eligible for the deferred benefit provided under current law. Legislative Services believes the likely effect of the bill will be that fewer of those eligible PGU members withdraw their contributions and therefore remain eligible for a deferred benefit. As a result, the bill's net effect on PGU pension liabilities and contributions should be negligible.

Additional Information

Prior Introductions: None.

Cross File: HB 772 (Delegate Griffith, *et al.*) (Chair, Joint Committee on Pensions) - Appropriations.

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

Fiscal Note History: First Reader - February 16, 2010
mam/rhh

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510