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# **State Funding of Pensions for Local Employees**

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**Presentation to the  
Public Employees' and Retirees' Benefit  
Sustainability Commission**

**Department of Legislative Services  
Office of Policy Analysis  
Annapolis, Maryland  
November 2010**

# Presentation Outline

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- Evolution
- Calculation of Annual State Aid Amounts
- State Funding Trend
- Case Study: Boards of Education
- Past Cost-sharing Proposals
- Future Cost Projections

# Evolution: Teachers' Pension System

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- 1927 – The “Teachers’ Retirement System of the State of Maryland” was established for new and existing teachers
- 1945 – Professional and clerical staff of local libraries were added to the teachers’ system
- 1961 – Professional and clerical staff of local community colleges were added to the teachers’ system
- 1967 – Montgomery County library employees were removed from the teachers’ system
- 1975 – The Optional Retirement Program was established, and professional community college employees were eligible to switch from the teachers’ system to the optional program

# Who Qualifies for Teachers' Pension System?

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## Qualifies

*Boards of Education (for complete list, see COMAR 22.04.03.02)*

(COMAR specifies 16 positions)

Certificated Employees (Teachers and Principals)  
 Specified Central Office Supervisors  
 Audiologists and Speech Pathologists  
 Psychiatrists, Psychologists, and Social Workers  
 Classroom Teacher Aides  
 Bus Attendants for Handicapped Students  
 Registered Nurses  
 Bookmobile Drivers  
 Occupational and Physical Therapists  
 Dietitians  
 Brailleists

## Does Not Qualify

(COMAR specifies 53 positions)

Bus Drivers and Transportation Personnel  
 Food Service Workers  
 Custodians and Janitors  
 Maintenance Workers  
 Security Personnel  
 Architects, Engineers, and Draftsmen  
 Laboratory Aides/Technicians  
 Administrative Assistants to the Superintendent  
 Assessments Specialists  
 Student Affairs and Activities Personnel  
 School Business Managers

## *Libraries*

Librarians Certified by State Board of Education  
 Clerical Employees  
 Qualifying Public Library Associates

All Others

## *Community Colleges*

Faculty  
 Professional Positions  
 Clerical Employees

All Others

# Other Local Employees in the State Pension Systems

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- Until fiscal 2010, the State paid retirement costs for State's attorneys, sheriffs, county treasurers, orphans' court judges, and various local board members in some counties (see chart on next page)
- The 2009 and 2010 Budget Reconciliation and Financing Acts required the counties and Baltimore City to pay these costs
- Costs for these retirement payments would have been \$2.5 million in fiscal 2010 if the costs had not been shifted to local governments

# Pension Costs State Used to Pay

## Retirement Costs State Would Have Paid for Locally Paid Officials and Employees in Fiscal 2010

County	Number of Individuals	Allocation of State Aid	Type of Position(s)
Allegany	2	\$17,040	Sheriff, State's Attorney
Anne Arundel	2	39,265	Sheriff, Master Judge
Baltimore City	162	2,171,743	Sheriff Deputies (155), Master Judges (7)
Baltimore	3	28,734	Sheriff, State's Attorney, Master Judge
Calvert	0	0	None
Caroline	1	10,665	State's Attorney
Carroll	5	45,587	State's Attorney, Orphans' Court Judges (3), Master Judge
Cecil	2	20,260	State's Attorney, County Treasurer
Charles	0	0	None
Dorchester	1	10,288	State's Attorney
Frederick	0	0	None
Garrett	4	11,451	State's Attorney, License and Liquor Board (2), County Commissioner
Harford	0	0	None
Howard	4	23,214	Sheriff, Orphans' Court Judges (2), Master Judge
Kent	0	0	None
Montgomery	1	13,523	Sheriff
Prince George's	1	13,147	State's Attorney
Queen Anne's	4	13,459	State's Attorney, Orphans' Court Judges (3)
St. Mary's	1	11,173	State's Attorney
Somerset	0	0	None
Talbot	2	18,679	Sheriff, State's Attorney
Washington	0	0	None
Wicomico	1	11,574	State's Attorney
Worcester	10	14,502	State's Attorney, Orphans' Court Judges (2), Miscellaneous Boards (7)
<b>Total</b>	<b>206</b>	<b>\$2,474,304</b>	

