SB 475

Department of Legislative Services

Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 475 (Senator Jones-Rodwell)(Chair, Joint Committee on Pensions)

Budget and Taxation

State Retirement and Pension System - Administrative and Operational Expenses - Payments and Deductions

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This bill repeals provisions that allow the State and participating governmental units (PGUs) to deduct the amount of administrative expenses paid to the State Retirement and Pension System (SRPS) from their employer contribution paid to the system.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: General fund expenditures increase by $14.3 million in FY 2014, reflecting the foregone deduction from State pension contributions on behalf of local school boards and community colleges. Out-year expenditures assume a 3.0% annual increase in the budget of the State Retirement Agency and no change in the local school boards' and community colleges' proportional share of administrative costs. No effect on revenues.

($ in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenues	$0	$0	$0	$0	$0
GF Expenditure	14.3	14.7	15.2	15.6	16.1
Net Effect	($14.3)	($14.7)	($15.2)	($15.6)	($16.1)

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

Local Effect: PGU expenditures increase by an estimated $3.6 million in FY 2014, reflecting foregone deductions from their contributions to SRPS. PGU expenditures continue to increase in the out-years, depending on the rate of growth of SRPS administrative costs. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: Chapter 397 of 2011 (HB 72) requires the State and each participating employer to pay its prorated share of the administrative expenses necessary to maintain the board and the State Retirement Agency. Each participating employer's share of administrative expenses is based on the proportion of total members employed by the employer, except that the State pays the share of administrative expenses attributable to local public libraries. Each year, the SRPS Board of Trustees certifies each employer's share of the system's total membership and establishes a per-member administrative fee to be paid by each participating employer. The State pays its share of administrative expenses on July 1 of each year. Local employers, including PGUs, pay their share in quarterly installments. Local employers are liable for 4% interest on any delinquent amounts, except that the board may give them a 10-day grace period for each payment.

The State may deduct from its payments on behalf of local school boards and community colleges their respective employer shares of administrative costs. Each PGU may deduct from its employer contribution each year the total amount of administrative fees paid to the system.

Background: Before the enactment of Chapter 397, administrative expenses for the board and SRA were withdrawn from the pension trust fund's Accumulation Fund, which holds all employer contributions made to the system for the benefit of members, and transferred to the Expense Account to cover administrative expenses of the State Retirement Agency. Each year, the amount withdrawn from the Accumulation Fund was treated as an actuarial loss to the system by the actuary. Therefore, it was amortized over 25 years under the system's statutory funding policy, with an amortization payment included in the employer's contribution rate for each succeeding year. In this manner, the fund was reimbursed by employers, over time, for its administrative costs.

Under Chapter 397, administrative fees paid by the State and by local employers are treated differently. The State pays its pro rata share of the fees directly to the system; the fees are built into the budget of each State agency, and no deduction is made in State pension contributions to the system for the State's share of administrative costs. Therefore, fees paid by State agencies represent additional funds for the system; whereas administrative expenses used to be deducted by the system from the State's pension contribution, now those administrative expenses are covered by the fees paid directly by State agencies, and the system retains the full State pension contribution for the benefit of its members.

Administrative fees paid by local employers are treated differently. Under current practice, local employers are billed directly by the system on a quarterly basis, as specified in Chapter 397. Since the State pays the bulk of the employer pension contributions on behalf of local school boards and the full employer contributions for community colleges, it deducts the amount of the administrative fees paid by those employers from its contributions. Whereas the system used to deduct administrative expenses from those contributions once they were deposited in the Accumulation Fund, now the State deducts the locally paid administrative costs before making its pension contribution on behalf of local school boards and community colleges. This generates savings for the State. Over the long term, it is assumed that the actuarial rate paid by the State would continue to reflect the deducted administrative expenses amortized over 25 years, as was the previous practice.

State Fiscal Effect: For fiscal 2014, the projected per-member administrative fee is $143.88. In fiscal 2014, the Governor's proposed budget reflects a total of $14.3 million to be paid in administrative fees by the local school boards and community colleges, which is the amount of general funds that would be deducted from the State's SRPS contribution in the absence of the bill. Future year deductions are estimates because the actual amounts are based on the State Retirement Agency's total budget, which is established annually through the budget process. For the purpose of this analysis, it is assumed that the agency's budget grows by 3.0% annually and that the local school boards' and community colleges' share of the administrative expenses remains constant.

Local Fiscal Effect: In fiscal 2014, total administrative costs for PGUs total $3.6 million. In the absence of the bill, PGUs would be able to deduct that amount from their respective contributions, but they may not take the deduction under the bill. Therefore, local expenditures by PGUs increase by $3.6 million.

Additional Information

Prior Introductions: None.

Cross File: HB 379 (Delegate Griffith)(Chair, Joint Committee on Pensions) - Appropriations.

Information Source(s): Cecil, Carroll, Harford, Montgomery, Queen Anne's, and St. Mary's counties; Department of Budget and Management; Maryland Association of Counties; Maryland State Retirement Agency; Department of Legislative Services

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