SB 466

Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 466	(Senator Jackson)(Chair, Joint Committee on Pensions)	
Budget and Taxation		Appropriations

State Retirement and Pension System - Amortization of Unfunded Liabilities and Surpluses

This bill alters the statutory policy for amortizing unfunded accrued liabilities or surpluses for the State Retirement and Pension System (SRPS). It authorizes the SRPS Board of Trustees, on the recommendation of the system's actuary, to adjust the period of amortization under the new policy for the purpose of mitigating tail volatility in the annual contribution rate. The SRPS board may not certify contribution rates that are below the normal cost, as determined by the system's actuary. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: Potential minimal increases in State pension liabilities beginning in FY 2024, but any such increases are not expected to have a discernible effect on State pension contributions. No effect on revenues.

Local Effect: None. The bill affects amortization of only State pension liabilities and surpluses.

Small Business Effect: None.

Analysis

Bill Summary: Any existing unfunded liabilities or surpluses as of June 30, 2023, remain amortized over a closed period that ends June 30, 2039.

Beginning July 1, 2023, any new unfunded liabilities or surpluses that accrued during the preceding fiscal year are amortized over closed periods according to the following guidelines:

- over 15 years for experience gains and losses;
- over 25 years for gains or losses stemming from changes to actuarial assumptions or methods;
- over a period ranging from no less than 10 and no more than 15 years for gains or losses stemming from new legislation (except early retirement incentives); and
- over 5 years for any accrued liability stemming from legislation providing incentives for the early retirement of State employees.

Current Law: Chapters 475 and 476 of 2013 established the amortization policy for SRPS that is currently in effect. Specifically, the Acts required that all unfunded liabilities or surpluses accrued as of June 30, 2013, be amortized over a closed 25-year period (ending on June 30, 2039, which includes a one-year implementation delay). They further required that any new unfunded liabilities or surpluses (including those due to experience, changes in actuarial assumptions and methods, and legislation) in each succeeding year be amortized within the number of years remaining in the closed period until June 30, 2039.

State Expenditures: The purpose of the bill is to reduce the likelihood of contribution rate volatility as the 25-year amortization period established by Chapters 475 and 476 nears its conclusion in 2039. As new liabilities (or surpluses) are added to the existing unfunded liabilities each year, they are amortized over an increasingly smaller number of years. This increases the risk that a fiscal shock to the system (such as a severe downturn in financial markets) in the latter years of the current amortization period would significantly increase unfunded liabilities that would have to be amortized over just a small number of years, resulting in significant increases in State pension contributions.

Creating new "tiers" of unfunded liabilities or surpluses each year ensures that any such shocks to the system are spread out over many years, and it enhances transparency regarding the sources of the system's unfunded liabilities. This approach also allows the SRPS board, on the advice of the actuary as established by bill, to make adjustments to those tiers to minimize the potential for future volatility in contribution rates. Such adjustments are consistent with the model amortization policy developed by the national Conference of Consulting Actuaries.

The General Assembly's consulting actuary notes that unrecognized investment gains and losses from recent years, due to the system's five-year "smoothing" policy, will be assigned to each annual tier rather than to the larger closed pool of unfunded liabilities. This may have a minimal effect on total accrued liabilities; however, projections by the system's actuary that have also been reviewed by the General Assembly's consulting actuary indicate that, overall, the changes in unfunded liabilities over the first several years of the new policy are generally minimal. The bill's requirement that contribution rates never fall below the normal cost ensures that the State always pays at least the cost of pension benefits accrued in a given year, even if the system maintains an actuarial surplus.

Additional Information

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

Designated Cross File: HB 804 (Delegate Forbes)(Chair, Joint Committee on Pensions) - Appropriations.

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

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