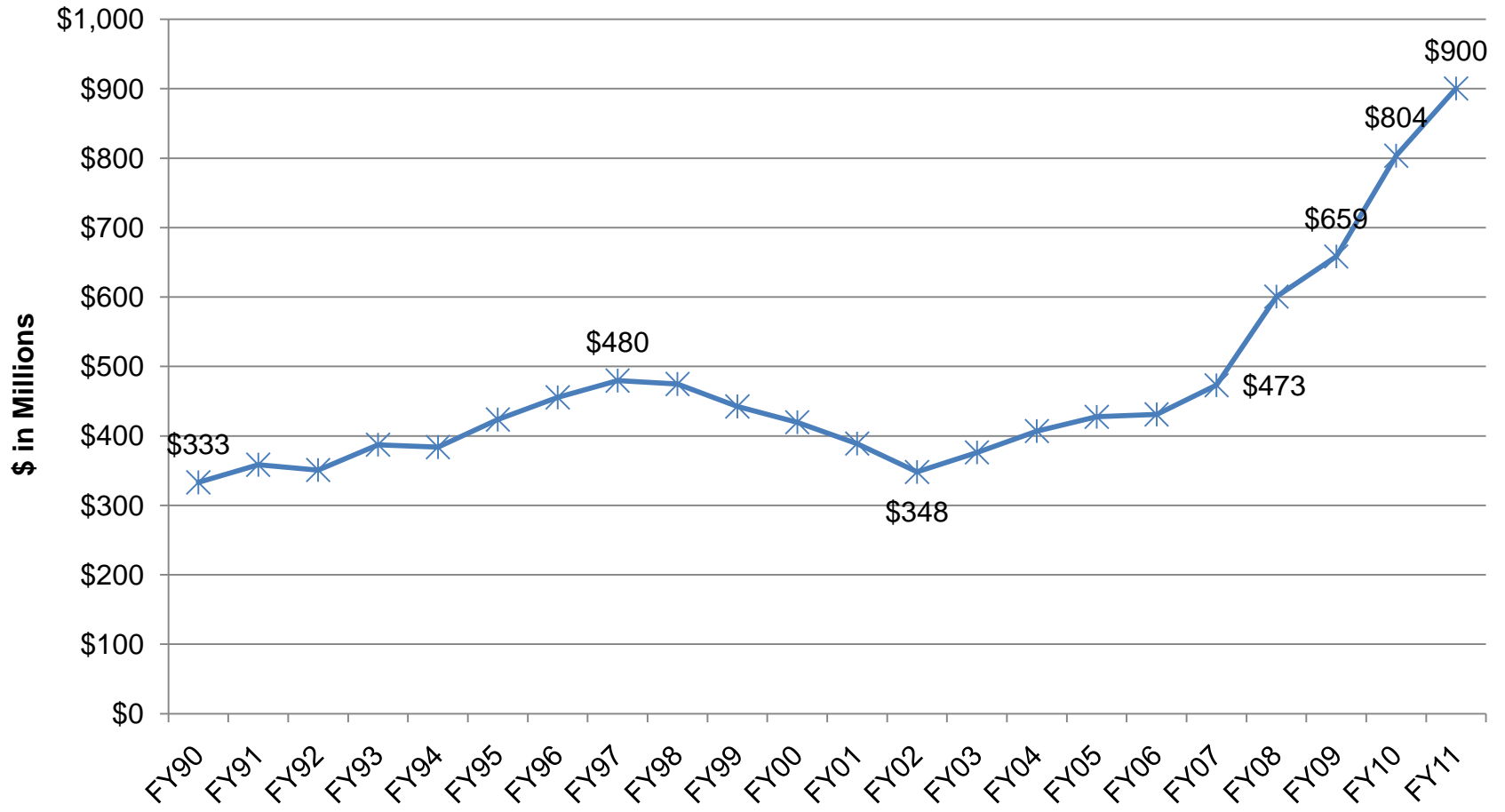
# Calculation of Annual Retirement Costs for Local Employees

