

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

House Bill 1208
Appropriations

(Delegate Jones)

**Baltimore County - Transfers from Noncontributory System to Employees'
Retirement System - Contributions and Interest**

This bill authorizes the Board of Trustees of the Baltimore County Employees' Retirement System (BCERS) to determine the interest rate, in consultation with its actuary, to use in calculating the reduction of benefits for individuals who transfer service credit from a noncontributory pension system to BCERS.

The bill takes effect July 1, 2012, and applies retroactively to July 1, 2007, the effective date of Chapter 337 of that year.

Fiscal Summary

State Effect: None. The bill applies only to Baltimore County.

Local Effect: Benefit payments by BCERS decline by an estimated \$407,000 annually. No effect on any other local jurisdiction.

Small Business Effect: None.

Analysis

Current Law: In most cases, an individual may transfer service credit earned in a State or local pension and retirement system to any other State or local system in which the individual becomes a member. In order to transfer credit, the individual must be transferring to a system (1) that is funded on an actuarial basis; and (2) without a break in service of 30 days or more, as established by the State Retirement Agency (SRA). In

addition, the application to transfer service credit must be filed with SRA within one year of joining a new system, subject to an appeal process authorized in statute.

Title 37 of the State Personnel and Pensions Article governs transfers of service credit among systems. It establishes different requirements based on the characteristics of the former (or “old”) system and the current (or “new”) system into which the credit is being transferred.

In the case of a transfer from a noncontributory system to a contributory system, the contributory system must, at the time of retirement, reduce the benefit paid to the member by the actuarial equivalent of the member contributions that the member would have paid if the individual had earned the “old” credit while a member of the “new” contributory system. The benefit reduction also includes regular interest that would have been earned on the foregone member contributions. Regular interest is defined in statute as interest payable on accumulated contributions.

Background: Prior to the enactment of Chapter 337 of 2007, the pertinent portion of the statute read only that the benefit reduction included “interest on those contribution”; it did not specify that “regular interest” should be used. As a matter of practice, BCERS used its valuation rate, or assumed rate of return on its investments, of 7.875% in calculating the reduction, instead of the regular interest rate of 5.0%. An individual who transferred service credit from what was then the noncontributory State Employees’ Pension System to BCERS challenged the county’s use of the valuation rate in calculating the amount of his benefit reduction when he retired from the county. In response, the Baltimore County Council requested an opinion of the Maryland Attorney General, which concluded that the statutory reference to “interest” meant “regular interest.” A few months after the opinion was issued, Chapter 337 was enacted, which amended the statute to include the reference to “regular interest” to conform to the Attorney General’s conclusion.

BCERS seeks authorization to continue using its valuation rate, or another rate chosen in consultation with its actuary, to calculate future benefit reductions, as well as to adjust previous calculations made retroactive to the date of enactment of Chapter 337.

Local Fiscal Effect: Baltimore County advises that there are approximately 150 BCERS members who have credit transferred from noncontributory systems. It further advises that the requirement to use regular interest instead of the valuation rate costs the system approximately \$407,000 in additional benefit payments annually.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mlm/rhh

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