SB 739

Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 739 (Senator Elfreth)(Chair, Joint Committee on Pensions)
Budget and Taxation Appropriations

State Retirement and Pension System - Investment Division - Compensation

---

This bill authorizes the Board of Trustees of the State Retirement and Pension System (SRPS) to adjust the compensation up to two times for any employee of the Investment Division who was employed before July 1, 2018, and whose compensation is currently below the salary midpoint for the individual's position. The adjustments are subject to specified conditions and time limits. The bill also authorizes the SRPS board to pay incentive compensation to an individual who earns the compensation and who retires directly from the Investment Division before the full payment is made. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: Nonbudgeted expenditures by the State Retirement Agency (SRA) increase by a combined total of $263,800 in FY 2023 and 2024. No discernible effect on State pension liabilities or contribution rates. No effect on revenues.

(in dollars)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenues	$0	$0	$0	$0	$0
NonBud Exp.	131,900	131,900	0	0	0
Net Effect	($131,900)	($131,900)	$0	$0	$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The two salary adjustments must be made on or after July 1, 2022, and before July 1, 2024. The adjustments may be made only to bring the individual's compensation up to the salary range midpoint for the individual's position, in accordance with the board's policies. Any compensation adjustments made under the bill do not preclude the SRPS board from granting other specified compensation increases authorized in statute.

Current Law: All compensation paid to employees of the Investment Division is nonbudgeted and paid from the pension trust fund.

Base Salary for Investment Division Employees

Chapters 727 and 728 of 2018 give the SRPS board the authority to establish the compensation of Investment Division employees, subject to objective, performance-based criteria approved by the board. In adopting the objective criteria, the board must consider the recommendations of an Objective Criteria Committee established at least once every five years. In March 2019, the board adopted salary ranges for each Investment Division position in which the midpoint was at or near the national average for comparable positions in other public pension plans; Investment Division employees hired on or after July 1, 2018, are generally compensated at the salary range midpoints.

Chapters 727 and 728 also limit annual base salary increases for Investment Division employees to 10% of an employee's current compensation, which applies to both existing and new employees hired after the enactment of Chapters 727 and 728.

Incentive Compensation for Investment Division Employees

Chapters 727 and 728 also authorize the SRPS board to award incentive compensation to Investment Division employees, based on objective performance criteria and capped at 33% of base compensation. Incentive compensation must be paid out over multiple fiscal years in installments, but any unpaid incentive compensation may not be paid to the staff after they separate from employment. Current law does not make an exception for an employee who retires directly from the Investment Division before the full incentive compensation is paid.

State Expenditures: SRA advises that enactment of Chapters 727 and 728, and the subsequent adoption of new salary ranges for Investment Division employees, has resulted in inequities among employees performing the same or similar jobs, and even between a supervisor and a subordinate. Many division employees who were employed before July 2018 were earning well below the midpoint of the salary ranges, and the caps on their annual increases have prevented them from reaching those levels. As a result, employees hired on or after July 2018 typically earn more than their peers performing the same jobs or, in one case, more than a supervisor. The bill allows the board to accelerate base salary increases for nine individuals to bring them in line with the new salary ranges. Thus, nonbudgeted expenditures by SRA increase by a total of $263,777 in fiscal 2023 and 2024. An increase of this limited magnitude has no material effect on the system's total liabilities (currently approximately $20 billion), and thus has no measurable effect on State pension contributions.

Any payments of unpaid incentive compensation to individuals who retire directly from the Investment Division are expected to be infrequent and negligible, and thus have no material effect on State pension liabilities or contributions.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 1091 (Delegate Lierman)(Chair, Joint Committee on Pensions) - Appropriations.

Information Source(s): Department of Budget and Management; State Retirement Agency; Department of Legislative Services

Fiscal Note History: First Reader - February 21, 2022
fnu2/ljm Third Reader - March 11, 2022

Analysis by: Michael C. Rubenstein

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