	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>% Change</u>
Salary Base (Second Prior Fiscal Year)			
Boards of Education	\$5,725,925,263	\$5,773,697,457	0.8%
Libraries	93,580,841	91,812,104	-1.9%
Community Colleges	<u>227,144,344</u>	<u>235,515,788</u>	<u>3.7%</u>
<b>Total</b>	<b>\$6,046,650,448</b>	<b>\$6,101,025,349</b>	<b>0.9%</b>
Inflate Base for Expected Growth	3.5%	3.5%	0.0%
Projected Salary Base	\$6,258,283,214	\$6,314,561,236	0.9%
State Contribution Rate	14.34%	15.45%	7.7%
State Cost for Teachers' Pension System	\$897,437,813	\$975,599,711	8.7%
Estimates of Additional Costs			
Montgomery County Library Grant*	\$2,964,215	\$3,133,300	5.7%
Community College Optional Retirement**	13,824,000	14,333,486	3.7%
<b>Total Pension Costs for Local Personnel</b>	<b>\$914,226,028</b>	<b>\$993,066,497</b>	<b>8.6%</b>

\*Montgomery County librarians are not in the State pension system. Instead, the State provides a grant to Montgomery County equal to the lesser of the cost for participation in the State's pension system or the local pension system.

\*\*Eligible community college employees have the option to join the State's Teacher Pension System or the Optional Retirement Program.

# Cost of Pensions for Local Employees in Teachers' System



# Cost Drivers of Last Five Years

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- From fiscal 2006 to 2011, teachers' retirement costs increased from \$433 million to \$900 million
- The teachers' salary base used to generate retirement payments increased 38%, from \$4.4 billion in fiscal 2006 to \$6.0 billion in fiscal 2011
- The increase in the salary base was the result of salary increases for existing personnel and the addition of new personnel
- During this time, the State contribution rate increased from 9.35% of salaries to 14.34% of salaries, an increase of 53.0%

# Local Boards of Education

## How Are Salaries Set?

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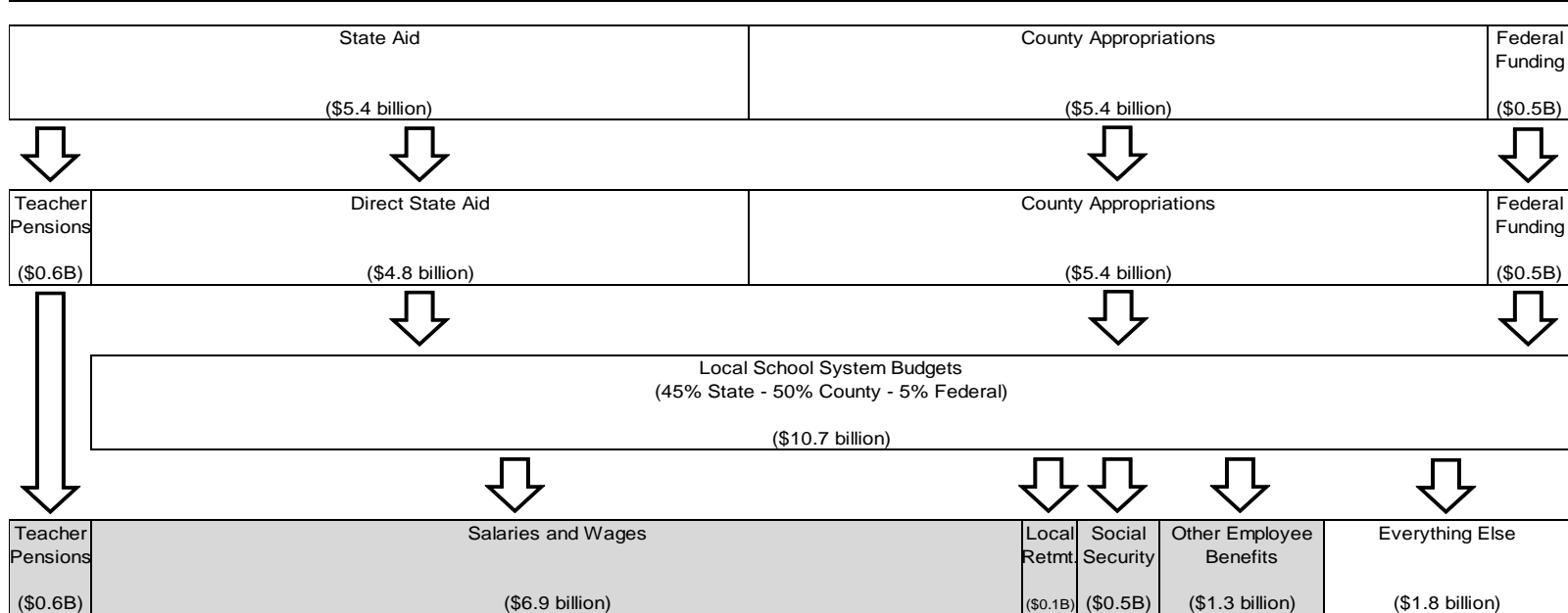
- Local boards of education do not have independent taxing authority
- The salaries of local board employees are set through collective bargaining with the local boards of education
- Local boards of education propose budgets to counties
- Counties can reduce board budgets within major categories (e.g., administration, instruction, transportation, etc.) but do not have line item veto power
- If a county does not appropriate sufficient funds to pay for a contract, negotiations may be reopened
- Chapters 324 and 325 of 2010 established a revised collective bargaining process, with oversight provided by a new Public Schools Labor Relations Board

