Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 453 (Senator Serafini)
Budget and Taxation Appropriations

Workgroup to Study the Optional Retirement Program

This bill establishes a Workgroup to Study the Optional Retirement Program (ORP). Members of the workgroup may not receive compensation but may be reimbursed for expenses. The University System of Maryland (USM) staffs the workgroup. The workgroup must report its findings and recommendations to the Governor and General Assembly by December 1, 2016.

The bill takes effect July 1, 2016, and terminates June 30, 2017.

Fiscal Summary

State Effect: None. USM can staff the workgroup and provide expense reimbursements with existing budgeted resources. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The workgroup must:

- review the population of employees eligible to participate in ORP;
- review the contribution requirements for ORP;
- review the eligibility criteria for health benefits of ORP participants; and

- make recommendations regarding any changes to ORP that would improve the program and be beneficial to program participants and the State.

Current Law/Background:

ORP

ORP is a tax-favored defined-contribution retirement savings plan available to designated employees of the institutions listed below, as an alternative to membership in the State Retirement and Pension System (SRPS):

- USM;
- Morgan State University (MSU);
- St. Mary's College of Maryland (SMCM);
- the Maryland Higher Education Commission (MHEC); and
- community colleges or regional community colleges in the State, including Baltimore City Community College.

ORP provides an employer contribution of 7.25% of a member's compensation, which is paid by employing institutions. Unlike SRPS plans, there is no mandated employee contribution in ORP; in fact, employee contributions are not authorized. Vesting in ORP is immediate, member accounts are portable, and members may invest their accounts in any of many investment options offered by the plan administrators, which are selected by the Board of Trustees of SRPS. Current plan administrators are TIAA-CREF and Fidelity Investments. Upon retirement, members may elect to purchase annuities with their accumulated funds.

To join ORP, individuals in employing institutions must be eligible for membership in SRPS and be:

- eligible (professional) employees of MHEC;
- members of the faculty of an employing institution;
- professional employees of a community college;
- nonclassified employees of USM;
- professional or administrative employees of MSU; or
- professional employees or faculty members of SMCM.

Regular State Retirees' Eligibility for the State Health Plan

In general, a retiree who is receiving a retirement allowance from SRPS is eligible to enroll in the State health plan under specified circumstances. If the retiree began State service on or before June 30, 2011, or is a retiree of the Judges' Retirement System, the retiree, the retiree's spouse, and any dependent children can enroll in the plan if the retiree:

- retires directly from State service with at least 5 years of creditable service;
- retires directly from State service with a disability allowance;
- ends State service with at least 16 years of creditable service; or
- ends State service with at least 10 years of creditable service and within 5 years of normal retirement age.

These retirees, their spouses, and their dependent children are eligible for the same premium subsidy that the retiree received as an active State employee, if the retiree is receiving a disability allowance or has 16 years of creditable service; if the retiree has between 5 and 16 years of service credit, the retiree and family members receive a prorated premium subsidy at the rate of 1/16 for each year of service.

If the retiree began State service on or after July 1, 2011, the retiree, spouse, and dependent children can enroll in the plan if the retiree:

- retires directly from State service with at least 10 years of creditable service;
- retires directly from State service with a disability allowance;
- ends State service with at least 25 years of creditable service; or
- ends State service with at least 10 years of creditable service and within 5 years of normal retirement age.

These retirees, their spouses, and their dependent children are eligible for the same premium subsidy they received when the retiree was an active State employee, if the retiree is receiving a disability allowance or if the retiree has 25 years of creditable service; if the retiree has between 10 and 25 years of service credit, the retiree and family members receive a prorated premium subsidy at the rate of 1/25 for each year of service.

ORP Retirees' Eligibility for the State Health Plan

In general, a retiree of ORP is also eligible to enroll in the State health plan under specified circumstances. If the retiree began State service on or before June 30, 2011, the retiree, the retiree's spouse, and any dependent children can enroll in the plan if the retiree:

- retires directly from a State institution of higher education with at least 5 years of service with the institution and is receiving a periodic distribution from ORP;
- ends service with a State institution of higher education with at least 10 years of service and is at least age 57; or
- ends service with a State institution of higher education with at least 16 years of service.

If the ORP retiree began State service on or after July 1, 2011, the retiree can enroll in the plan if the retiree:

- retires directly from a State institution of higher education with at least 10 years of service with the institution and is receiving a periodic distribution from ORP;
- ends service with a State institution of higher education with at least 10 years of service and is at least age 57; or
- ends service with a State institution of higher education with at least 25 years of service.

With one exception, ORP retirees receive premium subsidies under the same conditions as their regular employee counterparts. Although their spouses and dependent children can participate in the State health plan, they are not eligible for a premium subsidy unless the retiree has at least 25 years of service with the State.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Higher Education Commission, Baltimore City Community College, Morgan State University, St. Mary's College of Maryland, University System of Maryland, Department of Budget and Management, Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2016
kb/rhh Revised - Senate Third Reader - March 31, 2016

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