

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 532

(Senator McFadden)

Budget and Taxation

Appropriations

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

This bill makes all current and future correctional case management specialists, supervisors, and managers in the Department of Public Safety and Correctional Services members of the Correctional Officers' Retirement System (CORS) as a condition of their employment. An individual who is a correctional case management specialist, supervisor, or manager on or before June 30, 2016, is eligible to retire from CORS if vested in CORS, with a combined total of at least 20 years of *eligibility* credit in CORS and either the Employees' Pension System (EPS) or Employees' Retirement System (ERS). Any such individual who retires under this provision is entitled to a normal service retirement benefit based on *creditable* service in CORS. By October 1, 2016, the State Retirement Agency must notify individuals affected by the bill of their *right to* transfer *creditable* service from EPS or ERS to CORS (there is *no requirement* in the bill to transfer creditable service).

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: State pension liabilities may increase by up to \$15.1 million, and the normal cost may increase by up to \$300,000. Under the assumption that all eligible individuals elect to transfer creditable service to CORS, State pension contributions increase by \$1.1 million in FY 2018; out-year expenditures increase according to actuarial assumptions and are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds. To the extent that some current EPS members elect not to transfer creditable service to CORS, the fiscal effect is less. No effect on revenues.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	651,600	672,600	693,600	716,400
SF Expenditure	0	217,200	224,200	231,200	238,800
FF Expenditure	0	217,200	224,200	231,200	238,800
Net Effect	\$0	(\$1,086,000)	(\$1,121,000)	(\$1,156,000)	(\$1,194,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: 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; (5) certain local detention center officers; and (6) specified correctional officers serving as security chiefs, facility administrators, assistant wardens, or warden. It is assumed that all current correctional case management specialists participate only in EPS (rather than 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. Prior to July 1, 1998, EPS was noncontributory for most members.

“Eligibility service” means service credit that is recognized for determining eligibility for a retirement benefit. In general, a member of EPS receives one year of eligibility service credit for completing at least 500 hours of employment in a fiscal year. “Creditable service” is service credit that is recognized for computing a retirement benefit. In general, it equals eligibility service credit plus credit for unused sick leave.

Title 37 of the State Personnel and Pensions Article governs transfers from EPS to another contributory pension system (like CORS). Under Title 37, a “new system” means the system into which the member is transferring service credit, and “previous system” means the system from which the individual is transferring. Members transferring creditable service from EPS to another contributory system must pay the member contribution rates in effect for the period of service covered by the transferred service credit, plus interest. They are also refunded any accumulated contributions in the previous system that are in excess of the member contributions required by the new system. Under Title 37, an individual who retires from a new system within five years of transferring to that system receives benefits for the transferred credit that would have been payable under the previous system. Only after five years can benefits be paid for the transferred credit in accordance with the benefit formula in the new system.

**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
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

AFC: average final compensation

¹Retiree must have at least 5 years of service.

²Retiree must have at least 10 years of service.

³Retiree must have 5 years of service if hired before July 1, 2011; otherwise, retiree must have 10 years of service if hired on or after July 1, 2011. Normal retirement age is 60 for security attendants at Perkins Hospital.

Source: Maryland Annotated Code, State Personnel and Pensions Article

Under the terms of Title 37, therefore, EPS members transferring creditable service to CORS have to pay the difference between the contribution rate paid to EPS, if any, and the 5% CORS contribution rate, plus interest, for any service credit earned prior to fiscal 2009, when the EPS member contribution rate was less than the 5% CORS contribution. For service credit earned prior to 1998, they likely must pay the full CORS contribution of 5% (plus interest) since EPS was noncontributory for most members. However, they will also receive credit for the higher member contributions (7%) paid in EPS since June 30, 2011, because those contributions are also transferred to CORS and credited to their account. Any net deficiency in their member contributions results in an actuarial reduction to their benefit at the time of retirement. The Department of Legislative Services (DLS) notes that there is no actual transfer of assets between plans because CORS and EPS/ERS are considered a single plan for the purpose of valuing their assets and liabilities.

Normal retirement age for most CORS members is age 55 if they have vested; they can also retire with 20 years of service regardless of age.

