

Department of Legislative Services
 Maryland General Assembly
 2007 Special Session

FISCAL AND POLICY NOTE

House Bill 50 (Delegate Donoghue)
 Appropriations

State Retirement and Pension System - Employer Contributions - Educators and Educational Staff

This bill requires county governments to pay half of the employer pension contribution, on a wealth-adjusted basis, for teachers, librarians, and other public school or library staff who are members of either the Teachers’ Retirement System (TRS) or Teachers’ Pension System (TPS). It also requires local governments to pay half of the employer contribution for community college faculty and staff who are members of TRS, TPS, or the Optional Retirement Program (ORP).

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund expenditures decrease by approximately \$333.9 million in FY 2009 as county governments assume a share of employer pension contributions for employees of public schools, public libraries, and community colleges. Those savings are assumed to increase due to projected increases in employer pension contribution rates and growth in the salary bases for affected employees.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	(333.9)	(377.3)	(413.7)	(450.1)	(488.7)
Net Effect	\$333.9	\$377.3	\$413.7	\$450.1	\$488.7

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

Local Effect: County government expenditures increase by approximately \$333.9 million in FY 2009 as local governments assume a share of employer pension contributions for employees of public schools, public libraries, and community colleges. Those expenditures are assumed to increase due to projected increases in employer

pension contribution rates and growth in the salary bases for affected employees. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: The bill establishes a single wealth-adjusted local employer pension contribution rate for public school and public library employees. Each local government pays either the full pension contribution for those employees or the wealth-adjusted contribution, whichever is lower. For community college faculty and staff, each local government pays exactly half of the total employer pension contribution for those employees.

Counties served by a regional community college will divide the local share of the employer pension contribution for faculty and staff of the community college. Each county's share of the contribution will be prorated based on the proportion of full-time equivalent students enrolled in the college who are residents of the county.

The bill does not apply to the Baltimore City Community College because it is a wholly State-funded institution.

Current Law: The State contributes 100% of the employer pension contribution for teachers, librarians, community college faculty, and other public school, library, and community college staff who are employed by local governments and are members of TRS, TPS, or ORP.

For TRS/TPS, employer contribution rates are determined by annual actuarial valuations commissioned by the Board of Trustees of the State Retirement and Pension System (SRPS) and performed by an independent actuarial consultant. For purposes of the valuation, TRS and TPS are combined, so the employer contribution rate is identical for the two plans. For ORP members, the State contributes 7.25% of each employee's earnable compensation.

Background: Teachers, librarians, and community college faculty are employees of local boards of education, public libraries, and community colleges, respectively. As their employers, local governments pay their salaries, health benefits, and the employer share of Social Security benefits.

TRS is a defined benefit pension plan established in 1927 to provide benefits for State and local teachers and certain employees of local boards of education, public libraries,

and community colleges. Membership in TRS was closed to new members on January 1, 1980 upon the creation of TPS. TRS members contribute either 5% or 7% of their salaries and earn a benefit equal to 1.8% of their average final salary for each year of service. According to the SRPS actuary, there were 4,788 active members of TRS as of June 30, 2007.

The State established TPS on January 1, 1980 to replace TRS for new hires and for TRS members who elected to transfer to the new system. Beginning in fiscal 2009, TPS members will contribute 5% of their salaries; they earn a benefit equal to the following formula:

$$\begin{array}{c}
 \boxed{\text{Years of Creditable Service Before 1998}} \times \boxed{\text{Average Final Compensation (AFC)}} \times \boxed{1.2\%} \\
 \text{Plus} \\
 \boxed{\text{Years of Creditable Service After 1998}} \times \boxed{\text{AFC}} \times \boxed{1.8\%}
 \end{array}$$

According to the SRPS actuary, there were 98,789 active members of TPS as of June 30, 2007.

The State established ORP in 1975 as an optional defined contribution plan for professional employees of public institutions of higher education. Eligible members must choose between TRS/TPS and ORP, and may not participate in both systems. As of June 30, 2007, there were 2,600 active members of ORP employed by community colleges.

