

SB 432

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 432

(Senator Peters)

Budget and Taxation

Appropriations

Employees' and Teachers' Pension Systems - Combination of Service - Clarification

This bill clarifies the conditions under which a member of the Teachers' Pension System (TPS) and Employees' Pension System (EPS) can combine prior eligibility service credit in a part of EPS or TPS (that is subject to a different benefit accrual rate than the member's current plan) with current service credit.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: None. The bill conforms statute to current practice.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: In general, TPS/EPS members subject to the contributory benefit *or* the Alternate Contributory Pension Selection (ACPS) that wish to combine past eligibility service credit with current credit must deposit into the annuity savings fund:

- member contributions based on the contribution rate in effect for the current plan at the time the application is made, for service credit earned before July 1, 1998;
- member contributions based on the contribution rate in effect when the prior service was earned, for service credit earned on or after July 1, 1998; and

- regular interest on those contributions.

TPS/EPS members subject to the Reformed Contributory Pension Benefit (RCPB) that wish to combine past eligibility service credit with current credit must deposit into the annuity savings fund:

- member contributions based on the RCPB contribution rate in effect at the time the application is made, for service credit earned prior to July 1, 2011;
- member contributions based on the RCPB contribution rate in effect when the prior eligibility service was earned, for service credit earned on or after July 1, 2011; and
- regular interest on those contributions.

TPS/EPS members subject to the noncontributory benefit that wish to combine past eligibility service credit with current credit must deposit into the annuity savings fund:

- member contributions based on the contribution rate in effect for the noncontributory benefit when the prior service was earned; and
- regular interest on those contributions.

In all cases of combined service, a member's accumulated contributions attributable to prior credit (including past interest earned) is credited against the amounts that must be deposited in the annuity savings fund, so the member is responsible only for any difference between previous and current contribution rates. If the accumulated contributions exceed the amount that must be deposited, any excess amount is refunded on request, subject to specified restrictions in the federal Internal Revenue Code (IRC).

Current Law:

“Eligibility service” means the service credit earned by a member that determines eligibility for a retirement benefit.

Benefit Tiers:

TPS/EPS consist of four benefit tiers:

- noncontributory benefit (enacted by Chapters 23 and 24 of 1980);
- contributory benefit (enacted by Chapter 530 of 1998);
- ACPS (enacted by Chapter 110 of 2006); and
- RCPB (enacted by Chapter 397 of 2011).

Members of the State components of TPS/EPS (local teachers and State employees) automatically qualified for the enhanced benefits under first the contributory benefit in 1998 and then again under ACPS in 2006 (*i.e.*, their past service credit moved with them to the next tier, so they are not affected by the bill). However, at each stage of enhancement, each participating governmental unit (PGU) enrolled in EPS was given the option of retaining the existing benefit or adopting the enhancement. Although the vast majority of PGUs opted for the enhancements at each stage, a handful of PGUs remain in each of the prior benefit tiers. To the extent that employees move among the State and PGUs with different benefit tiers, they may wish to combine prior service earned in a less generous tier with benefits in a more generous current tier. **Exhibit 1** summarizes the benefit multipliers and contribution rates for each tier.

Chapter 397 of 2011 added RCPB as a new benefit tier. Except for PGUs that have not opted for ACPS or the contributory benefit, any individual who becomes a member of EPS/TPS on or after July 1, 2011, is automatically enrolled in RCPB, subject to limited exceptions. Individuals who were members of TPS/EPS before that date remain in ACPS.

Exhibit 1
Comparison of TPS/EPS Benefit Tiers

	<u>Benefit Multiplier</u>	<u>Member Contribution</u>
Noncontributory	*	**
Contributory	1.4%/year after FY 1998 ***	2.0%
ACPS	1.8%/year after FY 1998 ***	3.0% in FY 2007 4.0% in FY 2008 5.0% in FY 2009-2011 7.0% in FY 2012 and beyond
RCPB	1.5%/year	7.0%

*The sum of 0.8% of average final compensation (AFC) up to the Social Security integration level and 1.5% of AFC over the integration level.

**None for most members; 5.0% for the portion of income above the Social Security Wage Base.

***For service credit earned through fiscal 1998, the greater of 1.2% or the sum of 0.8% of AFC up to the Social Security integration level and 1.5% of AFC over the integration level.

Source: Department of Legislative Services

Transfer of Eligibility Service Credit

A TPS/EPS member subject to the contributory benefit, ACPS, or RCPB may combine prior eligibility service with current service if the member (1) qualified for a vested allowance before separating from employment under the prior benefit; (2) did not transfer to TPS/EPS from the now-closed Teachers' Retirement System or Employees' Retirement System after April 1, 1998; and (3) has completed one year of service in the current benefit tier. A member subject to the noncontributory benefit may combine prior service if the member did not transfer to TPS/EPS from the two retirement systems after April 1, 1998.

To combine prior service credit with current service, an eligible member must deposit into the annuity savings fund the member contributions that would have been due if the member had earned the prior service in the member's current benefit tier, plus regular interest. When a member combines prior service with current service, the member has no further rights in the prior system. Any accumulated contributions in excess of the amount due to the annuity savings fund are refunded to the member upon request.

When RCPB was established in 2011, the law did not include provisions to allow TPS/EPS members who were subject to RCPB to combine prior service credit with credit earned in RCPB, as was the case with each prior new benefit tier. Chapters 577 and 578 of 2014 addressed this issue by allowing TPS/EPS members who are subject to RCPB and have prior service credit in a part of EPS or TPS that has a different member contribution and benefit accrual to combine their prior and current eligibility service credit if the member:

- was entitled to a vested allowance from EPS or TPS at the time of prior separation from employment;
- did not transfer to EPS or TPS from the Employees' Retirement System or Teachers' Retirement System after April 1, 1998; and
- has completed at least one year of employment subject to RCPB.

Under the provisions of Chapters 577 and 578, a member must deposit the member contributions, if any, that would have been due if the member had earned the prior credit in the part of EPS or TPS in which the member is currently enrolled, plus regular interest on the contributions.

Background: The State Retirement Agency advises that the proliferation of benefit tiers and changes in member contribution rates in TPS/EPS has generated confusion among members about the appropriate amount to deposit in the annuity savings fund in order to combine prior service. The bill's clarifying language conforms statute to current agency practice. IRC provisions prohibit the payment of accumulated contributions to an active member; the agency's current practice is to place any excess contributions in a voluntary annuity that is payable upon the member's retirement.

The Board of Trustees of the State Retirement and Pension System requested that the Joint Committee on Pensions sponsor clarifying legislation regarding the combination of prior and current service credit. The Joint Committee on Pensions' 2014 interim report notes that, after extensive discussion regarding the issues raised by the system's request, it ultimately did not elect to sponsor the legislation but encouraged the introduction of legislation to foster further discussion of this topic.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Legislative Services

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