

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 430
Appropriations

(Delegate Cox)

State Retirement and Pension System - Military Service Credit

This bill allows a member or vested former member of the State Retirement and Pension System (SRPS) to earn military service credit for prior military service even if that member or former member receives service credit for the same military service under another retirement system. The bill's provisions apply regardless of whether the past service was active duty, National Guard duty, or military reserve duty. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: State pension liabilities and pension contributions may increase significantly, potentially by more than \$2.0 million, due to more individuals claiming five years of military service credit under the bill. No effect on revenues.

Local Effect: Local participating governmental units (PGUs) pension liabilities and employer contributions may also increase significantly. The number of members who are likely to claim such service credit cannot be determined. No effect on local revenues.

Small Business Effect: None.

Analysis

Current Law: In general, any member or vested former member of SRPS who accrues 10 years of service as a member of any State plan may receive one year of additional service credit for each year of active military duty performed prior to membership in SRPS, up to a maximum of five years. That credit is granted at no cost to the member or former member

and is applied using the accrual rate in effect when the member or former member submits an application for the credit to the State Retirement Agency (SRA).

However, SRPS members or vested members who claim credit for the same military service from another retirement system may not receive military service credit from SRPS, unless they claimed credit for that military service from:

- Social Security;
- the National Railroad Retirement Act; or
- National Guard or military reserves pensions (Title 3 or Title 10, Chapter 1223 of the U.S. Code).

This generally means that any SRPS member who is receiving a military pension after completing 20 years of *active* military service cannot claim the military service credit from SRPS. Thus, the bill expands the exemption to include active service that has been previously claimed, not just prior National Guard or reserve service.

Background: Military personnel are eligible for a military pension after 20 years of active duty. If they are receiving a pension benefit from the United States Armed Forces for that service, they cannot, under current law, claim any of that past service toward military service credit in SRPS. Only individuals who serve fewer than 20 years in active service (and, therefore, do not qualify for a military pension) may claim up to five years of military service credit in SRPS. As noted above, individuals receiving a military pension due to service in the National Guard or military reserves may, under current law, claim up to five years of the same service toward military service credit in SRPS.

State Expenditures: SRA, the Military Department, and the Personnel Unit within the Department of Budget and Management do not have reliable data on the number of State employees with prior military service, nor data on the number who have retired from the military and are receiving a military pension. Similarly, local school systems do not have reliable data on which teachers and principals have prior military service. Therefore, a reliable estimate of the number of SRPS members who would be eligible to claim military service credit under the bill cannot be determined.

However, using a variety of data sources, *and for illustrative purposes only*, the Department of Legislative Services (DLS) estimates that as many as 600 current active members of SRPS may be eligible for additional military service credit under the bill. As shown in **Exhibit 1**, the General Assembly's consulting actuary identified almost 20,000 active members who fit the profile of individuals who could be eligible to claim additional service credit. These individuals are generally at least age 50 and, therefore, could have served 20 years in the military and earned 10 years of service credit in SRPS, making them eligible for the military service credit. The U.S. Department of Defense

advises that approximately 55,000 military retirees live in Maryland, which is 3% of the State’s population age 50 or older. Assuming the same percentage of the SRPS members identified by the actuary in that age group are military retirees, approximately 600 SRPS members may be eligible for five additional years of military service credit.

Exhibit 1
State Retirement and Pension System Members
Potentially Eligible for Military Service Credit,
as of June 30, 2018

	<u>Active Members</u>
Employees’ Pension System	6,417
Teachers’ Pension System	12,334
State Police	6
Correctional Officers	572
Law Enforcement	117
Total	19,446

Source: Bolton; State Retirement Agency

This analysis can only determine the increase in pension liabilities and employer contributions if a “typical” member of each of the major SRPS plans claimed an additional five years of service credit. Since the bill applies only to individuals with a 20-year pension, it is assumed that they all claim the maximum five years of credit allowed by the State. **Exhibit 2** shows the costs for one member of each plan claiming the service credit allowed by the bill; these costs would increase annually according to actuarial assumptions. *For illustrative purposes only*, if the estimated 600 SRPS members earn the additional military service at a weighted average annual cost of \$3,700, total State pension contributions (all funds) increase by approximately \$2.2 million in fiscal 2021.

As the military service credit allowed by the bill counts toward both eligibility and creditable service, some affected members may retire earlier than they otherwise would because of the additional eligibility service credit they receive. Early retirements can increase pension liabilities because benefits are paid over a longer period of time; however, this analysis does not address the fiscal effects from earlier retirements.

Exhibit 2
Fiscal 2021 Effect for Each Member Who Claims Credit Under the Bill

	<u>Liability Increase</u>	<u>FY 2021 Contribution Increase</u>
Employees' Pension System	\$42,100	\$3,200
Teachers' Pension System	52,000	4,000
State Police	121,700	9,400
Correctional Officers	41,500	3,200
Law Enforcement	70,700	5,500

Source: Bolton

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Bolton; U.S. Department of Defense; Department of Budget and Management; State Retirement Agency; Department of Legislative Services

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sb/vlg

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