

Department of Legislative Services
 Maryland General Assembly
 2025 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

Senate Bill 862

(Senator Jackson)(Chair, Joint Committee on Pensions)

Budget and Taxation

Appropriations

State Retirement and Pension System - Administrative Fees - Repeal

This bill repeals a requirement that the State and participating local governmental employers pay administrative fees to the State Retirement and Pension System (SRPS) that represent their *pro rata* share of administrative and operational costs for the system. Instead, the bill requires that the normal contribution rate paid by employers – as recommended by the system’s actuary and certified by the Board of Trustees – include the amount necessary to cover SRPS’s administrative and operational expenses. Notwithstanding the bill’s effective date, local governments must make their administrative fee payments for fiscal 2025 that are due on June 1, 2025. For fiscal 2026, the bill requires that SRPS’s administrative and operational expenses be paid from the accumulation funds of the several systems (*i.e.*, the pension trust fund). **The bill takes effect June 1, 2025.**

Fiscal Summary

State Effect: No effect in FY 2025. Special fund revenues for the State Retirement Agency (SRA) decrease by \$21.8 million in FY 2026. General fund expenditures decrease by \$5.7 million only in FY 2026, with a corresponding decrease in reimbursable fund revenues for SRA; other fund types are not affected. Beginning in FY 2027, the repeal of the State’s payment of administrative fees is fully offset by the inclusion of those costs in the normal contribution rate, so there is no material net effect on State expenditures or SRA revenues.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
SF Revenue	\$0	(\$21.8)	\$0	\$0	\$0
ReimB. Rev.	\$0	(\$5.7)	\$0	\$0	\$0
GF Expenditure	\$0	(\$5.7)	\$0	\$0	\$0
Net Effect	\$0.0	(\$21.8)	\$0.0	\$0.0	\$0.0

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

Local Effect: Local governmental expenditures *decrease* by an estimated \$21.8 million in FY 2026. No material effect on local revenues or expenditures beginning in FY 2027.
Small Business Effect: None.

Analysis

Current Law: Chapter 397 of 2011 required participating employers of SRPS, including the State, local school boards, community colleges, and participating governmental units, to pay their prorated share of the system's administrative costs based on their share of total membership in the system; the State pays the share of public libraries. Prior to fiscal 2013, SRA's budget was funded solely from the system's assets (the accumulation fund). Chapters 727 and 728 of 2018 made expenses of the Investment Division nonbudgeted and, therefore, not included in the calculation of administrative fees paid by participating employers.

As part of its budget submission every year, the SRPS board must certify the percentage of the total membership that is employed by the State, libraries, and each local employer as of June 30 of the second prior fiscal year. The amount payable by each employer is derived by multiplying the employer's percentage share of system membership by the amount of administrative and operational expenses actually incurred by SRPS in the second prior year. By October 1 of each year, the SRPS board must certify to each local employer, other than a library, the amount payable by the employer for the following fiscal year.

The State must pay the full amount of its administrative fees to the SRPS accumulation funds on July 1 of each fiscal year. Each local employer must pay 25% of its fees by October 1, January 1, April 16, and June 1 of each fiscal year.

The fiscal 2026 budget as introduced includes a requirement that the State transfer amounts budgeted for administrative fees to SRA on July 1, 2025. That provision is not affected by the bill.

State Fiscal Effect: Although the bill takes effect June 1, 2025, and, therefore, repeals the statutory requirement that the State payment for fiscal 2026 be made on July 1, 2025, before that payment would be made, the fiscal 2026 budget as introduced requires the *budgeted* amount to be paid. There is no contingent reduction or elimination of the payment in the budget bill. However, the Administration has budgeted a \$5.7 million reversion in general funds as a result of the bill; similar reversions of special, federal, and other funds are not planned in the budget. Therefore, general fund expenditures decrease by \$5,691,206 in fiscal 2026, with a corresponding decrease in reimbursable revenues for SRA.

Any fees due from special, federal, and other funds in fiscal 2026 are paid to the SRPS accumulation funds, which the bill requires to be used to cover the system's operating costs for fiscal 2026. Beginning in fiscal 2027, the addition of administrative and operational expenses to the normal contribution rate offsets any savings resulting from the repeal of the administrative fees, resulting in no net effect to State expenditures or revenues for SRA.

Special fund revenues for SRA decrease by \$21.8 million in fiscal 2026 due to local participating employers paying no fees for fiscal 2026, as described below.

SRA advises that the bill likely results in a negligible increase in SRPS's unfunded liability.

Local Expenditures: Local participating employers pay administrative fees in four equal installments, with the final payment due on June 1. However, the bill cancels their administrative fee payments. Given the bill's June 1, 2025 effective date, the final payment for fiscal 2025 would not be due under the statutory provisions of the bill, but uncodified language establishes that local participating employers must still make their June 1, 2025 payment as scheduled under current law – for no effect on fiscal 2025 payments. The bill does affect payments for fiscal 2026; SRA advises that, absent the bill, it expected to collect \$21.8 million from local employers that year. Instead, expenditures for local participating employers decrease by \$21,760,483 in fiscal 2026.

Beginning in fiscal 2027, when the normal contribution rate includes administrative and operating expenses for the system, the repeal of administrative fees is fully offset by higher normal cost payments, resulting in no net effect in the out-years.

Additional Information

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

Designated Cross File: HB 1072 (Delegate Forbes)(Chair, Joint Committee on Pensions) - Appropriations.

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

Fiscal Note History: First Reader - February 12, 2025
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(410) 946-5510
(301) 970-5510