# Local Boards of Education

## Who Pays for What?

- With the exception of teachers' pension costs, local school systems pay the costs associated with employee salaries and benefits
- The funding that pays those costs comes from State, local, and federal sources

### \$11.3 Billion in Fiscal 2009 School Operating Funding



Fiscal 2009 Spending for Employee Salaries and Benefits Totaled \$9.5 billion (84% of total spending)

# Impact of Bridge to Excellence Act

(\$ in Millions)

	<u>FY 2002</u>	<u>FY 2008</u>	<u>Change</u>	<u>% Change</u>
State Education Aid	\$2,885.9	\$5,163.6	\$2,277.7	78.9%
County Appropriations	3,830.4	5,160.5	1,330.1	34.7%
Federal Funding	429.1	559.2	130.1	30.3%
<b>Total School Funding</b>	<b>\$7,145.4</b>	<b>\$10,883.3</b>	<b>\$3,737.9</b>	<b>52.3%</b>

Salary Base for Teachers' Pension System (TPS)	\$3,907.0	\$5,471.5	\$1,564.5	40.0%
% of Total Funding	54.7%	50.3%		

Estimated Increase in Direct Aid Attributable to the Act	\$1,250.0
Assume 52.5% Goes into TPS Salary Base	656.3
State Contribution Rate for Fiscal 2012	15.45%
<b>Bridge to Excellence Impact</b>	<b>\$101.4</b>

	<u>FY 2002</u>	<u>FY 2008</u>	<u>Change</u>	<u>% Change</u>
Average Teacher Salary	\$48,251	\$60,069	\$11,818	24.5%
Number of Instructional Personnel	70,719	80,540	9,822	13.9%

	<u>Average</u>	<u>Median</u>	<u>High</u>	<u>Low</u>
Teacher Cost-of-living adjustments (FY 2003 to 2008)	3.59%	3.75%	7.5%	0.0%

