

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 442 (Senator Eckardt)
Budget and Taxation

Employees' Pension System - Dorchester County Sanitary Commission - Eligible Governmental Unit

This bill makes the Dorchester County Sanitary Commission eligible to become a participating governmental unit (PGU) within the State Retirement and Pension System. It applies to an individual who (1) was an employee of the Dorchester County Council on June 30, 2011, but was working for the sanitary commission; (2) without incurring a break in service of more than 30 days, becomes an employee of the sanitary commission before the sanitary commission becomes a PGU; and (3) remains a sanitary commission employee after the commission becomes a PGU. Such a sanitary commission employee is subject to the Alternate Contributory Pension Selection (ACPS) within the Employees' Pension System (EPS).

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: None. The bill applies only to local PGUs.

Local Effect: Minimal increase in PGU pension liabilities due to one individual accruing more generous benefits under ACPS. No discernible increase in PGU pension contributions, as the minimal increase in liabilities is spread over about 120 employers and almost 25,000 employees. No effect on local revenues.

Small Business Effect: None.

Analysis

Current Law: A local governmental entity that is authorized by statute may become a PGU if the entity's legislative body approves its participation.

Except for employees of PGUs that have not opted for ACPS, an individual who becomes an employee of a PGU on or after July 1, 2011, is subject to the Reformed Contributory Pension Benefit (RCPB). However, Chapters 472 and 473 of 2013 allowed employees of the Somerset County Economic Development Commission who had been employees on June 30, 2011, and remained employees after the commission became a PGU to be subject to ACPS.

Background: EPS began as a noncontributory defined benefit pension system in 1980 (Chapters 23 and 24). In 1998, Chapter 530 made it a contributory system, and in 2006, Chapter 110 enhanced the contributory benefit. To distinguish it from the benefits under the 1998 legislation, the enhanced benefit available under Chapter 110 was titled the alternate contributory pension selection (or ACPS as noted earlier). State employees in EPS automatically qualified for the enhanced benefits under first the contributory benefit in 1998 and then again under ACPS in 2006. However, at each stage of enhancement, each PGU enrolled in EPS was given the option of retaining the existing benefit or adopting the enhancement. Although most PGUs have opted for the enhancements at each stage, a handful of PGUs are still subject to either the original noncontributory benefit or the 1998 contributory benefit.

Chapter 397 of 2011 added RCPB as a new benefit tier to EPS; except for PGUs that have not opted for ACPS or the contributory benefit, any individual who becomes a member of EPS on or after July 1, 2011, is automatically enrolled in RCPB. Individuals who were members of EPS before July 1, 2011, remain in ACPS. **Exhibit 1** compares the benefit structures under ACPS and RCPB.

Exhibit 1
Comparison of ACPS and RCPB Benefits

	<u>ACPS</u>	<u>RCPB</u>
Vesting	5 years	10 years
Normal Retirement	30 years of service, or age 62	Age + service add to 90, or age 62
Benefit Multiplier	1.8%/year since 1998 1.2%/year before 1998	1.5%/year
Member Contribution	7% of pay	7% of pay

Source: Department of Legislative Services

Local Fiscal Effect: The State Retirement Agency advises that it is aware of one individual who meets the criteria specified in the bill. As an employee of the Dorchester County Council, but working on assignment for the Dorchester County Sanitary Commission, the individual has been a member of EPS since February 2009 and, thus, was subject to ACPS. The individual became employed by the sanitary commission after June 30, 2011, and, therefore, will be subject to RCPB if the sanitary commission becomes a PGU under current law.

Under the bill, PGU pension liabilities increase minimally due to the more generous benefits being accrued by the one individual under ACPS instead of RCPB. PGU liabilities are pooled in determining employer contribution rates; with almost 25,000 PGU employees participating in EPS, the additional liabilities created by the one individual under the bill have no discernible effect on PGU employer contribution rates.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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min/rhh

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