

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

House Bill 1081
 Appropriations

(Delegate Jackson, *et al.*)

Budget and Taxation

Correctional Officers' Retirement System - Membership

This bill makes all current and future parole and probation agents, supervisors, and regional administrators members of the Correctional Officers' Retirement System (CORS) as a condition of their employment. An individual in one of the specified positions on or before June 30, 2017, 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, 2017, the State Retirement Agency must notify affected individuals of their *right* to transfer *creditable* service from EPS or ERS to CORS (there is *no requirement* to transfer creditable service).

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: State pension liabilities increase by \$25.9 million, and the normal cost increases by \$2.3 million. Under the assumptions discussed below, State pension contributions increase by \$4.45 million in FY 2019; out-year expenditures increase according to actuarial assumptions, and costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds. To the extent that *fewer* eligible employees than assumed elect to transfer creditable service, costs decrease as explained below. No effect on revenues.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	2,670,000	2,844,000	3,066,000	3,306,000
SF Expenditure	0	890,000	948,000	1,022,000	1,102,000
FF Expenditure	0	890,000	948,000	1,022,000	1,102,000
Net Effect	\$0	(\$4,450,000)	(\$4,740,000)	(\$5,110,000)	(\$5,510,000)

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

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; (6) specified correctional officers serving as security chiefs, facility administrators, assistant wardens, or wardens; and (7) correctional case management specialists, supervisors, or managers.

It is assumed that all current individuals affected by the bill 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 2.0% in fiscal 2006 to 5.0% in fiscal 2009. Chapter 397 of 2011 made additional changes, raising the member contribution rate to 7.0% 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.

Chapter 397 also raised the vesting requirement from 5 to 10 years for all members of the State Retirement and Pension System (SRPS) hired on or after July 1, 2011. However, Chapters 608 and 609 of 2012 allow a member of any SRPS system who was a member on June 30, 2011, and who transfers into another SRPS system on or after July 1, 2011, without a break in employment (of more than 30 days) to be subject to the same requirements for the new system that were in effect on June 30, 2011. For the purposes of this bill, individuals who were members of EPS before July 1, 2011, and who transfer to CORS under the bill, require only 5 years (instead of 10) to vest in CORS. Individuals who joined EPS on or after July 1, 2011, and transfer under the bill still need 10 years to vest in CORS.

“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 2.0% (1998-2006) 3.0% in 2007 4.0% in 2008 5.0% (2009-2011) 7.0% after June 30, 2011	7.0%	5.0%
Benefit Multiplier	1.8% (after 1998) 1.2% (before 1998)	1.5%	1.82% of AFC

AFC: average final compensation

CORS: Correctional Officers' Retirement System

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.

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 5.0% CORS contribution rate, plus interest, for any service credit earned prior to

fiscal 2009, when the EPS member contribution rate was less than the 5.0% CORS contribution. For service credit earned prior to 1998, they likely must pay the full CORS contribution of 5.0% (plus interest) since EPS was noncontributory for most members. However, they will also receive credit for the higher member contributions (7.0%) 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 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. Chapters 218 and 219 of 2016 added correctional case management specialists, supervisors, and managers.

The Department of Public Safety and Correctional Services advises that the bill affects 768 current parole and probation agents, supervisors, and regional administrators.

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 may be paid at the 1.818% CORS level if the affected individuals elect to transfer creditable service from EPS to CORS. This factor increases State pension liabilities because accrued credit is being paid at a higher level.

A countervailing factor is the requirement in current law that individuals remain in CORS for at least 5 years before retiring in order to earn the CORS benefits, and the bill's requirement that they vest in CORS (either 5 or 10 years) before they retire with a CORS benefit. This may cause some individuals to remain employed longer than they otherwise would, or not to transfer creditable service to CORS. Delayed retirements 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 current EPS members 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 analysis assumes that any individual who is within five years of retirement under EPS elects *not* to transfer creditable service to CORS but rather elects to retire with an EPS benefit. This is due to the fact that the individual would have to remain in CORS for at least five years in order to vest and retire with a CORS benefit. Given that most of these individuals can retire in less than five years or are already eligible to retire, the actuary assumes that they do not elect to work longer but instead choose to retire with an EPS benefit. To the extent that some individuals were excluded from the analysis who have closer to five years before retirement and may choose to transfer to CORS and work longer, the estimates below increase; a reliable estimate cannot be made without consulting the actuary.

Otherwise, the analysis assumes that all other affected individuals for whom data is available elect to transfer creditable service to CORS and retire with a CORS benefit after vesting with 5 or 10 years of service. Those individuals also have to reconcile any contribution deficiency under Title 37 resulting from the transfer. To the extent that the number of affected individuals who transfer creditable service differs from these assumptions, the fiscal effect differs accordingly.

The General Assembly's actuary advises that, with these assumptions, State pension liabilities increase by \$25.9 million and the normal cost increases by \$2.3 million. State pension liabilities are amortized over the remaining years of a closed 25-year amortization period. These costs would first be recognized in the June 30, 2017 valuation, which determines State pension contributions for fiscal 2019. Therefore, adding the increased normal cost to the annual amortization payment results in a first-year cost of \$4.45 million in fiscal 2019. 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.

This analysis does not include the effect of future individuals hired into the affected positions, including currently vacant positions.

As noted, a reliable estimate of the number and characteristics of parole and probation agents who choose to transfer creditable service from EPS to CORS cannot be made. The State Retirement Agency advises that, of the 306 eligible correctional case managers who were given the same opportunity to transfer creditable service under Chapters 218 and 219

of 2016, 147 (48%) elected to transfer creditable service as of March 2017; they have until June 30, 2017, to elect to transfer credit. *For illustrative purposes only*, if a similar percentage of eligible parole and probation agents elect to transfer creditable service, State pension contributions are roughly half of the amount reflected in this analysis.

Individuals with at least 20 years of service credit are not eligible to retire immediately from CORS. The bill specifies that, prior to retiring from CORS, they must be vested in CORS; as they are new members, they must acquire either 5 or 10 years of service credit, depending on when they originally joined EPS.

Additional Information

Prior Introductions: None.

Cross File: SB 650 (Senator Guzzone, *et al.*) - Budget and Taxation.

Information Source(s): Bolton Partners; Department of Juvenile Services; Department of Public Safety and Correctional Services; State Retirement Agency; Department of Legislative Services

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