Although the State pays the full employer contribution on behalf of local government employers, **Exhibit 1** attributes the sources of those costs by county and by employer.

Exhibit 1
Employer Pension Contributions Attributable to Counties and Employers
Fiscal 2009

	<u>Public Schools</u>	<u>Libraries</u>	<u>Community Colleges</u>	<u>Total State</u>
Allegany	\$6,756,060	\$97,245	\$1,245,143	\$8,098,448
Anne Arundel	50,559,262	1,047,856	4,073,224	55,680,342
Baltimore City	60,805,488	1,418,768	0	62,224,256
Baltimore	72,980,942	1,456,930	6,047,996	80,485,868
Calvert	12,385,921	229,094	357,089	12,972,104
Caroline	3,696,533	106,118	139,110	3,941,761
Carroll	18,818,980	480,443	930,558	20,229,981
Cecil	11,076,893	220,066	674,082	11,971,041
Charles	17,068,178	229,952	1,395,893	18,694,023
Dorchester	3,146,098	47,623	106,816	3,300,537
Frederick	26,319,580	506,368	1,344,750	28,170,698
Garrett	3,260,368	71,361	381,259	3,712,988
Harford	26,419,617	843,153	1,717,127	28,979,897
Howard	41,423,968	948,178	2,249,552	44,621,698
Kent	1,788,346	45,435	56,513	1,890,294
Montgomery	124,897,387	1,972,700	9,161,908	136,031,995
Prince George's	90,143,031	1,479,371	4,011,440	95,633,842
Queen Anne's	4,716,217	78,512	165,814	4,960,543
St. Mary's	10,836,097	200,659	411,193	11,447,949
Somerset	2,174,300	42,924	81,902	2,299,126
Talbot	2,887,089	63,161	152,151	3,102,401
Washington	13,441,048	259,159	1,002,956	14,703,163
Wicomico	10,390,453	123,950	516,547	11,030,950
Worcester	<u>5,777,564</u>	<u>129,833</u>	<u>211,647</u>	<u>6,119,044</u>
Total	\$621,769,420	\$12,098,859	\$36,434,668	\$670,302,947

Note: Community college contributions are estimates of combined State payments to TRS/TPS and ORP based on fiscal 2006 reimbursements, the most recent data available. Allocations to counties served by regional community colleges (Southern Maryland Community College, Chesapeake Community College, and Wor-Wic Community College) are based on the distribution of full-time equivalent students enrolled in those colleges.

Source: State Retirement Agency, Maryland Association of Community Colleges, Department of Budget and Management, Department of Legislative Services

Other States

Maryland's neighboring states handle employer pension contributions for teachers in different ways. In Virginia, the breakdown between the state and local shares of the employer pension contribution is dictated by each school system's share of state funding. On average, the state pays 55% and local school systems pay 45% of the total contribution. However, the poorest district pays 20% and the wealthiest pays 82% of the total contribution. In addition, the local school systems have the option of paying the full employee contribution (5%), and all of them do so. Pennsylvania pays 50% of the employer pension contribution for teachers, with local school systems paying the remaining 50%. West Virginia specifies a maximum number of days that members of its Teachers' Retirement System can work (currently 200 days), and pays 100% of the employer contribution up to that limit. Most school-based personnel, with the exception of principals, work no more than 200 days. However, central office personnel are typically on a full-year contract. The local school system is responsible for paying the full employer contribution for any period of employment that exceeds the 200-day limit. Information on Delaware was not available in time to be included in this fiscal and policy note.

State Expenditures: Based on the June 30, 2007 actuarial valuation of SRPS, the combined TRS/TPS employer contribution rate for fiscal 2009 is 11.70% of payroll. Applying this rate to projected salaries, SRPS projects the total employer pension contribution for public school teachers and staff, public library staff, and community college professors and staff to be \$658.1 million. State contributions to ORP on behalf of community college faculty and staff are projected to be approximately \$12.2 million in fiscal 2009, bringing the total State cost for TRS, TPS, and ORP to \$670.3 million.

