

Department of Legislative Services
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FISCAL AND POLICY NOTE
Revised

House Bill 19
Appropriations

(Delegate Kach)

Budget and Taxation

State Retirement and Pension System - Military Service Credit - Reservists

This bill expands eligibility for members of the State Retirement and Pension System (SRPS) who are members of a reserve component of the U.S. armed forces to earn military service credit currently available only to members of the Maryland National Guard. The bill does not apply to members of the Legislative Pension Plan.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: The number of SRPS members who are members of a reserve unit cannot be determined. Therefore, the Department of Legislative Services (DLS) cannot provide a reliable estimate of the bill's total cost. Based on an actuarial analysis, for every 10 SRPS members who claim one year of military service credit in FY 2013, State pension liabilities increase by approximately \$94,000. Thus, beginning in FY 2015, State pension contributions increase by approximately \$6,100 (all funds) for every 10 SRPS members who claim one year of credit, increasing annually according to actuarial assumptions. Actual costs will vary based on the number and characteristics of the reservists who claim military service credit under the bill.

Local Effect: To the extent that employees of local governments that are participating governmental units (PGUs) in SRPS claim military service credit for service in a reserve unit, pension liabilities for PGUs also increase. The amount by which PGUs' employer contributions increase cannot be reliably estimated, but using a similar methodology as described above, PGUs' costs increase by \$4,900 for every 10 members who claim one year of credit beginning in FY 2015. Actual costs will vary based on the number and characteristics of the reservists who claim military service credit under the bill.

Small Business Effect: None.

Analysis

Current Law: In general, any member or vested former member of SRPS who accrues 10 years of service credit through employment as a member of a State system may receive one year of additional service credit for each year of *active* military duty – including active duty performed as a member of a reserve unit – performed prior to membership in SRPS, up to a maximum of five years. That credit is granted at no cost to the member or former member. Prior to July 1, 2011, a member or former member who applied for credit for military service that preceded membership in a State system received credit at the accrual rate in effect at the time of retirement. However, a member who applies on or after that date receives credit using the accrual rate in effect when the application for credit is submitted to SRPS.

In addition, an SRPS member whose employment is interrupted by active military service – including active duty performed as a member of a reserve unit – receives service credit for the time spent on active duty as long as the member returns to State service. A member does not need to accrue 10 years of service before claiming this credit, but the credit is included in the five-year limitation on total military service credit earned. Regardless of when a member or former member applies for military service credit for service that interrupts employment, the credit granted is applied to his or her retirement allowance at the accrual rate in effect at the time of retirement.

An active SRPS member who is also a member of the Maryland National Guard is entitled to two additional forms of military service credit not currently available to a member of a reserve unit. First, in addition to service credit awarded for active service that interrupts employment, a member of the Maryland National Guard whose employment is interrupted by a call to active service or by inactive duty training earns four months of military service credit for each year of active duty or inactive training, up to a maximum of three years of credit. Thus, a Maryland National Guard member can earn up to 16 months of credit in a given year. Second, an SRPS member with at least 10 years of service credit (as noted above) earns four months of service credit for each year of service in the Maryland National Guard, up to a maximum of three years of service credit, even if the member is not called to active duty. All Maryland National Guard service credit is included in the five-year limitation on total military service credit. Service credit is not available for service in the national guards of other states.

SRPS members or vested former members who claim credit for the same military service from another retirement system may not receive military service credit from SRPS, unless they claimed credit for that military service under:

- the Social Security Act;
- the National Railroad Retirement Act; or
- Title 3 or Title 10 of the U.S. Code (National Guard and Reserve pensions).

Members or vested former members who received military service credit for disability benefits from any pension or retirement system may also claim military service credit from SRPS.

Background: The number of State employees who are in the reserves cannot be reliably estimated because neither the Military Department, the Department of Budget and Management (DBM), nor the Maryland State Retirement Agency tracks that information. DBM, which administers the State personnel system, advises that 143 State employees requested military administrative leave in fiscal 2003, the first year of the conflict in Iraq. The number dropped to 54 the following year and gradually declined after that, reaching a low of 17 State employees requesting military leave in fiscal 2010. In fiscal 2011, the number increased slightly to 30 State employees. Neither these figures nor State personnel data indicate how many individuals are members of the reserves, and no information is available on the number of teachers in the State who are members of the reserves.

The General Assembly's consulting actuary advises that the proportion of current members with military service credit is highest in the Law Enforcement Officers' Pension System, Judges' Retirement System, and the State Police Retirement System, in which between 6% and 9% of active members have military service credit. By contrast, fewer than 1% of active members in the Teachers' or Employees' Combined Systems have military service credit.

State Expenditures: In the absence of reliable data on the number of SRPS members who are members of reserve units, DLS cannot provide a complete analysis of the fiscal effect of allowing them to claim military service credit from the system. Instead, the General Assembly's actuary analyzed the fiscal effect for a hypothetical group of 10 members who claim one year of military service credit under this bill. The hypothetical group is weighted heavily toward public safety officers and judges because of the comparatively high percentage of members in those plans who have claimed military service credit.

Under the assumption that additional military service credit is claimed in fiscal 2013 after the bill's effective date, the additional liability is not reflected until the June 30, 2013 actuarial valuation, which determines State pension costs for fiscal 2015. Based on the actuary's analysis, the hypothetical group of 10 SRPS members claiming one year of military service credit in fiscal 2013 under the bill increase State pension liabilities by \$94,000. Amortizing those liabilities over 25 years yields a first-year increase in State

pension costs of \$6,100 beginning in fiscal 2015. To the extent that the members who actually claim military service credit under the bill deviate from the average plan demographics, the actual cost may be higher or lower.

Local Expenditures: Using the same assumptions described above, pension liabilities for PGUs that participate in SRPS would increase by \$76,000. Amortizing that liability over 25 years results in a first-year cost of \$4,900 in fiscal 2015, which increases annually according to actuarial assumptions.

Additional Information

Prior Introductions: HB 515 of 2011 received a hearing from the House Appropriations Committee, but no further action was taken on the bill. HB 807 of 2010 received an unfavorable report from the House Appropriations Committee.

Cross File: None.

Information Source(s): Department of Budget and Management, Cheiron, Maryland State Retirement Agency, Department of Legislative Services

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