2007: Allegany and  
Garrett counties

2004 & 2005:  
Baltimore City

# Cost-sharing Proposals in Maryland

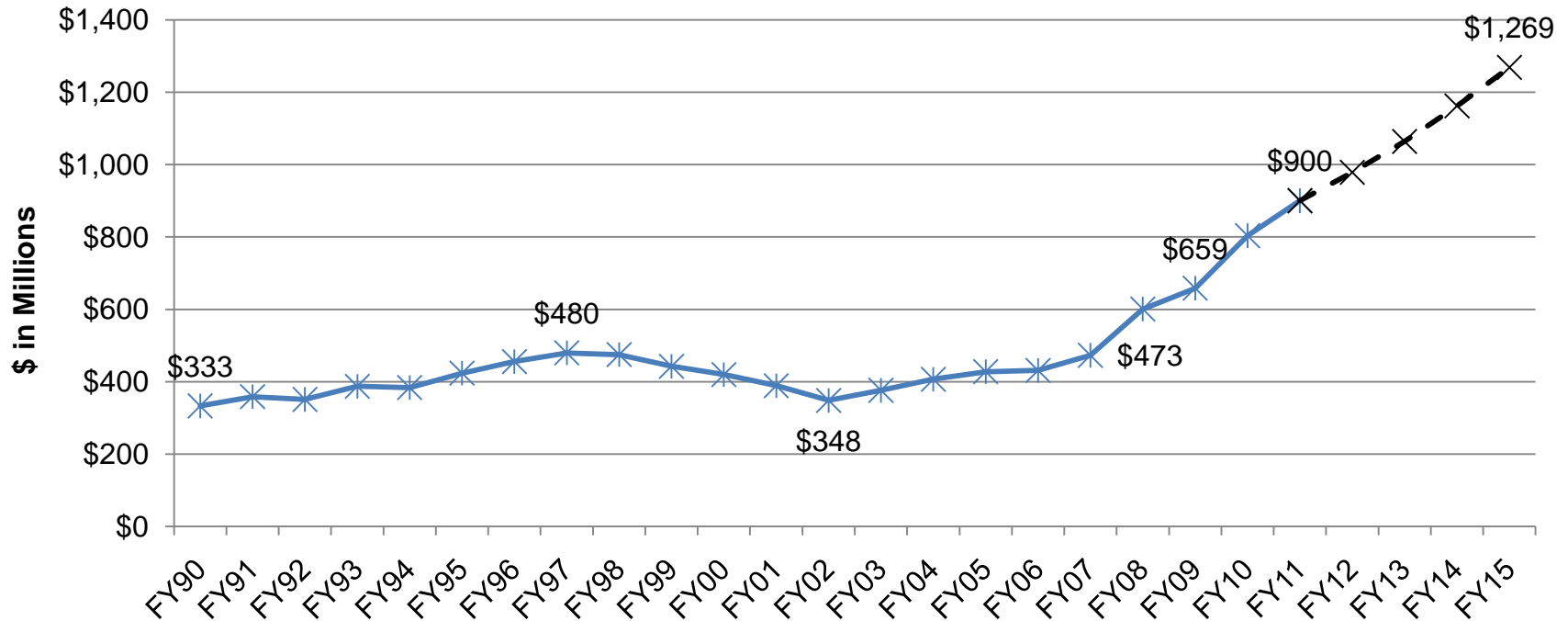
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- **SB 141 of 2010 (Senate Third Reader):** Local employer pays a share of retirement costs equal to:
  - 1% of salaries in fiscal 2012;
  - 3% of salaries in fiscal 2013;
  - 5% of salaries in fiscal 2014 and 2015; and
  - floating percentage thereafter, with State and local employer effectively splitting combined costs of retirement and Social Security.
- **SB 959 of 2010:** Local employers are responsible for retirement costs due to salary increases and new personnel.
- **SB 710 of 2009:** Local employers are responsible for any increases in retirement costs for their local employees.
- **HB 50 of 2007 Special Session:** Counties and State split total costs 50/50. Retirement costs for boards of education and boards of library trustees would be wealth-equalized. Retirement costs for community colleges would not be equalized and would be split 50/50.

# SB 141 Fiscal Impact on Local School Systems

School System	Total Cost				Per Pupil Cost			
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2012	FY 2013	FY 2014	FY 2015
Allegany	\$625,206	\$1,832,796	\$2,922,365	\$2,828,659	\$74	\$219	\$350	\$339
Anne Arundel	4,995,005	15,466,915	25,955,371	26,966,802	69	210	350	362
Baltimore City	5,711,352	17,695,231	29,277,915	29,282,342	73	225	367	363
Baltimore	6,554,525	20,312,362	34,623,357	36,007,376	66	202	340	348
Calvert	1,207,363	3,693,511	6,290,262	6,565,379	73	222	376	389
Caroline	338,687	1,018,043	1,747,049	1,937,734	62	183	306	327
Carroll	1,804,635	5,494,692	9,499,926	9,888,980	67	203	353	369
Cecil	1,018,613	3,108,779	5,265,759	5,530,785	64	191	318	326
Charles	1,687,924	5,109,689	8,992,143	9,568,248	64	190	330	346
Dorchester	294,685	921,034	1,524,640	1,583,805	65	200	319	318
Frederick	2,535,300	7,680,449	13,088,098	13,439,536	64	190	320	324
Garrett	298,800	882,194	1,440,686	1,424,298	75	222	367	368
Harford	2,379,636	7,175,024	12,162,264	12,543,742	63	188	316	323
Howard	4,185,152	12,939,934	21,885,696	22,505,290	84	260	440	450
Kent	160,625	478,101	825,927	849,393	79	237	405	408
Montgomery	11,730,987	36,590,070	61,519,633	61,774,636	84	261	436	434
Prince George's	8,766,598	25,730,572	42,196,682	41,881,304	74	219	358	354
Queen Anne's	466,365	1,439,791	2,504,034	2,648,177	61	185	317	333
St. Mary's	1,013,771	3,104,831	5,248,165	5,375,898	60	180	298	300
Somerset	212,255	636,950	1,046,591	1,062,644	79	234	384	385
Talbot	265,689	803,700	1,368,669	1,402,558	63	190	324	334
Washington	1,308,358	4,035,648	7,100,254	7,524,155	59	176	303	316
Wicomico	1,001,764	3,038,736	5,180,268	5,412,950	68	202	336	343
Worcester	560,429	1,688,138	2,912,668	3,038,083	90	271	462	478
<b>Total</b>	<b>\$59,123,724</b>	<b>\$180,877,190</b>	<b>\$304,578,422</b>	<b>\$311,042,774</b>	<b>\$72</b>	<b>\$219</b>	<b>\$365</b>	<b>\$369</b>