General fund expenditures for local aid payments to local governments would decrease by approximately \$333.9 million in fiscal 2009 due to the application of the formula for calculating local employer pension contributions contained in this bill. Those savings are projected to grow based on anticipated increases in employer pension contribution rates and the salary bases of affected employees.

Local Expenditures: Local government expenditures would increase by \$333.9 million in fiscal 2009 to make up for the reduction in the State share of employer pension contributions for public schools, libraries, and community colleges. **Exhibit 2** provides a breakdown of the fiscal effect by county. Under the wealth-adjusted formula for teachers and librarians in the bill, two counties (Talbot and Worcester) would pay the full employer contribution for those employees. However, the State and counties would still evenly divide the contribution for community colleges, as provided in the bill. Seven additional counties would pay more than half of the employer contribution for teachers

and librarians (Anne Arundel, Baltimore, Garrett, Howard, Kent, Montgomery, and Queen Anne's).

Exhibit 2
County and State Shares of Employer Pension Contributions Under HB 50

	<u>Current Law</u> <u>Total State</u> <u>Contribution</u>	<u>HB 50</u> <u>County Share of Total</u> <u>Contribution</u>		<u>HB 50</u> <u>State Share of Total</u> <u>Contribution</u>	
Allegany	\$8,098,448	\$2,433,518	30.0%	\$5,664,930	70.0%
Anne Arundel	55,680,342	37,368,342	67.1%	18,312,000	32.9%
Baltimore City	62,224,256	15,615,278	25.1%	46,608,978	74.9%
Baltimore	80,485,868	42,331,936	52.6%	38,153,932	47.4%
Calvert	12,972,104	5,946,838	45.8%	7,025,265	54.2%
Caroline	3,941,761	1,264,913	32.1%	2,676,848	67.9%
Carrroll	20,229,981	9,795,822	48.4%	10,434,158	51.6%
Cecil	11,971,041	4,927,944	41.2%	7,043,097	58.8%
Charles	18,694,023	8,364,025	44.7%	10,329,997	55.3%
Dorchester	3,300,537	1,350,839	40.9%	1,949,698	59.1%
Frederick	28,170,698	13,976,049	49.6%	14,194,649	50.4%
Garrett	3,712,988	1,871,600	50.4%	1,841,387	49.6%
Harford	28,979,897	13,204,429	45.6%	15,775,468	54.4%
Howard	44,621,698	22,685,980	50.8%	21,935,718	49.2%
Kent	1,890,294	1,175,229	62.2%	715,065	37.8%
Montgomery	136,031,995	86,001,516	63.2%	50,030,479	36.8%
Prince George's	95,633,842	37,045,435	38.7%	58,588,407	61.3%
Queen Anne's	4,960,543	3,493,103	70.4%	1,467,439	29.6%
St. Mary's	11,447,949	5,099,249	44.5%	6,348,700	55.5%
Somerset	2,299,126	690,709	30.0%	1,608,417	70.0%
Talbot	3,102,401	3,026,326	97.5%	76,076	2.5%
Washington	14,703,163	6,527,971	44.4%	8,175,191	55.6%
Wicomico	11,030,950	3,690,114	33.5%	7,340,837	66.5%
Worcester	6,119,044	6,013,220	98.3%	105,823	1.7%
Total	\$670,302,947	\$333,900,387	49.8%	\$336,402,560	50.2%

Additional Comments: The bill makes no provisions for employer contributions for employees of three regional libraries (Western Maryland, Southern Maryland, and Eastern Shore), which receive funding directly from the State rather than from local governments. In fiscal 2009, the State will pay \$95,588 in employer contributions for employees of those institutions.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Association of Community Colleges, Maryland State Retirement Agency, Department of Budget and Management, West Virginia General Assembly, Virginia General Assembly, Pennsylvania Public School Employees Retirement System, Department of Legislative Services

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