Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 982 (Delegate Jacobs, *et al.*)
Appropriations

Law Enforcement Officers' Pension System - Separation Requirement - Exemption

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This bill exempts a member of the Law Enforcement Officers' Pension System (LEOPS) who serves as sheriff of a county or Baltimore City and meets other criteria from the requirement that the member have a 45-day break in service following retirement before being reemployed with a participating employer or a withdrawn participating governmental unit (PGU) as specified in the bill.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: None. The bill relates to a PGU.

Local Effect: No effect on PGU pension liabilities or contribution rates as the bill is believed to apply to only one individual, and potentially up to eight more in the future. The affected LEOPS members do not accrue any additional service credit under the bill. No effect on revenues.

Small Business Effect: None.

Analysis

Bill Summary: A member of LEOPS is exempt from the 45-day break in service requirement if the member:

- became a member of LEOPS by virtue of serving as sheriff of a county;
- joins the Deferred Retirement Option Program (DROP) while serving as sheriff;

- terminates membership in DROP before the end of the member's term as sheriff; and
- continues to serve as sheriff following the termination of membership in DROP.

Current Law:

Reemployment After Retirement: An individual who is receiving a retirement allowance from LEOPS may not be reemployed within 45 days of retirement on a permanent, temporary, or contractual basis with a participating employer or a withdrawn PGU, if the individual was an employee of the PGU while the PGU was a participating employer. This provision was put in place to comply with requirements under the federal Internal Revenue Code, which requires a bona fide break in service before a retiree resumes employment with a participating employer.

Deferred Retirement Option Program: DROP allows eligible LEOPS members to officially retire while continuing to work and earn salary and health benefits in their current jobs for a fixed period of time. LEOPS members must have between 25 and 30 years of service to qualify for DROP regardless of when they were hired. They may participate in DROP for up to 5 years or until they reach 30 years of service. Members have to meet the eligibility criteria and submit a binding letter of resignation announcing their intention to participate in DROP and specifying their date of termination. A decision to participate in DROP is irrevocable.

During their participation in DROP, members earn the same retirement benefits that they would have received if they had fully retired, including cost-of-living adjustments based on the Consumer Price Index for All Urban Consumers. Those benefits are deposited into DROP on behalf of the members and earn 4% interest, compounded annually. During their participation in DROP, members do not earn service or eligibility credit in LEOPS and do not make employee contributions to LEOPS. Also, their compensation earned while participating in DROP is not used in determining their average final compensation (AFC) for the purpose of calculating their normal retirement benefits. DROP participants continue to receive compensation and health benefits available to regular employees, and they are subject to all relevant personnel law, regulations, and policies.

Upon exiting DROP, participating members receive the amount accrued to their benefit in DROP in a single lump-sum payment, subject to income tax withholding. They also receive ongoing normal service retirement benefits calculated using their years of service and AFC at the time they began participating in DROP. DROP participants or their beneficiaries may request that their lump-sum DROP payments be deposited directly into an eligible retirement savings plan.

Background: The State Retirement Agency (SRA) is aware of one individual who is affected by this bill. The individual serves as a county sheriff, became a member of LEOPS by virtue of serving as sheriff, and participates in DROP. Assuming the individual is reelected as sheriff, the date of termination in DROP is March 31, 2019, upon which the individual is required to retire from LEOPS and, thus, will not be eligible to serve as sheriff. As membership in DROP is irrevocable and the termination date is binding, the individual would have to resign as sheriff just four months into a new term in order to comply with the 45-day break in service requirement. Under the bill, the sheriff is allowed to serve out his term without a break in service but does not accrue any additional service credit in LEOPS.

SRA advises that nine counties participate in LEOPS as PGUs, so there are potentially eight other sheriffs who could benefit from the bill in the future. As in this case, they would also not accrue any additional service credit under the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Retirement Agency; Maryland Supplemental Retirement Plans; Department of Legislative Services

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