

Department of Legislative Services
 Maryland General Assembly
 2014 Session

FISCAL AND POLICY NOTE

Senate Bill 916 (Senators Peters and McFadden)
 Budget and Taxation

**State Retirement and Pension System - Parole and Probation Employees -
 Membership in Correctional Officers' Retirement System**

This bill allows current agents of the Division of Parole and Probation (DPP) in the Department of Public Safety and Correctional Services to transfer from the Employees' Pension System (EPS) to the Correctional Officers' Retirement System (CORS) by December 31, 2014. DPP agents hired on or after July 1, 2014, are members of CORS as a condition of their employment.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: State pension liabilities increase by \$33.5 million and the normal cost increases by \$1.3 million. Amortizing increased liabilities over the remaining years of the closed 25-year amortization period and adding the normal cost results in State pension costs increasing by \$3.3 million in FY 2017. Those costs increase annually according to actuarial assumptions, and they are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds. This analysis reflects only current DPP agents and does not reflect any additional costs related to future agents joining CORS instead of EPS. No effect on revenues.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	0	1,957,200	2,024,400	2,094,000
SF Expenditure	0	0	652,400	674,800	698,000
FF Expenditure	0	0	652,400	674,800	698,000
Net Effect	\$0	\$0	(\$3,262,000)	(\$3,374,000)	(\$3,490,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: DPP agents employed on June 30, 2014, may choose to transfer to CORS before December 31, 2014. All prior service credit earned in EPS transfers with them. All prior employee and employer contributions made on the agents' behalf to EPS transfers to CORS, plus interest. If eligible agents do not transfer by the designated date, they are not eligible to join CORS. DPP agents hired on or after July 1, 2014, are members of CORS as a condition of employment.

Individuals who transfer from EPS to CORS under this bill are exempt from making up the difference between the lower EPS employee contribution rates in effect before July 1, 2008, and the 5% employee contribution in CORS for their prior service. The Executive Director of the State Retirement Agency may grant a waiver from the one-year limitation on transferring service credit.

Service credit with DPP is added to the list of eligible service credit toward retirement from CORS.

Current Law: Eligibility for CORS membership is limited to (1) correctional officers in the first six job classifications; (2) security attendants at the Clifton T. Perkins Hospital Center; (3) correctional dietary, maintenance, supply, and laundry officers; (4) designated employees of Maryland Correctional Enterprises; and (5) certain local detention center officers. It is assumed that all current DPP agents participate only in EPS (rather than the Employees' Retirement System (ERS), which was closed to new members in 1980); **Exhibit 1** shows the key provisions for CORS and EPS. 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. Chapter 397 of 2011 made additional changes, raising the member contribution rate to 7% and reducing the benefit multiplier to 1.5% for members hired after June 30, 2011.

To be eligible for a normal service retirement, CORS members must have 20 years of eligibility service, with the last five years of credit earned in any combination of CORS-eligible positions.

Exhibit 1
Pension Plan Provisions

Employees Pension System			
	<u>Hired Before July 1, 2011</u>	<u>Hired After June 30, 2011</u>	<u>CORS</u>
Normal Retirement Age	62 ¹	65 ²	55 ³
Years of Service for Normal Retirement	30	Age and Service Add to 90	20 ⁴
Employee Contribution	None prior to 1998 2% (1998-2006) 3% in 2007 4% in 2008 5% (2009-2011) 7% after June 30, 2011	7%	5%
Benefit Multiplier	1.8% (after 1998) 1.2% (before 1998)	1.5%	1.82% of AFC

¹Retiree must have at least five years of service.

²Retiree must have at least 10 years of service.

³The last five years must be in any combination of CORS-eligible positions.

⁴Retiree must have 5 years of service if hired before July 1, 2012, or 10 years if hired after June 30, 2011.

Source: Maryland Annotated Code, State Personnel and Pensions Article

When a member of the State Retirement and Pension System becomes eligible for membership in a different plan, that individual may transfer service credit from the former plan to the new plan, under specified conditions. One condition is that the transfer must occur within one year of joining the new plan. However, pension law gives the Executive Director of the State Retirement Agency the authority to waive the one-year limitation under specified circumstances. This bill allows the Executive Director to waive the one-year limitation, if necessary.

