SB 844

Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 844 (Senator Stone)
Budget and Taxation

State Retirement and Pension System - Transfer of Service Credit

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This bill allows an individual who meets criteria specified in the bill to transfer service credit from the Contributory Law Enforcement Officers' Pension System (LEOPS) to the Employees' Pension System (EPS). The transfer must be done in accordance with current law governing transfers of service credit.

The bill takes effect July 1, 2011, and terminates December 31, 2011.

Fiscal Summary

State Effect: State pension liabilities increase by $111,000 and State pension contributions increase by $7,400 in FY 2013. Those costs increase annually according to actuarial assumptions and are not considered to have a discernible effect on State pension contribution rates.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to an individual who:

- on or after July 1, 1983, was employed in a law enforcement position by the Maryland Transportation Authority (MDTA) and was a member of LEOPS;
- on or after September 1999, ceased employment with MDTA with more than 16 years of service credit in LEOPS; and

- on or after December 1, 1999, began employment in a nonlaw enforcement position at MDTA and was a member of EPS and, at the time, was ineligible under State law to transfer LEOPS service credit to EPS.

In order to transfer service credit under the bill, the individual must file the appropriate forms with the State Retirement and Pension System (SRPS).

Current Law: In most cases, individuals may transfer service credit between State retirement and pension systems if they change positions that require them to enroll in a new system. In order to transfer credit, the individual must be transferring to a system (1) that is funded on an actuarial basis; and (2) without a break in service of 30 days or more, as established by the State Retirement Agency (SRA). In addition, the application to transfer service credit must be filed with SRPS within one year of joining a new system, subject to an appeal process authorized in statute.

Title 37 of the State Personnel and Pensions Article governs transfers of service credit among systems. Under Title 37, an individual transferring service credit from LEOPS to EPS must pay the member contribution rate in effect for EPS for the years of service being transferred, plus annual compounded interest of 5%. However, the member is also entitled to a refund of member contributions from LEOPS.

From January 1, 1980, when it was established, until June 30, 1998, EPS was noncontributory for most members; from 1998 to 2006, the member contribution rate was 2% of earnable compensation. For each year of service credit earned prior to 1998, a member earns a retirement allowance equal to 1.2% of average final compensation (AFC). For each year of service credit earned after 1998, a member earns a retirement allowance equal to 1.8% of AFC. Prior to 2000, LEOPS required member contributions only for compensation above the Social Security wage base.

If an individual retires within five years of transferring into a new system, the benefits payable with respect to the transferred service credit may not be greater than the benefits that would have been payable by the previous system for the service credit that is transferred.

Background: SRA is aware of one individual who meets the criteria established by the bill. The individual has 16 years and 2 months of creditable service in LEOPS from her prior employment, during which she did not make any member contributions. When she left LEOPS, she had a two-month break in service before joining EPS and therefore was not eligible to transfer her service credit because it exceeded the 30-day limit. If she is allowed to transfer her LEOPS credit to EPS, she will have to pay the 2% member contribution plus interest to EPS for the portion of her employment that came after

June 30, 1998 (when EPS became contributory). In her case, that will be from June 30, 1998, until September 30, 1999, or 15 months.

State Fiscal Effect: SRA advises that the affected individual wishes to combine her years of LEOPS service credit with her EPS credit so that she can retire with a normal service retirement under EPS, which requires 30 years of service credit, in 2013. Without the bill, she will be age 51, and not eligible for either normal service retirement or early service retirement under EPS in 2013, which requires that she be at least age 55 with 15 years of service. However, she would be eligible to receive her vested LEOPS allowance, because the normal service retirement age for LEOPS is age 50.

To calculate the fiscal effect of the bill, the General Assembly's consulting actuary assumed that, absent the bill, the individual would cease employment in 2013 as currently planned and claim her LEOPS vested benefit. She would be eligible for an EPS vested benefit upon reaching age 62. Based on compensation data provided by SRA, the actuary compared the total value of an EPS benefit with the combined 30 years of service in 2013 with the combined value of the separate vested benefits for which the individual would be eligible in 2013. The analysis takes into consideration the member contributions paid by the individual for the transferred service credit.

Based on this analysis, the actuary has determined that State pension liabilities increase by $111,000. Amortizing those increased liabilities over 25 years results in State pension contributions increasing by $7,400 in fiscal 2013. Those costs grow annually according to actuarial assumptions.

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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Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510