

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 103

(Senator Peters)(Chair, Joint Committee on Pensions)

Budget and Taxation

Appropriations

Judges' Retirement System - Membership, Benefits, and Reemployment

This bill allows specified members of the Judges' Retirement System (JRS) who are subject to mandatory retirement before vesting to receive a prorated retirement allowance based on their years of service. It also clarifies that an individual who was a member of JRS before July 1, 2012, and who is separated from employment for more than four years is subject to the JRS requirements in effect before that date if the individual returns to a JRS-eligible position. Finally, it makes conforming and clarifying changes to the membership and reemployment provisions of JRS.

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: Potential minimal increase in State pension liabilities to the extent a former JRS member returns to employment in a JRS position or is subject to mandatory retirement before vesting. However, these provisions are not expected to have a discernible effect on State pension contributions. The bill's other provisions are technical and clarifying in nature and have no effect on State pension liabilities or contribution rates. Revenues are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: A JRS member who must retire by order of the Court of Appeals with less than five years of eligibility service may receive a prorated allowance if the member's service equals the mandatory retirement age in the Maryland Constitution minus the member's age when the member first became a JRS member.

The bill clarifies that membership in JRS terminates if a member:

- is separated from employment for more than four years;
- withdraws the member's accumulated contributions;
- retires; or
- dies.

This conforms JRS to other plans within the State Retirement and Pension System (SRPS).

For former JRS members, the bill also (1) clarifies that regular interest is not paid on accumulated member contributions for those who become members of JRS on or after July 1, 2012, and who are not eligible to receive a vested allowance; (2) repeals the six-month limitation for withdrawing accumulated member contributions after termination of service; and (3) makes provisions related to the return of accumulated contributions applicable to JRS.

Current Law/Background: Chapter 485 of 2012 added a five-year vesting requirement for JRS members who begin service on or after July 1, 2012; previously, JRS members vested immediately. JRS members are entitled to a normal service retirement benefit at age 60 and with 16 years of service; they stop earning service credit and making member contributions after 16 years. The retirement benefit is equal to two-thirds of the salary of a current judge in the same position that the retiree held at the time of retirement. Vested members who retire with less than 16 years of service credit receive a prorated benefit based on their years of service. All circuit, District, and appellate court judges are subject to mandatory retirement by Article IV, § 3 of the Maryland Constitution. The current mandatory retirement age is 70 years old.

Statute specifies that SRPS members and vested former members accrue regular interest (4% annually for most SRPS plans) on accumulated contributions. Prior to July 1, 2014, it was silent as to whether *nonvested* former members continue to accrue interest on their contributions after their employment ends. Chapter 304 of 2014 clarified that nonvested former members of SRPS do not accrue interest on their member contributions, which conformed statute to existing practice. At the time, virtually all JRS members and former members were vested, so Chapter 304 inadvertently omitted JRS from the clarifying

language. The new vesting requirement for JRS means that it is now possible for JRS members to separate from employment prior to vesting. Therefore, this bill clarifies that nonvested former members of JRS are entitled to a return of accumulated contributions but do not accrue interest on their accumulated member contributions, as is the case with all other SRPS plans.

JRS is the only SRPS plan that limits withdrawal of accumulated member contributions to within six months of a member's separation from employment. With the addition of a vesting period for new members as of July 1, 2012, the bill repeals this provision, making it consistent with all other SRPS plans.

State Fiscal Effect: With the addition of a five-year vesting requirement by Chapter 485 of 2012, it is now possible for an individual to accept a judgeship between the ages of 65 and 70 and not vest in JRS before being subject to mandatory retirement at age 70. Under current law, such an individual would be entitled to a return of accumulated contributions with interest but not to a prorated benefit. The bill provides the JRS member with a prorated retirement benefit based on years of service. The State Retirement Agency is not aware of any individuals older than 65 who have become members since the enactment of Chapter 485, so that provision has no immediate effect on State pension liabilities or contributions.

Under the provision, the maximum benefit would be one-quarter (4/16) of a normal service retirement benefit, or one-quarter of two-thirds of a judge's salary (*i.e.*, approximately 17% of a judge's salary). The current salary for a circuit court judge is \$169,358, so the maximum benefit for a circuit court judge based on current salaries would be \$28,226; the maximum benefit would be lower for a District Court judge and higher for a Court of Appeals judge. Although this benefit paid to a 70-year-old retiree would slightly increase State pension liabilities, it likely has no discernible effect on State pension contributions (which are projected to be \$18.2 million for JRS in fiscal 2016).

Under current law, a former member of JRS who separated from employment before July 1, 2012, and who returns to a JRS-eligible position is required to meet the five-year vesting requirement added by Chapter 485. The bill requires that such an individual be vested immediately, as that was the requirement in place prior to Chapter 485. This represents a benefit enhancement for such former members who return to service and, therefore, increases State pension liabilities. However, the nature of the enhancement is not substantial, and it is extremely rare for a JRS member to separate from employment and return to work several years later in a JRS position. The State Retirement Agency is not aware of any former JRS members who have returned to work and would benefit from this provision. To the extent it occurs in the future, it is expected to be infrequent. Therefore, it has no discernible effect on State pension contributions.

Additional Information

Prior Introductions: None.

Cross File: HB 77 (Delegate B. Barnes)(Chair, Joint Committee on Pensions) - Appropriations.

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

Fiscal Note History: First Reader - January 30, 2015
min/rhh Revised - Senate Third Reader - March 25, 2015
Revised - Enrolled Bill - May 4, 2015

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510