

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 608

(Senator Guzzone)

Budget and Taxation

Appropriations

Employees' Pension System - Redeposit of Contributions

This bill allows specified individuals who returned to State employment after previously withdrawing accumulated member contributions from the Employees' Pension System (EPS) to redeposit their withdrawn contributions and be re-enrolled in the Alternate Contributory Pension Selection (ACPS) of EPS. These individuals are credited with eligibility and creditable service in ACPS in the amount equal to the credit they accumulated before withdrawing their contributions if they redeposit their contributions by December 31, 2016.

The bill takes effect July 1, 2016, and terminates December 31, 2016.

Fiscal Summary

State Effect: State pension liabilities increase minimally to award ACPS credit to an individual otherwise eligible for lower benefits under the Reformed Contributory Pension Benefit (RCPB). As the bill likely affects only one individual, there is no discernible effect on State pension contributions, as explained below.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to an individual who:

- began membership in EPS as an employee of the Maryland Department of Planning on or after September 1, 2009;
- ceased employment on or before December 31, 2012;
- received a refund of the member's accumulated contributions in EPS on or after March 30, 2013; and
- again became a member of EPS through employment with the Maryland Department of Business and Economic Development (now the Department of Commerce) on or after January 1, 2014.

Current Law: Membership in EPS, and all membership privileges, end when a member withdraws accumulated contributions.

In general, a member of EPS hired on or after July 1, 2011, is subject to RCPB. However, Chapter 397 of 2011, which created RCPB as a new benefit tier, created two exceptions for 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.

Chapter 163 of 2015 added another exemption for a member of EPS who (1) became vested in ACPS on or before June 30, 2011; (2) is separated from employment for more than four years without withdrawing member contributions or retiring; and (3) returns to service by June 30, 2016.

Individuals who meet any of the above criteria and who are rehired into EPS-eligible positions before July 1, 2016, are subject to ACPS rather than RCPB as long as the employer participates in ACPS.

Background: EPS began as a noncontributory defined benefit pension system in 1980 (Chapters 23 and 24). In 1998, Chapter 530 made EPS a contributory system, 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 (or ACPS as noted earlier). State employees in EPS automatically qualified for the enhanced benefits 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 the Teachers' Pension System (TPS)/EPS; State employees who were members of EPS before July 1, 2011, and remained employed also remained in ACPS. **Exhibit 1** compares the benefit structures under ACPS and RCPB.

Following the enactment of Chapter 397 and the exemption it granted for ACPS members returning to work, 1,194 members returning to work 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. Even so, 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. Fiscal 2016 is the last year that the exemption applies for any individual who did not withdraw contributions.

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

State Fiscal Effect: The State Retirement Agency advises that it is aware of only one individual who meets the bill's criteria, but the agency was unable to provide any additional information on the individual in time for inclusion in this fiscal and policy note. Absent the bill, the individual would be subject to the reduced benefits and longer vesting period under RCPB for any service credit earned in EPS since resuming State service with the Department of Commerce. As the individual withdrew all accumulated contributions from prior EPS service, there is no prior service to combine with new service.

Allowing the individual to redeposit withdrawn contributions and claim ACPS benefits for both prior and prospective service credit increases State pension liabilities minimally.

Absent additional information on the individual, a more precise actuarial analysis is not feasible. However, as the bill likely affects only one individual, the increase in pension liabilities is not expected to have a discernible effect on State pension contributions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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md/rhh

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