Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 303 (Delegate Stocksdale, *et al.*)
Appropriations

State Retirement and Pension System - Employee Contribution Rate

This bill raises the member contribution rate to 7% of compensation for members of the Alternate Contributory Pension Selection (ACPS) of the Teachers' Pension System (TPS) and Employees' Pension System (EPS), as well as for the Correctional Officers Retirement System (CORS), Law Enforcement Officers' Pension System (LEOPS), and Judges' Retirement System (JRS).

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: State pension liabilities increase by $11.8 million but are more than offset by a decrease in normal costs totaling $180.9 million across all of the affected systems. Amortizing the accrued liability increase over 25 years and adding the normal cost savings results in a first-year savings of $193.0 million in FY 2013. State pension costs are assumed to be allocated 84% general funds, 8% special funds, and 8% federal funds. The savings also increase annually according to actuarial assumptions.

($ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	(162.1)	(167.7)	(173.6)	(179.8)
SF Expenditure	0	(15.4)	(16.0)	(16.5)	(17.1)
FF Expenditure	0	(15.4)	(16.0)	(16.5)	(17.1)
Net Effect	$.0	$193.0	$199.7	$206.7	$214.0

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

Local Effect: Accrued liabilities for participating governmental units (PGUs) increase by $1.6 million and the normal cost decreases by $17.6 million, resulting in a first-year savings of $18.7 million in FY 2013. Those savings are divided among approximately 120 PGUs and are assumed to increase annually according to actuarial assumptions.

Small Business Effect: None.

Analysis

Current Law: Exhibit 1 summarizes the key provisions of the affected plans within the State Retirement and Pension System (SRPS), including the employee contribution currently required. Because they are not affected by the bill, the State Police Retirement System and the Legislative Pension Plan are not included. Also, the Teachers' Retirement System and Employees' Retirement System, which were closed to new members in 1980 and replaced by TPS and EPS, respectively, are not included because they are not affected by the bill.

PGUs are authorized to participate in EPS, LEOPS, and CORS.

Background: When first established in 1980, EPS and TPS were noncontributory for most members. Chapter 530 of 1998 created the contributory pension benefit, which provided an enhanced benefit but required a 2% member contribution. Teachers and State employees participated in the contributory benefit as a condition of employment, but PGUs had the option of remaining in the noncontributory benefit or choosing the contributory benefit. Chapter 110 of 2006 established ACPS, which included an increase in member contributions from 2% to 5% of compensation that was phased in over three years in conjunction with a benefit enhancement that was retroactive for service credit earned since 1998. Once again, for teachers and State employees, participation in ACPS was automatic and a condition of employment, but PGUs had the option of retaining their prior benefit structure or participating in ACPS.

Benefit structures and contribution rates for the other affected plans have not changed in recent years.

There are approximately 120 PGUs with about 25,000 active members across the three plans that allow local participation, most of them in EPS. About five PGUs participate in the noncontributory benefit under EPS, and a few more still participate in the original contributory benefit. In both cases, employees of those PGUs are not affected by the bill and continue to either not contribute to the plan or pay 2% of compensation, respectively.

The Budget Reconciliation and Financing Act of 2010 (Chapter 484 of 2010) created the Public Employees' and Retirees' Benefit Sustainability Commission to study and make recommendations with respect to State-funded health care benefits and pensions provided to State and public education employees and retirees. Among the recommendations in its January 2011 report, the commission recommended that current and new members of TPS and EPS be given several options for future benefits, at least one of which would include a higher member contribution rate in exchange for preserving the current benefit structure.

In HB 72/SB 87 (the 2011 Budget Reconciliation and Financing Act), the Governor has proposed increasing member contributions from 5% to 7% for new EPS and TPS members hired on or after July 1, 2011, and lowering the benefit multiplier for those members from 1.8% to 1.5% for each year of service. Under the Governor's proposal, current EPS and TPS members must choose between either raising their contribution to 7% for future service credit or retaining the 5% contribution with a 1.5% multiplier for future service credit. Finally, the Governor has proposed raising the contribution rate for new members of JRS hired on or after July 1, 2011, from 6% to 8%. Member contribution rates for other SRPS plans are not affected in the Governor's proposal. The Governor's proposal specifically recognizes savings beginning in fiscal 2012.

State Fiscal Effect: Increasing member contributions has two contrasting effects on State pension costs. First, it increases accrued liabilities because the increased contributions also mean that the system will be required to pay larger refunds of those contributions for members who withdraw from the system (typically those who leave before vesting). At the same time, it reduces the normal cost because member contributions paid in a given year are credited against the cost of the benefits that they accrue in that year.

The General Assembly's consulting actuary has determined that the increases in member contributions result in a modest increase in accrued liability of $11.8 million across all of the affected systems. At the same time, the increased contributions result in a more significant reduction in annual normal costs, totaling $180.9 million in the first year. Changes in accrued liabilities are amortized over 25 years, while changes in normal cost are recognized in the year in which they occur. As the changes do not take effect until July 1, 2011, they are reflected in the June 30, 2011 valuation, which determines contribution rates for fiscal 2013. Therefore, amortizing the accrued liability increase over 25 years and adding the normal cost savings results in a first-year savings of $193.0 million in fiscal 2013. State pension costs are assumed to be allocated 84% general funds, 8% special funds, and 8% federal funds. The savings also increase annually according to actuarial assumptions.

Local Fiscal Effect: Accrued liabilities for PGUs increase by $1.6 million and the normal cost decreases by $17.6 million in the first year, resulting in savings of

$18.7 million in fiscal 2013. Those savings are divided among approximately 120 PGUs and are assumed to increase annually according to actuarial assumptions.

Exhibit 1
Key Characteristics of State Retirement and Pension Plans

	Employees and Teachers	Correctional Officers' System	Law Enforcement Officers' System	Judges' Retirement System
Participation	Condition of employment	Condition of employment	Condition of employment	Condition of employment
Vesting	5 years of service	5 years of service	5 years of service	Immediate
Employee Contribution	5% of salary	5% of salary	4% of salary	6% of salary (for 16 years)
Service Retirement Conditions	Age 62 or 30 years (Age 55 with 15 years reduced benefit)	20 years service, with at least the last 5 years as correctional officer	Age 50 or 25 years of service	Age 60
Allowance	1.8% per year of service after 7/1/98; plus 1.2% per year of service prior to 7/1/98	1.8% per year of service	2.0% per year if subject to the LEOPS modified pension benefit; otherwise 2.3% for first 30 years and 1.0% for each year thereafter	2/3 of active judge's salary at 16 years
Post Retirement Adjustments	Limited to 3% annual COLA	Unlimited annual COLA	Limited to 3% annual COLA	Based on salary of active judges
Active Members (State only, June 2010)	156,139	7,899	1,535	294

COLA = cost-of-living adjustment
Sources: Gabriel, Roeder Smith, & Co., Department of Legislative Services

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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