

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE
Revised

House Bill 718
Appropriations

(Delegate Serafini)

Budget and Taxation

State Retirement and Pension System - Service Credit for Unused Sick Leave

This bill allows a member of the Employees' Pension System (EPS) who (1) was previously a member of the Correctional Officers' Retirement System (CORS); (2) was required to transfer to EPS as a result of a change in position with the same employer; and (3) did not transfer creditable service from CORS to EPS to receive creditable service for the total amount of unused sick leave accrued at the time of retirement using a specified calculation.

It also requires the Department of Legislative Services (DLS) and the State Retirement Agency (SRA) to jointly study (1) the requirement that a CORS member transfer to EPS when the member is promoted to certain positions; (2) the difference in benefits between CORS and EPS; and (3) the cost of allowing a CORS member to remain in that system following a promotion to certain positions. A report with the study's findings and recommendations must be submitted to the Joint Committee on Pensions by December 1, 2013.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: State pension liabilities increase by approximately \$120,000 in FY 2016. Amortizing those liabilities over 25 years results in State pension contributions increasing by \$8,000 in FY 2016 and increasing each year thereafter based on actuarial assumptions and the projected 20 additional CORS members who transfer out of CORS each year. Those contributions are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds. General fund expenditures by DLS increase by \$25,000 in FY 2014 to conduct the mandated study. No effect on revenues.

| (in dollars) | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|----------------|------------|---------|-----------|------------|------------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 25,000 | 0 | 4,800 | 10,800 | 16,200 |
| SF Expenditure | 0 | 0 | 1,600 | 3,600 | 5,400 |
| FF Expenditure | 0 | 0 | 1,600 | 3,600 | 5,400 |
| Net Effect | (\$25,000) | \$0 | (\$8,000) | (\$18,000) | (\$27,000) |

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: At retirement, a member of the State Retirement and Pension System is entitled to one additional month of creditable service for every 22 days of unused sick leave. If the member has fractional unused sick leave adding to 11 or more days, the member is entitled to one additional month of creditable service. However, a member may not accumulate, and therefore convert to creditable service, more than 15 days of sick leave per year.

For State employees, membership in CORS is a condition of employment for those who are:

- correctional officers in the first six job classifications;
- security attendants at the Clifton T. Perkins Hospital Center;
- correctional dietary, maintenance, and supply officers; and
- specified employees of Maryland Correctional Enterprises.

CORS members are eligible for a normal service retirement after 20 years, as long as their last five years are in CORS-eligible positions. They receive a retirement allowance equal to one fifty-fifth (1.818%) of their average final compensation for each year of service.

Background: CORS members who are promoted out of the first six classifications (for instance, into a supervisory or managerial position) are no longer eligible for CORS and become members of EPS as a condition of employment.

SRA advises that, under current law based on the advice of the Attorney General's Office, conversions of unused sick leave to creditable service only consider service time in the system from which the employee is retiring. Therefore, if the total number of days of unused sick leave earned by the employee exceeds an average of 15 per year of service

in the current plan, the member does not receive credit for any additional unused sick leave, which typically means the forfeiture of all or most of the leave earned while a member of the former plan.

State Fiscal Effect: SRA advises that, according to the Department of Public Safety and Correctional Services, over the past four full fiscal years, an average of 21 CORS members have been promoted out of CORS each year, with a high of 36 members in fiscal 2009 and a low of 12 members in fiscal 2010. This analysis assumes that 20 CORS members each year are promoted into EPS and elect not to transfer their CORS service credit to EPS.

In most cases, individuals who are promoted out of CORS are senior members with many years of experience, and they are likely close to retirement eligibility. Therefore, it is assumed that on average they have 20 years of service, which means their maximum possible unused sick leave is 300 days (15 days x 20 years), or slightly more than 13 months at the statutory rate of 22 days per month. Assuming that most members use some sick leave during their working careers and do not transfer with the maximum amount, it is assumed for this analysis that each CORS member who transfers to EPS is eligible for 12 months of additional creditable service under the bill.

The bill takes effect July 1, 2013; therefore, only individuals who retire after that date are eligible for additional credit for unused sick leave. The system's actuary will not account for that additional credit until the June 30, 2014 valuation, which determines State liabilities and contribution rates for fiscal 2016.

Based on these assumptions, the General Assembly's consulting actuary estimates that State pension liabilities increase by \$120,000 in fiscal 2016, and that State pension contributions in that year increase by \$8,000. State contributions increase each year thereafter based on actuarial assumptions and the addition of 20 additional transfers each year. State pension contributions for State employees are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds.

The report required by the bill necessitates an actuarial analysis of the cost of allowing CORS members to remain members of CORS even if they are promoted out of eligible jobs. It is assumed that DLS will pay for the actuarial analysis by the General Assembly's consulting actuary. Therefore, general fund expenditures by DLS increase by an estimated \$25,000 to provide the analysis for the mandated study.

Additional Information

Prior Introductions: None.

Cross File: SB 813 (Senator Shank) - Budget and Taxation.

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

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