Another condition of transfers from one contributory pension system (like EPS) to another contributory system (like CORS) is that the accumulated employer and employee contributions made on the member's behalf must be transferred to the new system. State law also requires an individual who transfers service credit under these circumstances to

deposit in the new plan an amount equal to the difference between the lower employee contributions made to the former plan and those required by the new plan, including interest. In this case, 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. If they do not pay the difference, the system can reduce their retirement benefit by an actuarially equivalent amount at the time of retirement. The bill prohibits such a reduction, effectively exempting EPS members who transfer under this bill from having to pay the difference in contribution rates.

Background: The issue of benefit levels for parole and probation agents was studied by the Joint Committee on Pensions during the 2001 and 2002 interims. A study by the Department of Legislative Services (DLS) in 2001 found that, of the 29 states and localities surveyed, 17 included their agents in their general employees' systems, as Maryland currently does. The other jurisdictions included their agents in their public safety pension systems or operated specialized systems for the agents. The issue has not been studied since then.

Chapter 340 of 2006 included 647 correctional dietary, maintenance, and supply workers in CORS. Chapters 408 and 409 added correctional laundry workers and designated employees of Maryland Correctional Enterprises.

State Expenditures: The bill affects 824 individuals within DPP who are currently in EPS. The transfer to CORS of prior service credits earned by current DPP agents in EPS increases State pension liabilities for two reasons. First, DPP employees will earn CORS service credit for their prior EPS service without paying the difference between the EPS employee contribution and the 5% CORS employee contribution. Prior to 1998, EPS was noncontributory for most members, so individuals transferring from EPS to CORS would normally have to pay the full 5% CORS contribution rate, plus interest, for any service credit earned prior to fiscal 1998. Between fiscal 1998, when EPS became contributory, and fiscal 2009, when the contribution rates in the two systems became identical, they would have to pay the difference between the lower EPS contribution and the 5% CORS contribution, plus interest. Second, because CORS is a subsystem of ERS, the employer contribution is the same as for ERS/EPS, despite the fact that CORS benefits are more generous than those available to other State employees in those plans. By transferring into a retirement system that is in essence subsidized by other employee plans, the DPP agents add to the State's pension liabilities.

DLS assumes that all eligible current employees within DPP transfer to CORS because they are getting more generous CORS benefits at no cost to themselves. Using these

assumptions, the legislature's actuary estimates that State pension liabilities increase by \$33.5 million and the normal cost increases by \$1.3 million. Amortizing the increased liabilities over the remaining years of the closed 25-year amortization period and adding in the normal cost increase results in State pension contributions increasing by \$3.3 million in fiscal 2017, with subsequent annual payments increasing according to actuarial assumptions. The fiscal effect is delayed until fiscal 2017 because transfers from EPS to CORS under the bill cannot occur until July 1, 2014. Therefore, they are not recognized until the actuarial valuation of June 30, 2015, which determines State pension contributions for fiscal 2017.

State pension costs in the combined employees' system (which includes both CORS and EPS) are assumed to be split 60% general funds, 20% special funds, and 20% federal funds.

This analysis does not include the impact of future DPP agents belonging to CORS rather than EPS.

Under the bill, service credit with DPP counts toward the requirement that the final five years in CORS be in a CORS-eligible position. Therefore, current DPP agents with more than 20 years of service credit, with the last five or more in DPP, will be eligible immediately for a normal service retirement if they transfer to CORS. If many of them do retire, the agency could face a staffing shortage.

Additional Comments: Although this bill references the Division of Parole and Probation, DLS notes that the Department of Public Safety and Correctional Services implemented a major reorganization during fiscal 2012. As a result of the reorganization, the Division of Correction, the Division of Parole and Probation, the Patuxent Institution, and the Division of Pretrial Detention and Services no longer exist within the department by those names as separate budgetary units.

Additional Information

Prior Introductions: None.

Cross File: HB 1209 (Delegate DeBoy, *et al.*) - Appropriations.

Information Source(s): Cheiron, Department of Budget and Management, Department of Public Safety and Correctional Services; Department of Legislative Services

Fiscal Note History: First Reader - March 3, 2014
ncs/rhh

Analysis by: Michael C. Rubenstein

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