SB 821

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 821 (Senator Peters)(Chair, Joint Committee on Pensions)
Budget and Taxation Appropriations

Participating Governmental Units - Amortization Schedule

This bill phases in, over seven years, a 20-year closed amortization policy for unfunded accrued pension liabilities of participating governmental units (PGUs) in the State Retirement and Pension System (SRPS). Beginning June 30, 2016, all unfunded liabilities are amortized over 100 years, with each successive year using a shorter amortization period until June 30, 2022, when all remaining unfunded liabilities are amortized over 20 years. After that, unfunded liabilities are amortized over the time remaining until June 30, 2041.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: None. The bill affects only local governments that are PGUs.

Local Effect: PGU pension contributions increase by between $5.0 million and $13.9 million annually from FY 2018 through 2021. Beginning in FY 2022, however, PGU pension contributions decrease by at least $38.7 million annually. Those fiscal effects are spread over approximately 120 PGUs.

Small Business Effect: None.

Analysis

Current Law/Background: With the approval of their respective governing bodies, local governments are eligible to participate in SRPS as PGUs. There are currently approximately 120 PGUs in the system with total combined membership of just over

25,000 members. As of June 30, 2015, total PGU accrued liabilities were $4.9 billion, unfunded liabilities were $851.0 million, and the funded ratio for PGUs was 82.5%.

Under the current statutory amortization policy, all unfunded liabilities or surpluses accrued as of June 30, 2000, were amortized over 20 years, and any new unfunded liabilities or surpluses accrued in each successive fiscal year are amortized over separate 25-year periods. In fiscal 2000, PGUs had an actuarial surplus that was amortized over the required 20-year period; when that period ends in 2021, the system's actuary projects that contribution rates of PGUs will spike from 4.22% to 8.57% of payroll, more than doubling in just one year. Therefore, the SRPS Board of Trustees recommended to the Joint Committee on Pensions (JCP) that the amortization policy be altered to avoid the severe spike in contribution rates that is projected, and JCP decided to sponsor this legislation.

Chapters 475 and 476 of 2013 made a similar change to the amortization policy for State-only liabilities in SRPS but instead adopted a closed 25-year amortization policy with no phase-in.

Local Fiscal Effect: The bill has no effect on PGU contributions in fiscal 2017, as those contribution rates have already been certified by the board. Beginning in fiscal 2018 and through fiscal 2021, PGU contributions are higher under the bill's phased-in plan than they would be under current law. For instance, in fiscal 2018, the pooled PGU contribution rate under the bill is projected to be 4.95% of payroll, compared with 4.51% under current law. This translates into a combined increase in projected employer contributions to the system of approximately $5.0 million. However, by fiscal 2022, the contribution rates under the phased-in plan are projected to be substantially lower than they would be under current law (5.47% vs. 8.57%). This translates into a projected combined *savings* of about $38.7 million. Those savings are spread over the approximately 120 PGUs in the system, and they continue to accrue according to actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: HB 1397 (Delegate B. Barnes)(Chair, Joint Committee on Pensions) - Appropriations.

Information Source(s): Maryland Association of Counties, State Retirement Agency, Gabriel Roeder Smith & Company, Department of Legislative Services

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Analysis by: Michael C. Rubenstein

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