

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

Senate Bill 665 (Senator McFadden, *et al.*)
 Budget and Taxation

Correctional Officers' Retirement System - Retirement Allowance

This bill enhances pension benefits for all members of the Correctional Officers Retirement System (CORS). The benefit multiplier increases from 1.8% to 2.2% for service credit accrued after July 1, 2007. Employee contributions remain unchanged.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: State accrued pension liabilities increase by \$71.0 million, and annual normal cost increases by \$362,000. Amortizing the accrued liability over 25 years, combined with the increase in normal costs, results in State pension contributions increasing by \$5.2 million in FY 2009, increasing thereafter according to actuarial assumptions. Special fund expenditures by the State Retirement Agency increase by at least \$250,000 in FY 2008 to reprogram the agency's legacy computer system.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	3,106,200	3,384,000	3,679,800	3,827,000
SF Expenditure	250,000	1,035,400	1,128,000	1,226,600	1,276,000
FF Expenditure	0	1,035,400	1,128,000	1,226,600	1,276,000
Net Effect	(\$250,000)	(\$5,177,000)	(\$5,640,000)	(\$6,133,000)	(\$6,379,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: CORS members earn a retirement benefit allowance according to the following formula:

$$\begin{array}{c} \boxed{\text{Years of Creditable}} \\ \boxed{\text{Service Before July 1, 2007}} \end{array} \times \begin{array}{c} \boxed{\text{Average Final}} \\ \boxed{\text{Compensation (AFC)}} \end{array} \times \boxed{1.8\%}$$

Plus

$$\boxed{\text{Years of Creditable}} \\ \boxed{\text{Service After July 1, 2007}} \times \boxed{\text{AFC}} \times \boxed{2.2\%}$$

Current Law: CORS members earn a retirement benefit equal to 1.8% of AFC multiplied by their years of creditable service.

CORS' membership consists of correctional officers in the first six job classifications, security attendants at the Clifton T. Perkins Hospital Center, correctional dietary, maintenance, and supply officers, and, beginning July 1, 2007, certain local detention center officers. Correctional officers are eligible for a normal service retirement after 20 years of service, provided that the last five years of service were as a correctional officer or security attendant at the Perkins Hospital. Regardless of their years of service, correctional officers are eligible for a normal service retirement at age 55, while security attendants at Perkins Hospital are eligible for retirement at age 60.

Background: As of June 30, 2006, there were 7,170 active CORS members. Their average salary was \$42,127 and their average service was 10.4 years.

The fiscal 2007 budget, provided a 9.8% increase in compensation for correctional officers. Also, Chapter 392 of 2006 exempted CORS retirees from a retirement benefit reduction if they were reemployed as correctional officers on a contractual basis for less than four years. The Department of Public Safety and Correctional Services reported to the Joint Committee on Pensions that no CORS retirees have been re-employed as correctional officers since Chapter 392 became effective on July 1, 2006.

Exhibit 1 shows the current and enhanced replacement ratios for different CORS members based on when they first joined CORS. Replacement ratios measure the proportion of AFC that a member can expect to receive in pension payments during the first year of retirement, not including Social Security or private savings.

Exhibit 1
CORS Replacement Ratios*

<u>Year Hired</u>	<u>Current</u>	<u>Enhanced Benefit</u>
1987	36%	36%
1997	36%	40%
2007	36%	44%

*Assumes normal service retirement with 20 years of service credit.

State Expenditures: The bill provides a 22.2% benefit increase for CORS members.

The General Assembly's actuary estimates that the CORS benefit enhancement would increase the State's accrued pension liabilities by \$71.0 million and its 2007-08 normal cost by \$362,000. Amortizing the accrued liability over 25 years, combined with the increase in normal costs, results in State pension contributions increasing by \$5.2 million in fiscal 2009. Annual pension contributions increase thereafter according to actuarial assumptions. These increases are expected to be split 60% general funds, 20% special funds, and 20% federal funds.

The State Retirement Agency advises that this bill will require it to reprogram its legacy computer system to reflect the new benefit rates. The creation of a new benefit tier, such as the one established by this bill, is especially taxing on the agency's outdated legacy system. It estimates that the total cost could be as high as \$500,000, and that it could take up to a year to reprogram the system. Based on previous agency estimates of the cost of reprogramming its legacy computer system, the Department of Legislative Services (DLS) believes the cost will be approximately \$250,000. The agency notes that additional costs could be incurred during the process of transferring the data from the current legacy system to the new Maryland Pension Administration System (MPAS), which is expected to be operational by October 2008. Those costs cannot be reliably estimated, but could be significant. DLS notes that agency costs for implementing this bill would be dramatically reduced if implementation were delayed until MPAS is fully functional. The primary purpose of MPAS is to create a more agile computer system capable of adapting to benefit changes faster and more accurately than the current system.

Additional Information

Prior Introductions: None.

Cross File: HB 911 (Delegate Barkley *et al.*) – Appropriations.

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

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nas/jr

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