# Future Retirement Aid



- Retirement costs for local employees is expected to continue to grow rapidly through fiscal 2015
- Growth is due to projected 2% annual increases in local salary bases and 7% annual increases in the State contribution rate

# Appendices

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- ***Appendix 1:*** Fiscal 2011 Retirement Costs by County
- ***Appendix 2:*** Fiscal 2010 Teachers' Pension System Salary Bases by County
- ***Appendix 3:*** Active Local Employees in Teachers' Pension System in Fiscal 2010 by County
- ***Appendix 4:*** Average Salaries of Local Employees in Teachers' Pension System by County

# Fiscal 2011 Retirement Costs by County

County	Boards of Education		Community Colleges		Libraries		Total	% of Total
	Cost	Per Pupil	Cost	Per FTES	Cost	Per Person		
Allegany	\$9,036,062	\$1,040	\$1,437,912	\$738	\$129,737	\$1.79	\$10,603,711	1.2%
Anne Arundel	71,593,291	980	3,619,650	270	1,323,065	2.54	76,536,006	8.5%
Baltimore City	81,670,928	1,044	0	--	1,832,216	2.87	83,503,144	9.3%
Baltimore	92,498,293	927	5,228,367	308	2,017,953	2.55	99,744,613	11.1%
Calvert	17,042,450	1,023	315,816	305	324,421	3.64	17,682,687	2.0%
Caroline	4,903,330	939	204,470	369	140,956	4.22	5,248,756	0.6%
Carroll	25,655,139	935	783,966	268	709,641	4.17	27,148,746	3.0%
Cecil	14,837,622	950	485,940	257	342,802	3.40	15,666,364	1.7%
Charles	24,388,903	941	1,008,016	305	300,998	2.12	25,697,917	2.9%
Dorchester	4,308,318	976	184,422	369	66,917	2.09	4,559,657	0.5%
Frederick	37,199,847	951	1,192,413	295	736,070	3.23	39,128,330	4.3%
Garrett	4,288,139	1,024	276,036	421	93,507	3.16	4,657,682	0.5%
Harford	34,323,976	910	1,685,407	345	1,155,267	4.76	37,164,650	4.1%
Howard	59,683,290	1,201	1,959,026	313	1,425,372	5.06	63,067,688	7.0%
Kent	2,299,935	1,116	84,041	369	63,891	3.16	2,447,867	0.3%
Montgomery	169,926,025	1,229	8,569,804	492	2,964,215	3.05	181,460,044	20.2%
Prince George's	127,564,093	1,057	4,008,801	378	1,917,911	2.30	133,490,805	14.8%
Queen Anne's	6,590,974	877	239,916	369	114,174	2.38	6,945,064	0.8%
St. Mary's	14,684,898	893	330,660	305	255,424	2.48	15,270,982	1.7%
Somerset	3,061,622	1,131	98,630	302	55,957	2.16	3,216,209	0.4%
Talbot	3,756,748	879	186,597	369	96,931	2.67	4,040,276	0.4%
Washington	18,559,074	867	1,027,209	339	378,704	2.60	19,964,987	2.2%
Wicomico	13,893,333	957	559,777	302	200,886	2.13	14,653,996	1.6%
Worcester	8,069,813	1,285	225,660	302	206,377	4.20	8,501,850	0.9%
<b>Total</b>	<b>\$849,836,103</b>	<b>\$1,036</b>	<b>\$33,712,536</b>	<b>\$355</b>	<b>\$16,853,392</b>	<b>\$2.96</b>	<b>\$900,402,031</b>	<b>100.0%</b>

