

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 866 (Delegate Stein)
Appropriations

Employees' Retirement System - Purchase of Service Credit - Former Members

This bill allows a former member of the Employees' Retirement System (ERS) who meets criteria specified in the bill to purchase service credit for past employment with the State during which time the individual was not enrolled in ERS.

The bill takes effect July 1, 2011, and terminates December 31, 2011.

Fiscal Summary

State Effect: State pension liabilities increase by \$7,300, which yields an indiscernible increase in State pension contributions beginning in FY 2013. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to an individual who:

- began employment with the State as an assistant Attorney General on or after September 1, 1971;
- did not initially join ERS but enrolled on or after May 1, 1976; and
- ended State employment on or before January 1, 1982.

A former member who meets these criteria may elect to purchase service credit for the time during which he or she was not enrolled in ERS. For the first 24 months of credit, the member must pay both the employer and member contributions that would have been paid, plus 4% annual compounded interest. For the remaining months of service credit from September 1973 through April 1976, the former member must pay only the member contributions plus interest. If the former member purchases credit for the first 24 months, the former member must also purchase credit for the remaining months. However, if the member chooses to purchase only the credit for September 1973 through April 1976, the former member does not need to purchase credit for the first 24 months.

To purchase credit under the bill, the former member must complete and submit the appropriate forms to the State Retirement and Pension System.

Current Law: Only active members of ERS are eligible to purchase service credit for past employment. Membership in ERS terminates if a member:

- separates from employment for more than four years;
- withdraws the member's contributions;
- transfers to the Employees' Pension System or Teachers' Pension System;
- retires; or
- dies.

For prior State service that is not credited, a member pays the missing employee contribution (5% of earnable compensation) and 4% annual compounded interest.

The normal retirement age for ERS is age 60.

Background: The State Retirement Agency (SRA) notes that, in the early 1970s, newly hired State employees were allowed to delay their membership in ERS for up to two years. However, since enrollment was completely manual at the time, some employees did not remember to enroll until after the two-year time period had passed.

SRA is aware of just one individual who meets the criteria specified in the bill. Because the individual has been separated from State employment for more than four years (*i.e.*, left State service in 1982), the individual is no longer a member but is still entitled to a vested benefit from ERS. The individual turned 60 in 2006, so he is entitled to a retroactive benefit to October 1, 2006.

State Fiscal Effect: Based on information provided in the bill and demographic and compensation information provided by SRA, the General Assembly's consulting actuary estimates that, if the member purchases service credit for the full amount of past

employment that was not credited, unfunded State pension liabilities increase by \$7,300. Amortizing the liability over 25 years results in annual State pension contributions increasing by about \$500 annually beginning in fiscal 2013. The Department of Legislative Services considers that increase to be indiscernible.

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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mc/rhh

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