

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE
Revised

House Bill 852
Appropriations

(Delegate Griffith)(Chair, Joint Committee on Pensions)

Budget and Taxation

**State Retirement and Pension Systems - Cost-of-Living Adjustments -
Simplification and Clarification**

This bill makes technical and clarifying changes to the statutory provisions addressing annual cost-of-living adjustments (COLAs) for retirees of the State Retirement and Pension System (SRPS). The bill expresses legislative intent that it be construed as clarifying and that it may not be construed to substantively alter the benefits paid to SRPS retirees or beneficiaries.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: None. The bill is technical and clarifying in nature.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Each year, retirement allowances paid to SRPS retirees and beneficiaries are adjusted for inflation. All COLA calculations are based on average annual changes to the consumer price index (CPI) for all urban consumers, but the amount and type of COLA varies by system. COLAs are applied to retiree and beneficiary allowances effective July 1 of each fiscal year based on the average CPI as of the second prior December 31. Retirees and beneficiaries of the Legislative Pension Plan and the Judges' Retirement System do not receive automatic COLAs. Their benefits are linked to the

salaries of active legislators and judges, respectively. Therefore, their benefits increase whenever salaries for active members are raised.

Among the most recent significant changes to the COLA provisions are:

- Chapter 397 of 2011 (HB 72), which changed the calculation and applicable caps for COLA benefits for service credit earned by most SRPS members on or after July 1, 2011;
- Chapter 599 of 2011 (HB 727), which instituted new procedures for calculating COLAs when the CPI is negative; and
- Chapter 435 of 2010 (HB 768), which froze benefits, including COLAs, for specified retirees from the Maryland School for the Deaf, until the benefits they received equaled the benefits they should be receiving in the absence of a calculation error.

Background: Chapter 599 of 2011 required the State Retirement Agency (SRA) to review COLA-related statutory provisions and make recommendations to the Joint Committee on Pensions to provide accuracy and clarity to those provisions without modifying their application or fiscal effect. The requirement was driven in large part by the realization that the COLA provisions had been amended so many times that they were often difficult to understand or apply. SRA submitted recommendations and corresponding legislation to implement those recommendations during the 2011 interim. The legislation was introduced during the 2012 session (SB 879/HB 808), but SRA and the Department of Legislative Services (DLS) determined that a more comprehensive revision of the statute was warranted to provide maximum clarity. This bill reflects the joint effort of DLS and SRA to make those modifications, and it incorporates all recent statutory changes to those provisions.

Automatic annual COLAs for SRPS members based on the CPI date back to 1971 with the enactment of Chapter 424 (SB 22). **Exhibit 1** shows the annual percentage changes in the CPI since calendar 2000.

Exhibit 1
Annual Percentage Changes in CPI for All Urban Consumers
Calendar 2000-2012

| <u>Year</u> | <u>% Annual Change</u> |
|-------------|------------------------|
| 2000 | 3.4% |
| 2001 | 2.8% |
| 2002 | 1.6% |
| 2003 | 2.3% |
| 2004 | 2.7% |
| 2005 | 3.4% |
| 2006 | 3.2% |
| 2007 | 2.8% |
| 2008 | 3.8% |
| 2009 | -0.4% |
| 2010 | 1.6% |
| 2011 | 3.2% |
| 2012 | 2.1% |

Source: U.S. Bureau of Labor Statistics, Maryland State Retirement Agency

Additional Information

Prior Introductions: None.

Cross File: SB 801 (Senator Jones-Rodwell)(Chair, Joint Committee on Pensions) - Budget and Taxation.

Information Source(s): Maryland State Retirement Agency, Maryland Supplemental Retirement Plans, Department of Legislative Services

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