Note: Excludes the Optional Retirement Program (\$13.8 million in fiscal 2011).

FTES = Full-time equivalent student

# Fiscal 2010 Teachers' Pension System Salary Bases by County

	Boards of Education	Community Colleges	Libraries	Total	% of Total
<i>Counties</i>					
Allegany	\$62,361,528	\$9,822,462	\$822,250	\$73,006,240	1.2%
Anne Arundel	480,502,561	24,779,353	8,242,133	513,524,047	8.4%
Baltimore City	539,612,887		12,192,335	551,805,222	9.0%
Baltimore	653,564,950	37,800,883	13,671,547	705,037,380	11.6%
Calvert	115,643,146		2,179,394	117,822,540	1.9%
Caroline	33,096,515		833,241	33,929,756	0.6%
Carroll	170,519,827	5,383,947	4,507,235	180,411,009	3.0%
Cecil	102,035,729	3,376,803	2,213,869	107,626,401	1.8%
Charles	167,268,283		1,984,110	169,252,393	2.8%
Dorchester	28,351,251		554,607	28,905,858	0.5%
Frederick	249,675,868	8,511,966	4,707,145	262,894,979	4.3%
Garrett	28,814,651	1,836,264	621,300	31,272,215	0.5%
Harford	231,972,118	11,889,330	7,295,271	251,156,719	4.1%
Howard	404,474,176	13,767,604	9,636,049	427,877,829	7.0%
Kent	15,714,513		406,356	16,120,869	0.3%
Montgomery	1,164,480,508	58,682,746		1,223,163,254	20.0%
Prince George's	851,674,008	28,512,008	12,351,967	892,537,983	14.6%
Queen Anne's	46,212,935		773,241	46,986,176	0.8%
St. Mary's	101,391,119		1,714,008	103,105,127	1.7%
Somerset	20,103,684		372,528	20,476,212	0.3%
Talbot	26,409,871		689,231	27,099,102	0.4%
Washington	131,789,363	7,437,340	2,480,799	141,707,502	2.3%
Wicomico	94,859,322		1,271,725	96,131,047	1.6%
Worcester	53,168,644		1,309,900	54,478,544	0.9%
<i>Regional Colleges</i>					
Chesapeake College		6,347,728		6,347,728	0.1%
Southern Maryland		11,474,569		11,474,569	0.2%
Wor-Wic		5,892,785		5,892,785	0.1%
<i>Regional Libraries</i>					
Eastern Shore			316,407	316,407	0.0%
Southern Maryland			665,456	665,456	0.0%
<b>Total</b>	<b>\$5,773,697,457</b>	<b>\$235,515,788</b>	<b>\$91,812,104</b>	<b>\$6,101,025,349</b>	<b>100.0%</b>
<b>Percent of Total</b>	<b>94.6%</b>	<b>3.9%</b>	<b>1.5%</b>		

