

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 391

(Senators McFadden and Munson)

Budget and Taxation

**Correctional Officers' Retirement System - Membership - Correctional Case
Management Specialist**

This bill requires individuals employed as correctional case managers to participate in the Correctional Officers' Retirement System (CORS) as a condition of their employment.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: Total State pension liabilities increase by \$23.5 million and normal costs increase by \$499,000, resulting in increased State pension contributions of \$2.1 million beginning in FY 2012. Those costs increase annually according to actuarial assumptions, and are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	1,253,400	1,306,800	1,362,000	1,420,800
SF Expenditure	0	417,800	435,600	454,000	473,600
FF Expenditure	0	417,800	435,600	454,000	473,600
Net Effect	\$0	(\$2,089,000)	(\$2,178,000)	(\$2,270,000)	(\$2,368,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The State Retirement and Pension System must transfer employer and employee contributions made on behalf of correctional case managers who are currently members of either the Employees' Retirement System (ERS) or the Employees' Pension System (EPS) to CORS, plus 4% annual interest. Correctional case managers who are current members of EPS are exempt from statutory provisions (in Title 37 of the State Personnel and Pensions Article) requiring them to pay the difference between the lower EPS contribution rate and the higher CORS contribution rate for the prior service credit that transfers to CORS. However, members of ERS on June 30, 2010, who currently contribute 7% of their compensation receive a refund of the difference between the higher ERS contribution and the CORS contribution, including 5% interest. In accordance with federal law, that refund may not be paid until a member terminates employment, retires, or dies.

Current Law: Correctional officers in the first six job classifications; security attendants at the Clifton T. Perkins Hospital Center; and correctional dietary, maintenance, and supply officers participate in CORS. Local detention center officers whose employers join CORS as participating governmental units are also eligible to participate in CORS, but no local governments have joined the CORS municipal pool to date.

Correctional case managers participate in either ERS or EPS. **Exhibit 1** shows the key provisions of all three plans. (ERS has been closed to new members since 1980.) As the exhibit shows, Chapter 110 of 2006 phased in a higher EPS employee contribution rate, from 2% in fiscal 2006 to 5% in fiscal 2009 and beyond. The key differences between EPS and CORS are that CORS members can retire at a younger age and/or with fewer years of service and receive an unlimited cost-of-living adjustment (COLA). The unlimited COLA may be a meaningful benefit, although the Consumer Price Index has exceeded 3% annual growth just four times since 1990. Compared to EPS, the CORS retirement benefit multiplier offers a marginally higher benefit for each year of creditable service since 1998; for service credit earned before 1998, the CORS multiplier is significantly higher than the EPS multiplier.

Exhibit 1
Pension Plan Provisions

	<u>ERS</u>	<u>EPS</u>	<u>CORS</u>
Normal Retirement Age	60	62 ¹	55 ¹
Years of Service for Normal Retirement	30	30	20 ²
Employee Contribution	5% (capped COLA) 7% (unlimited COLA)	None prior to 1998 2% (1998-2006) 3% in 2007 4% in 2008 5% in 2009 and beyond	5%
Benefit Multiplier	1.82% of AFC	1.8% of AFC (after 1998) 1.2% of AFC (before 1998)	1.82% of AFC
COLA	5% cap or Unlimited	3% cap	Unlimited

¹Retiree must have at least five years of service.

²The last five years must be in any combination of CORS-eligible positions.

Source: *Maryland Annotated Code*, State Personnel and Pensions Article

Background: When a member of EPS transfers service credit to another contributory system (such as CORS), the accumulated employer and employee contributions made on his or her behalf must be transferred to the new system, which the bill requires. State law also requires an individual who transfers service credit under these circumstances to deposit in CORS an amount equal to the difference between the employee contributions made to EPS and those required by CORS at the time the credit was earned, including interest. Under current law, EPS members transferring to CORS would have to pay the full CORS contribution rate, plus interest, for any service credit earned prior to 1998, when EPS was noncontributory. They would also have to pay the difference between the EPS employee contribution from fiscal 1998 through 2008 and the 5% employee contribution for CORS for each year of service credit earned during those years. The bill exempts EPS members who transfer under this bill from those requirements. However, it does allow members of ERS who have been paying the higher employee contribution of 7% to receive a refund of the difference between their 7% contribution and the 5% CORS contribution.

State Fiscal Effect: The Department of Public Safety and Correctional Services (DPSCS) reports that there are 329 employees currently serving as correctional case managers, with an average age of 45.5. Their average salary is \$54,013 and they have an average of 15.5 years of service. Since ERS was closed to new members 30 years ago, all 329 case managers are assumed to be members of EPS; therefore, none is presumed eligible for a refund of excess ERS contributions. Of the 329 case managers, 272 are case management specialists (including trainees), 38 are supervisors, and 19 are managers. It is assumed they are all considered case managers under the bill. Fifteen new members with an average age of 30 and average starting pay of \$38,600 are assumed to join the group each year.

Based on that profile, the General Assembly's actuary estimates that total State pension liabilities increase by \$23.5 million and normal costs increase by \$499,000. Amortizing the liabilities over 25 years and adding the higher normal costs yields an increase in State pension contributions of \$2.1 million beginning in fiscal 2012. Those costs are assumed to increase annually according to actuarial assumptions. Although the correctional case managers are all employed by DPSCS, for the purposes of actuarial valuations, CORS is subsumed within the combined employees' systems. Therefore, the increased liabilities and State costs are spread across all State agencies. Personnel costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds.

Legislative Services also notes that correctional case management supervisors have an average of more than 20 years of service, and managers have an average of almost 27 years of service. Therefore, many of them are immediately eligible for retirement under CORS, which may result in a mass exodus of management personnel and an increase in the cost to the State.

Additional Information

Prior Introductions: HB 1206 of 2009 received a hearing from the House Appropriations Committee, but no further action was taken on the bill. HB 1442 of 2008 and HB 402 of 2007 each received an unfavorable report by the House Appropriations Committee.

Cross File: HB 488 (Delegate Jones, *et al.*) - Appropriations.

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

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