

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 343

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

Budget and Taxation

Appropriations

**Employees' and Teachers' Pension Systems - Alternate Contributory Pension
Selection and Reformed Contributory Pension Benefit**

This bill repeals the deadline for individuals to be rehired into positions within the Teachers' Pension System (TPS) or Employees' Pension System (EPS) and still be subject to the Alternate Contributory Pension Selection (ACPS) benefit tier within those plans. It also makes conforming changes to a reporting requirement and adds references to the Reformed Contributory Pension Benefit (RCPB) to various provisions of State pension law from which it was inadvertently omitted. The provisions relate to (1) earning eligibility service credit; (2) determining prior eligibility service following a break in service; and (3) transferring eligibility service credit between EPS and TPS.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: State pension liabilities and contributions (all funds) increase to the extent that individuals hired on or after July 1, 2016, qualify for ACPS benefits instead of RCPB benefits under the bill. A reliable estimate of the increase is not feasible because it is not known how many individuals will qualify, but the increase could be meaningful in the near term. Any effect on liabilities and contributions likely diminishes substantially over time, however. The bill's other provisions are technical in nature and have no effect on State pension liabilities or contribution rates. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: TPS/EPS began as noncontributory defined benefit pension systems in 1980 (Chapters 23 and 24). In 1998, Chapter 530 made them contributory systems, and in 2006, Chapter 110 enhanced the contributory benefit. To distinguish it from the contributory benefit under the 1998 legislation, the enhanced benefit available under Chapter 110 was titled the Alternate Contributory Pension Selection. State employees in TPS/EPS automatically qualified for the enhanced benefits (and higher employee contributions) under first the contributory benefit in 1998 and then again under ACPS in 2006.

Chapter 397 of 2011 added RCPB as a new benefit tier to TPS/EPS. **Exhibit 1** compares the benefit structures under ACPS and RCPB. In general, except for participating governmental units that have not opted for ACPS or the contributory benefit, any individual who becomes a member of TPS/EPS on or after July 1, 2011, is automatically enrolled in RCPB. However, Chapter 397 established two exemptions for TPS/EPS members who were subject to ACPS before July 1, 2011, and:

- were separated from employment for four years or less without withdrawing contributions or retiring; or
- were separated from employment for more than four years for specified types of military service and resume employment within one year of leaving approved military service.

In both cases, the individuals have to resume employment with an ACPS-eligible employer by June 30, 2016, in order to be re-enrolled in ACPS. Chapter 163 of 2015 added another exemption for a member of EPS who (1) became vested in ACPS on or before June 30, 2011, and (2) separated from employment for more than four years without withdrawing member contributions or retiring. The June 30, 2016 deadline for reemployment applied to this new exemption as well.

Following the enactment of Chapter 397 and the exemption it granted for ACPS members returning to work, 1,194 members returning to covered employment after June 30, 2011, qualified for ACPS benefits in fiscal 2012. However, the number of returning members qualifying for ACPS benefits declined substantially for the next two years thereafter, to 338 in fiscal 2013 and 121 in fiscal 2014. In fiscal 2015, the number increased to 373, which may be related to a large number of new hires in State government with a new Governor taking office. Absent the bill, fiscal 2016 is the last year that the three exemptions apply to any individual who did not withdraw contributions following separation from employment.

Exhibit 1
Comparison of ACPS and RCPB Benefits

	<u>ACPS</u>	<u>RCPB</u>
Vesting	5 years	10 years
Normal Retirement	30 years of service, or age 62	Age + service add to 90, or age 65
Benefit Multiplier	1.8%/year since 1998 1.2%/year before 1998	1.5%/year
Member Contribution	7% of pay	7% of pay

Source: Department of Legislative Services

Since RCPB was enacted in 2011, State pension law has needed to be updated several times to include references to it in relevant sections from which it was inadvertently omitted, most recently by Chapter 7 of 2015.

State Expenditures: As shown in Exhibit 1, ACPS provides more generous benefits than RCPB. Absent the bill, any individual who formerly was subject to ACPS but is returning to covered employment after June 30, 2016, is subject to RCPB. Under the bill, however, some individuals will qualify for one of the exemptions and be re-enrolled in ACPS, generating larger pension liabilities for the State. The number of individuals qualifying for those exemptions has fluctuated significantly since 2011, so a reliable estimate of the effect cannot be determined. In the near term, it is anticipated that between 100 and 300 individuals may qualify for an exemption. Over time, however, the number of returning employees who were once subject to ACPS and who qualify for an exemption should diminish.

Additional Information

Prior Introductions: None.

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

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

Fiscal Note History: First Reader - February 1, 2016
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