Chapter 340 of 2006 included 647 correctional dietary, maintenance, and supply workers in CORS. Chapters 408 and 409 of 2008 added correctional laundry workers and designated employees of Maryland Correctional Enterprises.

State Expenditures: As noted above, EPS/ERS and CORS are considered a single plan for actuarial reasons, so the employer contribution rates for each plan are the same. Also, current EPS members transferring creditable service to CORS have to make up any difference in member contributions. Therefore, any difference in member contributions has no effect on plan assets.

On the liability side, several competing factors affect the fiscal effect of the bill. On the one hand, some service credit in EPS accrued at a lower benefit level than CORS, whether at the 1.2% level, prior to 1998, or the 1.5% level, for those hired on or after July 1, 2011. Under the bill, that service credit is paid at the 1.818% CORS level after the correctional case management specialists, supervisors, or managers spend five years in CORS. This factor increases State pension liabilities because accrued credit is being paid at a higher level.

On the other hand, recent changes by the Board of Trustees of the State Retirement and Pension System to actuarial assumptions used to calculate the value of benefits have altered the relative value of benefits accrued under the two plans, generally making CORS benefits less valuable relative to EPS. A related factor is the requirement in current law that individuals remain in CORS for at least five years before retiring in order to earn the CORS benefits. This may cause some individuals to remain employed longer than they otherwise would. Delayed retirements also reduce State pension liabilities because payments are made for fewer years.

The bill's fiscal effect varies depending on the number and demographic characteristics of the case management specialists, supervisors, and managers who elect to transfer prior creditable service in EPS to CORS. If a substantial number of affected employees with lots of creditable service accrued prior to 1998 elect to transfer, the effect is greater because all of that credit is paid at the 1.818% multiplier instead of 1.2%. Similarly, if a substantial number of recent hires, currently earning a benefit of 1.5% in EPS, elect to transfer service credit, the cost also is higher. The General Assembly's actuary advises that, if all current case management specialists, supervisors, and managers elect to transfer their creditable service, State pension liabilities increase by \$15.1 million and the normal cost increases by \$300,000 beginning in fiscal 2018. State pension liabilities are amortized over a closed 25-year amortization period, with 22 years remaining. These costs would first be

recognized in the June 30, 2016 valuation, which determines State pension contributions for fiscal 2018. Therefore, adding the increased normal cost to the annual amortization payment results in a first-year cost of \$1.1 million in fiscal 2018. Out-year pension costs increase according to actuarial assumptions. 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/other funds.

DLS notes that it is very possible that some affected members may not elect to transfer their creditable service to CORS, especially those with 20 or more years of credit. The main reason for this is that the cost of making up member contributions to CORS becomes prohibitive for most individuals with 20 or more years of accumulated service in EPS. A member of EPS hired in fiscal 1995, for instance, must make up 14 years of full or partial contributions (from fiscal 1995 through fiscal 2008), and receives partial credit for the past 5 years (when the EPS contribution was 7% of compensation). That results in a net payment of 9 years of full or partial contributions, with interest, which is likely out of reach for most members. To the extent that some individuals, especially those with 20 or more years of service, elect not to transfer creditable service to CORS, the bill's fiscal effect is less.

This analysis does not include the impact of future correctional case management specialists, supervisors, and managers belonging to CORS rather than EPS.

Current correctional case management specialists, supervisors, and managers with 20 or more years of service credit are not eligible to retire immediately from CORS under the bill. The bill specifies that in, order to retire from CORS, the individuals must first be vested in CORS. That means that individuals hired on or after July 1, 2011, must earn 10 years of eligibility credit after becoming members of CORS, and individuals hired before that date must earn 5 years of eligibility credit after becoming members of CORS. In either case, these individuals will accrue the 5 years necessary under Title 37 to earn benefits payable under the CORS formula for any creditable service that is transferred from EPS.

Additional Comments: The General Assembly's consulting actuary has determined that the actuarial analysis for an earlier version of this bill had an error in the calculation of the bill's effect on the State's pension liabilities and contribution rates. That error has been corrected for this analysis.

Additional Information

Prior Introductions: None.

Cross File: HB 1438 (Delegate Sophocleus, *et al.*) - Appropriations.

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

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