# Active Local Employees in Teachers' Pension System in Fiscal 2010 by County

	Boards of Education	Community Colleges	Libraries	Total	% of Total
<i>Counties</i>					
Allegany	1,067	207	27	1,301	1.3%
Anne Arundel	7,917	436	192	8,545	8.4%
Baltimore City	8,944		266	9,210	9.1%
Baltimore	11,291	692	278	12,261	12.1%
Calvert	1,803		52	1,855	1.8%
Caroline	649		19	668	0.7%
Carroll	3,025	115	132	3,272	3.2%
Cecil	1,894	113	69	2,076	2.0%
Charles	2,818		34	2,852	2.8%
Dorchester	540		14	554	0.5%
Frederick	4,371	151	143	4,665	4.6%
Garrett	497	45	25	567	0.6%
Harford	4,443	300	217	4,960	4.9%
Howard	6,680	263	240	7,183	7.1%
Kent	296		11	307	0.3%
Montgomery	16,672	861		17,533	17.3%
Prince George's	13,246	636	260	14,142	13.9%
Queen Anne's	871		13	884	0.9%
St. Mary's	1,737		51	1,788	1.8%
Somerset	390		12	402	0.4%
Talbot	471		20	491	0.5%
Washington	2,320	159	82	2,561	2.5%
Wicomico	1,905		45	1,950	1.9%
Worcester	923		40	963	0.9%
<i>Regional Colleges</i>					
Chesapeake College		137		137	0.1%
Southern Maryland		252		252	0.2%
Wor-Wic		125		125	0.1%
<i>Regional Libraries</i>					
Eastern Shore			7	7	0.0%
Southern Maryland			12	12	0.0%
<b>Total</b>	<b>94,770</b>	<b>4,492</b>	<b>2,261</b>	<b>101,523</b>	<b>100.0%</b>
<b>Percent of Total</b>	<b>93.3%</b>	<b>4.4%</b>	<b>2.2%</b>		

# Average Salaries of Local Employees in Teachers' Pension System by County

	Boards of Education		Community Colleges		Libraries		Avg. Salary	Index
	Avg. Salary	Index	Avg. Salary	Index	Avg. Salary	Index		
<i>Counties</i>								
Allegany	\$58,446	95.9%	\$47,452	90.5%	\$30,454	75.0%	\$56,115	93.4%
Anne Arundel	60,693	99.6%	56,833	108.4%	42,928	105.7%	60,096	100.0%
Baltimore City	60,332	99.0%			45,836	112.9%	59,914	99.7%
Baltimore	57,884	95.0%	54,626	104.2%	49,178	121.1%	57,502	95.7%
Calvert	64,139	105.3%			41,911	103.2%	63,516	105.7%
Caroline	50,996	83.7%			43,855	108.0%	50,793	84.5%
Carroll	56,370	92.5%	46,817	89.3%	34,146	84.1%	55,138	91.8%
Cecil	53,873	88.4%	29,883	57.0%	32,085	79.0%	51,843	86.3%
Charles	59,357	97.4%			58,356	143.7%	59,345	98.8%
Dorchester	52,502	86.2%			39,615	97.6%	52,177	86.8%
Frederick	57,121	93.8%	56,371	107.5%	32,917	81.1%	56,355	93.8%
Garrett	57,977	95.2%	40,806	77.8%	24,852	61.2%	55,154	91.8%
Harford	52,211	85.7%	39,631	75.6%	33,619	82.8%	50,636	84.3%
Howard	60,550	99.4%	52,348	99.8%	40,150	98.9%	59,568	99.1%
Kent	53,090	87.1%			36,941	91.0%	52,511	87.4%
Montgomery	69,846	114.6%	68,156	130.0%			69,763	116.1%
Prince George's	64,297	105.5%	44,830	85.5%	47,508	117.0%	63,113	105.0%
Queen Anne's	53,057	87.1%			59,480	146.5%	53,152	88.4%
St. Mary's	58,371	95.8%			33,608	82.8%	57,665	96.0%
Somerset	51,548	84.6%			31,044	76.5%	50,936	84.8%
Talbot	56,072	92.0%			34,462	84.9%	55,192	91.8%
Washington	56,806	93.2%	46,776	89.2%	30,254	74.5%	55,333	92.1%
Wicomico	49,795	81.7%			28,261	69.6%	49,298	82.0%
Worcester	57,604	94.6%			32,748	80.6%	56,572	94.1%
<i>Regional Colleges</i>								
Chesapeake College			46,334	88.4%			46,334	77.1%
Southern Maryland			45,534	86.8%			45,534	75.8%
Wor-Wic			47,142	89.9%			47,142	78.4%
<i>Regional Libraries</i>								
Eastern Shore					45,201	111.3%	45,201	75.2%
Southern Maryland					55,455	136.6%	55,455	92.3%
<b>Total</b>	<b>\$60,923</b>	<b>100.0%</b>	<b>\$52,430</b>	<b>100.0%</b>	<b>\$40,607</b>	<b>100.0%</b>	<b>\$60,095</b>	<b>100.0%</b>