Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 481 (Senators Lewis Young and Benson)
Budget and Taxation Appropriations

State Retirement and Pension System – Nonvested Accounts – Regular Interest

This bill requires the State Retirement and Pension System (SRPS) to pay regular interest in the account of a nonvested former member who (1) has not withdrawn the accumulated contributions and (2) becomes an active member in any SRPS plan. Interest remains payable as long as the former member remains an active member in an SRPS plan. The bill applies to the accounts of nonvested former members of the Teachers' and Employees' Retirement Systems (TRS/ERS), Teachers' and Employees' Pension Systems (TPS/EPS), State Police Retirement System (SPRS), Correctional Officers' Retirement System (CORS), Law Enforcement Officers' Pension System (LEOPS), or Judges' Retirement System (JRS). **The bill takes effect July 1, 2023, and applies retroactively to accounts held by individuals who are members of SRPS on that date, as discussed below.**

Fiscal Summary

State Effect: Minimal increase in State pension liabilities due to the retroactive payment of interest, which results in only a negligible increase in State pension contributions. No effect on revenues.

Local Effect: Minimal increase in pension liabilities for participating governmental units (PGUs), which results in only a negligible increase in PGU pension contributions. No effect on revenues.

Small Business Effect: None.

Analysis

Current Law:

Vesting

Except for members of JRS, SRPS members hired before July 1, 2011, vest after 5 years of eligibility service; members hired on or after that date vest after 10 years of eligibility service. Members of JRS hired before July 1, 2012, vest immediately; members of JRS hired on or after that date vest after 5 years.

Regular Interest

SRPS pays regular interest on member contributions at the rate of 4% compounded annually for members of TRS/ERS, SPRS, CORS, and JRS. Regular interest is also 4% for members of LEOPS hired before January 1, 2005. SRPS pays regular interest on member contributions at the rate of 5% compounded annually for members of TPS/EPS and for members of LEOPS hired on or after January 1, 2005.

Payment of Regular Interest for Former Members

For the purposes of this bill, membership in any of the SRPS plans ends four years after separation from employment. If a former member is vested (and, therefore, eligible for a vested benefit upon reaching normal retirement age), interest is paid until retirement or withdrawal of a member's accumulated contributions. However, except as described below, if a former member is *not* vested and has not withdrawn his or her accumulated contributions, no further interest is paid after membership ends.

Chapter 509 of 2018 applies to an active member of EPS and TPS who was previously subject to the Alternate Contributory Pension Selection (ACPS) but (after a break in service) becomes subject to the Reformed Contributory Pension Benefit. If the member did not vest under ACPS prior to the break in service and has not withdrawn accumulated member contributions made during his or her tenure in ACPS, the member may continue to receive regular interest on the member contributions made during the tenure in ACPS.

State/Local Expenditures: The bill applies retroactively, requiring SRPS to pay interest on contributions made by a former member as of the date the former member rejoined SRPS as a member of a different plan, if the individual remains an active member on the bill's effective date.

The State Retirement Agency has identified approximately 1,600 accounts, including for members of PGUs, on which interest is payable under the bill. The total interest due is approximately $514,000. These payments reduce system assets by that amount, thereby increasing unfunded liabilities for the State and PGUs. However, the increase in liabilities is minimal and has only a negligible effect on State and PGU pension contributions.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 424 (Delegate Simpson, *et al.*) - Appropriations.

Information Source(s): Bolton; State Retirement Agency; Department of Legislative Services

Fiscal Note History: First Reader - February 10, 2023
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