

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

Senate Bill 304
 Budget and Taxation

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

Appropriations

State Retirement and Pension System - Military Service that Interrupts State Service - Calculation

This bill requires that military service credit granted to members of the State Retirement and Pension System (SRPS) for military service that interrupts membership be applied to their retirement allowance at the accrual rate in effect at the time of their retirement.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: Due to pension enhancement legislation passed during the 2006 session, State pension liabilities increase by \$421,000. State pension contributions increase by \$26,000 in FY 2009 (all funds) and increase thereafter according to actuarial assumptions.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	17,200	17,800	18,600	19,300
SF Expenditure	0	4,400	4,600	4,800	5,000
FF Expenditure	0	4,400	4,600	4,800	5,000
Net Effect	\$0	(\$26,000)	(\$27,000)	(\$28,200)	(\$29,300)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: An individual who is called to military service while a member of SRPS is entitled to receive military service credit for time served in the military as long as the member:

- does not withdraw any accumulated contributions during the absence for military service, or redeposits withdrawn contributions with interest;
- returns to State employment within one year of leaving military service;
- does not take any other employment except temporary employment if the member is refused re-employment at the same classification or position he or she left; and
- applies for military service credit with the State or local system.

For regular military service, members receive one month of service credit for each month of military duty that interrupts membership, up to five years. Members of the Maryland National Guard who are called to national service receive four months of credit for each year of service, up to 36 months of credit.

Military service credit granted under this provision is awarded at the accrual rate in effect when the military service occurred.

Background: Chapter 277 of 2006 provided that military service credit granted for active military duty that occurred prior to enrollment in SRPS be awarded at the accrual rate in effect at retirement, not when the credit is claimed. However, it did not change the accrual rate for military service that interrupted membership. The Board of Trustees for SRPS and the Joint Committee on Pensions believe this was an oversight. For members of the Employees' and Teachers' Pension Systems (EPS/TPS), the accrual rate prior to July 1, 1998 was 1.2%. Chapter 110 of 2006 raised the EPS/TPS accrual rate to 1.8% for service after July 1, 1998.

State Expenditures: As of July 1, 2006, Chapter 110 of 2006 raised the pension benefit multiplier for members of TPS/EPS to 1.8% for service credit earned after July 1, 1998. Therefore, any TPS/EPS member who has claimed military service credit for service that interrupted membership in SRPS and who retires after July 1, 2007 will have that credit recalculated using the higher 1.8% multiplier. The State Retirement Agency (SRA) reports that there are 170 current members of TPS/EPS who claimed a total of 1,859 months of military service credit for interrupted service before 1998 that would have been calculated at the lower accrual rate of 1.2%. All of that credit will now be recalculated at the new 1.8% rate for any member who retires after July 1, 2007.

The Department of Legislative Service's actuary estimates that recalculating military service credits received by current members before 1998 at the higher 1.8% multiplier will increase total State pension liabilities by approximately \$421,000. This results in increased State pension contributions of \$26,000 in fiscal 2009, with annual increases based on actuarial assumptions.

General funds pay for all pension contributions for TPS members, but only 60% of pension contributions for EPS members, with 20% coming from each of special and federal funds. According to SRA, EPS members accounted for approximately 85% of the military service credits affected by this bill, while TPS members accounted for 15%. Estimates of the bill's fiscal impact by fund reflect this split.

Additional Comments: As was the case with Chapter 110, all future pension reforms that raise the benefit accrual rate would cause military service credits for current and former members to be recalculated at the higher rate, adding to the cost of any reforms. Also, this bill may cause some members to retire earlier than planned because of the increased benefits, which would cause pension liabilities to increase by a small but indeterminate amount.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Mercer Human Resources Consulting, Maryland State Retirement Agency, Department of Legislative Services

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