SB 335

Department of Legislative Services

Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 335 (Chair, Budget and Taxation Committee)(By Request - Judicial Compensation Commission)

Budget and Taxation Appropriations

Judges' Retirement System - Contribution Rates and Vesting Requirements

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This bill increases the member contribution rate from 6% to 8% of earnable compensation for all members of the Judges' Retirement System (JRS) and adds a five-year vesting requirement for JRS members hired on or after July 1, 2012.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: State pension contributions decrease by $728,000 in FY 2014 and continue to decrease in the out-years according to actuarial assumptions. No effect on revenues.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	(728,000)	(754,000)	(780,000)	(807,000)
Net Effect	$0	$728,000	$754,000	$780,000	$807,000

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Members of JRS contribute 6% of earnable compensation during the first 16 years of service; no member contributions are required after 16 years. JRS members vest immediately when they begin employment, and they are eligible for a full service retirement at age 60 or with at least 16 years of service. Retirement is mandatory at age 70.

Full service retirement is equal to two-thirds of the annual earnable compensation of a sitting judge holding a comparable position. The retirement allowance is prorated for members who retire with fewer than 16 years of service.

Background: Besides the Legislative Pension Plan, JRS is the smallest plan within the State Retirement and Pension System. As of June 30, 2011, it had 286 active members and 358 retirees and beneficiaries. The State Retirement Agency advises that over the last four fiscal years, the number of new JRS enrollees has ranged from 6 to 25, or an average of 14 new members annually.

State law establishes a seven-member Judicial Compensation Commission (JCC) to study and make recommendations regarding judicial compensation. JCC must review and make recommendations on judicial salaries and pensions every four years, beginning in 2004. Recommendations regarding pensions must be introduced as legislation by the presiding officers and become effective only if passed by both houses.

The Budget Reconciliation and Financing Act of 2011 (Chapter 397) required JCC to include specific recommendations in its report to the General Assembly concerning appropriate benefit and member contribution levels, taking into consideration the sustainability of the State Retirement and Pension System.

State Fiscal Effect: Member contributions are credited against the plan's normal cost, or the cost of individual benefits accrued in a given year. The State, as the employer, pays only the normal cost not paid by members, so an increase in member contributions results in a near-equivalent reduction in the employer contribution. The reason there is not an exact dollar-for-dollar reduction in employer contributions is because higher employee contributions also result in higher payouts for death benefits and member withdrawals because members and beneficiaries are entitled to a refund of member contributions, plus interest, in both cases. Actuarially, employer contributions typically decrease by between 85% and 95% of an equivalent increase in member contributions, which accounts for the reduction in projected plan assets attributable to increased payouts for death benefits and withdrawals.

Beginning July 1, 2012, all JRS members pay the higher contribution rate. In replicating the valuation methodology used by the system's actuary, the General Assembly's consulting actuary estimates that a 2.0 percentage point increase in the member contribution, based on earnable compensation, results in a 1.75 percentage point reduction in the employer contribution. The amount of the decrease in employer contributions represents 87.5% of the increase in member contributions, which is consistent with typical actuarial calculations of the effect of changes in member contribution rates. This decrease is also first reflected in the June 30, 2012 valuation, as it is standard practice, when feasible, to value benefit changes for current members in the valuation immediately prior to their effective date. Therefore, the effect of the provisions affecting all current members is first reflected in the contribution rates for fiscal 2014.

The General Assembly's consulting actuary advises that the addition of a five-year vesting requirement for new JRS members has no discernible effect on the State's contribution rate given the limited turnover in the plan. Over the long term, the vesting requirement may slightly reduce the plan's liabilities.

The State's pension contribution decreases by $728,000 in fiscal 2014. State JRS pension contributions are paid entirely from general funds so, the savings accrue entirely to the general fund and continue to grow according to actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: HB 249 (The Speaker)(By Request - Judicial Compensation Commission) - Appropriations.

Information Source(s): State Retirement Agency, Judiciary (Administrative Office of the Courts), Cheiron, Department of Legislative Services

Fiscal Note History: First Reader - February 7, 2012
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