Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 1042 (Delegate B. Barnes)
Appropriations Budget and Taxation

Law Enforcement Officers' Pension System - Benefit Cap Increase

This bill raises the cap on retirement allowances that may be paid to specified members of the Law Enforcement Officers' Pension System (LEOPS) from 60% of the member's average final compensation (AFC) to 65%. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: State pension liabilities increase by $3.18 million and the normal cost increases by $70,000. Amortizing the increase in liabilities over the remaining years of the system's 25-year closed amortization period results in State pension contributions increasing by $310,000 in FY 2020. Out-year expenditures increase according to actuarial assumptions. No effect on revenues.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	186,000	192,000	204,000	204,000
SF Expenditure	0	62,000	64,000	68,000	68,000
FF Expenditure	0	62,000	64,000	68,000	68,000
Net Effect	$0	($310,000)	($320,000)	($340,000)	($340,000)

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

Local Effect: Local pension liabilities increase by $1.69 million and the normal cost increases by $40,000. Amortizing the increase in liabilities over the remaining years of the system's 25-year closed amortization period result in local pension contributions increasing by $170,000 in FY 2020 and by $190,000 in FY 2023. Expenditures are shared by approximately 120 participating governmental units (PGUs).

Small Business Effect: None.

Analysis

Current Law: LEOPS was established on July 1, 1990, with participation a condition of employment for specified public safety officers, including law enforcement officers and firefighters of PGUs. It consists of two components:

- a retirement plan applicable to officers who were in the Employees' Retirement System prior to the creation of LEOPS and who elected to transfer to LEOPS by December 31, 2000; and
- a pension plan for all other members.

The retirement allowances payable under the two components are different. Members of the retirement plan receive 2.3% of their AFC for the first 30 years of service, plus 1.0% of their AFC for each additional year. Thus, there is no cap on their benefits, but the benefit is reduced for each year after 30 years of service.

Pension plan participants receive 2.0% of AFC for each year of service, up to 60% of their AFC. Thus, their benefit is capped at 30 years of service (2.0% x 30).

AFC is calculated based on the highest three consecutive years for LEOPS members hired on or before June 30, 2011; it is calculated based on the highest five consecutive years for those hired on or after July 1, 2011.

Background: The actuary advises that there are no remaining members of LEOPS in the retirement plan, so all current members of LEOPS are in the pension plan and, therefore, affected by the bill.

State Expenditures: The bill allows LEOPS members to earn benefits for an additional 2.5 years of service. Current actuarial assumptions regarding retirement rates for LEOPS adjust higher when an individual reaches 25 years of service at a given age but do not adjust again after that. The actuary advises that, given the small number of members who reach 30 years of service in LEOPS, retirement rates are not likely to adjust due to the bill. In other words, people planning to retire after 30 years are not likely to reconsider that decision just to earn up to an additional 2.5 years of service credit.

Therefore, the bill affects only the small number of members who already work beyond 30 years even though they do not earn additional retirement credit; currently, there are 37 active members of LEOPS with more than 30 years of service. Assuming they do not retire before the bill takes effect, those individuals, plus any current and future LEOPS members who work past 30 years, earn higher benefits under the bill. Based on that assumption, State pension liabilities increase by $3.18 million and the normal cost increases by $70,000. The bill's changes will be recognized at the June 30, 2018 actuarial valuation, which determines employer contributions for fiscal 2020. Therefore, amortizing the increase in liabilities over the remaining years in the system's 25-year closed amortization period and adding the full normal cost results in State pension contributions increasing by $310,000 in the fiscal 2020. Costs are allocated 60% general funds, 20% special funds, and 20% federal/other funds and out-year costs grow according to actuarial assumptions.

To the extent that the bill does affect retirement rates among those reaching 30 years of service, State costs may be higher, but any such effect is likely to be minimal given the small number of members involved.

Local Expenditures: As of June 30, 2017, there were 1,010 law enforcement officers employed by PGUs in LEOPS. Therefore, local pension liabilities increase by $1.69 million and the normal cost increases by $40,000. Amortizing the increase in liabilities over the remaining years in the system's 25-year closed amortization period and adding the full normal cost results in local pension contributions increasing by $170,000 in fiscal 2020 and $190,000 in fiscal 2023. Those costs continue to increase in the out-years according to actuarial assumptions, and they are shared by approximately 120 PGUs.

To the extent that the bill does affect retirement rates among those PGU members reaching 30 years of service, local pension costs may be higher, but any such effect is likely to be minimal given the small number of members involved.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Bolton Partners, Inc.; State Retirement Agency; Department of Legislative Services

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