HB 494

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 494 (Delegate Aumann)
Appropriations

State Retirement and Pension System - Vesting and Eligibility

This bill raises the eligibility criteria for a normal service retirement for new members of the Teachers' Pension System (TPS) and Employees' Pension System (EPS) and raises the vesting requirement from 5 to 10 years for new members of most plans within the State Retirement and Pension System (SRPS).

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: State pension liabilities decrease by $1.88 million in FY 2012 and the normal cost decreases by $3.75 million. Amortizing the decrease in liabilities over 25 years and adding the total normal cost savings produces a first-year savings of $3.87 million in FY 2014. Those savings increase annually according to actuarial assumptions, and are assumed to be allocated 84% general funds, 8% special funds, and 8% federal funds. No effect on revenues.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	0	(3,250,800)	(6,392,400)	(9,517,200)
SF Expenditure	0	0	(309,600)	(608,800)	(906,400)
FF Expenditure	0	0	(309,600)	(608,800)	(906,400)
Net Effect	$0	$0	$3,870,000	$7,610,000	$11,330,000

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

Local Effect: Pension liabilities for participating governmental units (PGUs) decrease by $330,000 in FY 2012 and the normal cost decreases by $660,000. Amortizing the decrease in liabilities over 25 years and adding the normal cost produces a first-year savings of $680,000 in FY 2014, which is divided among about 120 PGUs. The savings increase annually according to actuarial assumptions.

Small Business Effect: None.

Analysis

Bill Summary: To qualify for a normal service retirement, a new member of TPS and EPS hired on or after July 1, 2011, must have either 30 years of eligibility service credit or be age 62 with at least 10 years of service. A member of any of the SRPS plans listed below who is hired on or after July 1, 2011 and who separates from employment prior to retirement must have at least 10 years of eligibility service credit to qualify for a vested allowance:

- EPS or TPS;
- Employees' or Teachers' Retirement System (ERS/TRS);
- Correctional Officers' Retirement System (CORS);
- State Police Retirement System (SPRS);
- Law Enforcement Officers' Pension System (LEOPS); or
- Local Fire and Police System.

The Department of Legislative Services notes that ERS, TRS, and the Local Fire and Police System are closed to new members and therefore are not affected by the bill.

Current Law: Members of the SRPS plans listed above who separate from employment prior to retirement must have five years of eligibility service credit to qualify for a vested allowance.

To qualify for a normal (unreduced) service retirement, members of TPS and EPS must have either a combined total of 30 years of eligibility service in any of the four teachers' or employees' plans; or be age 62 with at least five years of eligibility service credit, age 63 with four years of credit, age 64 with three years of credit, or age 65 with two years of credit.

Exhibit 1 summarizes these and other key characteristics of the major SRPS plans; due to space constraints and because they are not affected by the bill, the Legislative Pension Plan and Judges' Retirement System are not included. Also, for State employees and teachers, the table reflects only the characteristics and membership of EPS and TPS; ERS/TRS, which closed to new members in 1980, have similar but slightly different benefit structures and about 4,500 active members combined.

Exhibit 1
Key Characteristics of State Retirement and Pension Plans

	Employees and Teachers	State Police	Correctional Officers' System	Law Enforcement Officers' 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	5 years of service
Employee Contribution	5% of salary	8% of salary	5% of salary	4% of salary
Service Retirement Conditions	Age 62 or 30 years (Age 55 with 15 years reduced benefit)	Age 50 or 22 years of service	20 years service, with at least the last 5 years as correctional officer	Age 50 or 25 years of service
Allowance	1.8% per year of service after 7/1/98; plus 1.2% per year of service prior to 7/1/98	2.55% per year of service	1.8% per year of service	2.0% per year if subject to the LEOP's modified pension benefit; otherwise 2.3% for first 30 years and 1.0% for each year thereafter
Post Retirement Adjustments	Limited to 3% annual COLA	Unlimited annual COLA	Unlimited annual COLA	Limited to 3% annual COLA
Active Members (State only, June 2010)	156,139	1,354	7,899	1,535

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

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

Background: 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 increasing vesting requirements for most SRPS plans from 5 to 10 years for new and nonvested members. It also recommended increasing normal service retirement eligibility requirements for new and nonvested members of EPS and TPS to age 62 with at least 10 years of service or a combination of age and years of service adding to 92 (the Rule of 92). The commission also recommended raising eligibility for early retirement in EPS and TPS to age 57 with at least 20 years of service (from age 55 and 15 years of service). Early retirement eligibility is not addressed in this bill.

In HB 72/SB 87 (the 2011 Budget Reconciliation and Financing Act), the Governor has proposed increasing vesting requirements from 5 to 10 years only for new EPS and TPS members hired on or after July 1, 2011; other SRPS plans retain the five-year vesting requirement. The Governor's proposal includes a corresponding increase in normal service retirement eligibility for EPS and TPS to age 62 and 10 years of service credit and an increase in the early retirement age from 55 to 60.

There are approximately 120 PGUs with about 25,000 active members across the three plans that allow local participation, most of them in EPS.

State Fiscal Effect: Increasing vesting requirements reduces pension system costs because fewer people qualify for a vested benefit if they leave State service before retirement. Instead, members with more than 5 but fewer than 10 years of service likely withdraw their member contributions when they leave State service, leaving the employer contributions made on their behalf. Under the current five-year vesting requirement, those individuals would be owed a vested benefit based on both member and employer contributions when they reached normal retirement age.

Similarly, extending the years of service necessary for a normal service retirement may require some individuals to work longer, thereby shortening the amount of time that the system owes them a retirement benefit once they retire. The effect of increasing the retirement eligibility for members who reach age 62 from 5 to 10 years is somewhat mitigated by the retention of the 30-year retirement for members regardless of age, but members who join the system late in their careers will have to work longer to earn a retirement benefit.

The bill's changes affect only new members hired after June 30, 2011, so any actuarial effects are not captured until the June 30, 2012 actuarial valuation, which determines State pension contributions for fiscal 2014. The General Assembly's actuary concludes that the bill results in a reduction of State pension liabilities of $1.88 million beginning in fiscal 2012 and a corresponding reduction in normal costs of $3.75 million. Amortizing the liability savings over 25 years and adding the full normal cost savings produces a first-year savings of $3.87 million in fiscal 2014. Those savings increase annually according to actuarial assumptions.

General funds pay 100% of pension costs for TPS members and an estimated 60% of pension costs for State employees in EPS, SPRS, CORS, and LEOPS, with each of 20% paid by special funds and federal funds. Overall, about 84% of pension costs are estimated to be paid by general funds, with the remainder evenly divided between special and federal funds.

Local Fiscal Effect: For the same reasons outlined above, the bill also reduces pension costs for PGUs. The actuary concludes that PGU pension liabilities decrease by $330,000, and the normal cost decreases by $660,000 in fiscal 2012. Amortizing the liability savings over 25 years and adding the normal cost savings results in a first-year savings of $680,000 in fiscal 2014. That savings is presumed to be divided among approximately 120 PGUs.

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 - February 20, 2011
ncs/rhh

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