

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 207 (Senator Amoss, *et al.*)
Budget and Taxation

Referred to Appropriations

Law Enforcement Officers' Pension System - Membership

This enrolled pension bill authorizes certain members of the Maryland Transportation Authority (MdTA) police force to participate in the Law Enforcement Officers' Pension System (LEOPS). The bill also requires that police officers of the Department of Natural Resources (DNR) and the Maryland Investigative Services (MIS) who are currently eligible for LEOPS must elect membership by December 31, 1997 or remain in the employees' systems. MdTA officers must also elect membership by December 31, 1997. The bill is effective July 1, 1997.

Fiscal Summary

State Effect: Increased off-budget expenditures for employer pension contributions of \$1,448,800 beginning in FY 1998 due to higher normal costs, increasing to \$2,101,000 in FY 1999 due to increased actuarial liabilities, and increasing 5% per year thereafter, as discussed below.

| (in dollars) | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 |
|--------------------|---------------|---------------|---------------|---------------|---------------|
| Off-Budget Rev. | \$0 | \$0 | \$0 | \$0 | \$0 |
| Off-Budget Expend. | 1,448,800 | 2,101,000 | 2,205,300 | 2,316,300 | 2,431,378 |
| Net Effect | (\$1,448,800) | (\$2,101,000) | (\$2,205,300) | (\$2,316,300) | (\$2,431,378) |

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

Local Effect: None.

Small Business Effect: None. This bill would not directly affect small businesses.

Fiscal Analysis

State Expenditures: Under current law, MdTA police officers are members of the Employees' Pension System (EPS). Under this proposal, current MdTA police officers (employed by MdTA on or before June 30, 1997) would have the option to transfer to the LEOPS, which offers unreduced retirement benefits after 25 years (versus 30 years in the EPS) and more generous benefits. Future MdTA police officers would be in the LEOPS. Current MdTA police officers would not be allowed into the LEOPS if they transferred from the Employees' Retirement System (ERS) to the EPS on or after December 1, 1996. This prevents these police officers from receiving a transfer refund of employee contributions by switching to the EPS, and then transferring to the LEOPS, where they would receive no reduction for their lack of employee contributions. The bill also requires an asset transfer from the ERS and EPS to the LEOPS of accumulated employer contributions plus interest for the members who transfer.

The MdTA police force consists of 336 officers, of which approximately 12% are in the ERS and approximately 88% are in the EPS. Current payroll is estimated to be \$12.2 million. While this bill has not been forwarded to the State's actuary for a detailed actuarial analysis, based on a study performed by the actuary for MdTA in 1994, the actuary was able to offer an informal estimate. The actuary estimates that the net increased actuarial liabilities to the MSRPS under the proposal would be \$10.1 million. These net additional liabilities reflect additional liabilities to LEOPS offset somewhat by decreased liabilities to the EPS. The \$10.1 million liability is amortized over 21 years through the year 2020. The first year amortization payment is estimated at \$576,000 beginning in fiscal 1999, and increasing approximately 5% per year thereafter.

In addition, the normal cost of employer contributions -- the amount the employer must contribute to fund future benefits exclusive of existing liabilities -- will increase from 6% of payroll (under the EPS) to 18.5% (under LEOPS), for an additional normal cost of 12.5% of payroll permanently. This amount is estimated at \$1,448,800 beginning in fiscal 1998, also increasing 5% per year thereafter. In total, employer contributions are estimated to increase \$1,448,800 in fiscal 1998, increasing to \$2,101,000 in fiscal 1999, and increasing 5% per year thereafter.

DNR and MIS Police

Any increase in employer contributions resulting from requiring eligible DNR and MIS Police to transfer to LEOPS by December 31, 1997 is expected to be minimal, and will more accurately match employer contributions to expected liabilities.

Information Source(s): Department of Transportation (Maryland Transportation Authority), State Retirement Agency, Department of Fiscal Services

Fiscal Note History: First Reader - February 4, 1997
lc Revised - Correction - February 19, 1997
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Analysis by: Matthew D. Riven
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710