

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 880

(Senator Jones-Rodwell)

Budget and Taxation

Appropriations

State Retirement and Pension System - Transfer of Members Between Systems

This bill allows a member of any one of the several systems of the State Retirement and Pension System (SRPS) who was a member on June 30, 2011, and transfers from one system into another designated system on or after July 1, 2011, and without a break in employment (of more than 30 days), to be subject to the same requirements for the new system that apply to an individual who was a member on June 30, 2011, and remains a member on July 1, 2011.

The bill takes effect July 1, 2012, and applies retroactively to any SRPS member who transfers to one of the designated systems on or after July 1, 2011.

Fiscal Summary

State Effect: State pension liabilities and contribution rates likely increase, but a reliable estimate of the magnitude of the increase is not feasible because data are not available. The effect may be significant, depending on the frequency with which SRPS members move from one plan to another, which is not known.

Local Effect: Liabilities and contribution rates for participating governmental units may also increase to the extent that they employ individuals who are members of other SRPS plans.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to transfers from any of the several systems to the:

- Employees' and Teachers' Pension Systems (EPS/TPS);
- State Police Retirement System (SPRS);
- Correctional Officers' Retirement System (CORS); and
- Law Enforcement Officers' Pension System (LEOPS).

Members who transfer into one of these plans from another SRPS plan on or after July 1, 2011, are considered a *new* member of the plan, but they are subject to the benefits in place for *current* members of that system who remain members on July 1, 2011.

Current Law/Background: In general, an SRPS member who accepts a job that requires becoming a member of a new system without a break in employment (defined as more than 30 days) is subject to the requirements and conditions of the “new” system in effect at the time of the transfer. The member may elect to either retain the accrued benefits earned under the “old” plan or transfer the service credit to the “new” plan under terms and conditions specified in statute; in either case, benefits earned in the “new” plan are accrued in accordance with the terms in effect when the individual became a member of that plan.

Chapter 397 of 2011 made substantial changes to the benefit structure of the plans affected by this bill. Several changes affected only new members hired on or after July 1, 2011, but three changes affected individuals who were members before that date too. The changes that applied to *all* members (existing and new) were:

- member contribution rates for EPS/TPS were raised from 5% of compensation to 7% of compensation;
- member contribution rates for LEOPS were raised from 4% to 6% for fiscal 2012 and then to 7% thereafter; and
- the calculation of postretirement cost-of-living adjustments (COLAs) for service credit earned beginning on July 1, 2011, was linked to the investment performance of the pension trust fund (the initial calculation is based on the Consumer Price Index for all Urban Consumers). For years in which the trust fund meets or exceeds its investment target (currently 7.75%), COLA is capped at 2.5%; for years in which it does not, COLA is capped at 1%. For prior service credit, EPS/TPS and LEOPS members are subject to a 3% cap, while CORS and SPRS members have an unlimited COLA.

The changes that applied only to *new* members hired on or after July 1, 2011, were:

- the calculation of average final compensation was changed from the average of the three highest (and in some cases consecutive) years to the five highest (and in some cases consecutive) years;
- the vesting period was increased from 5 years to 10 years;
- minimum eligibility for a normal service retirement for SPRS members was increased from 22 years to 25 years (the minimum age of 50 was not changed);
- the benefit multiplier for EPS/TPS members was lowered from 1.8% to 1.5%.

Chapter 397 included one exception to the provision that members are subject to the plan requirements at the time they join, regardless of their prior service in SRPS. Individuals who were members of EPS/TPS prior to July 1, 2011, and were either separated from employment for four years or less or separated from employment for more than four years due to service in the military and resumed employment within one year of leaving military service, and who did not withdraw their accumulated contributions or retire, are subject to the pre-reform requirements of EPS/TPS if they rejoin the plans by June 30, 2016.

State Fiscal Effect: An actuarial calculation of the bill's effect is not feasible because data on the characteristics of individuals who benefit from the bill's provisions are not available. The State Retirement Agency (SRA) advises that it does not track transfers among plans and has no mechanism for identifying individuals with prior service credit in SRPS who joined a new plan after the reform went into effect. Therefore, the General Assembly's consulting actuary, who relies on member records provided by SRA for its analysis, cannot analyze the bill's effect.

Legislative Services advises that the bill likely adds to the system's unfunded liabilities because it provides members who move from one plan to another with more generous benefits than they would otherwise receive. Without data on the prevalence of such moves among plans, Legislative Services cannot assess the magnitude of the increases, but they could be significant, resulting in higher State contribution rates.

Additional Information

Prior Introductions: None.

Cross File: HB 801 (Delegate Griffith, *et al.*) - Appropriations.

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

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