**HB 283**

# Department of Legislative Services

Maryland General Assembly
2019 Session

## FISCAL AND POLICY NOTE
### First Reader

House Bill 283 (Allegany County Delegation and Washington County Delegation)

Appropriations

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**Correctional Officers' Retirement System - Membership**

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This bill makes specified employees of the Department of Public Safety and Correctional Services (DPSCS) members of the Correctional Officers' Retirement System (CORS) as a condition of their employment. It also allows service credit earned in the Employees' Pension System (EPS) to be combined with service credit in CORS for specified individuals and requires service credit to be combined for specified individuals. **The bill takes effect July 1, 2019.**

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## Fiscal Summary

**State Effect:** State pension liabilities increase by $2.1 million, and the employer normal cost increases by $320,000. Amortizing the liabilities over the years remaining in the closed 25-year amortization schedule and adding the full normal cost results in State pension contributions increasing by $360,000 in FY 2021. Out-year costs grow according to actuarial assumptions and are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds. No effect on revenues.

| (in dollars) | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
|---|---|---|---|---|---|
| Revenues | $0 | $0 | $0 | $0 | $0 |
| GF Expenditure | 0 | 216,000 | 234,000 | 252,000 | 276,000 |
| SF Expenditure | 0 | 72,000 | 78,000 | 84,000 | 92,000 |
| FF/Other Exp. | 0 | 72,000 | 78,000 | 84,000 | 92,000 |
| Net Effect | $0 | ($360,000) | ($390,000) | ($420,000) | ($460,000) |

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** An individual who is employed in any of the positions listed below within DPSCS on or before June 30, 2019, 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 EPS or the Employees' Retirement System (ERS). Any individual who retires under this provision is entitled to a normal service retirement benefit based on *creditable* service in CORS. Provisions in current law related to the transfer of service credit do not apply to individuals affected by the bill. By January 1, 2020, the State Retirement Agency must notify individuals affected by the bill of their *right* to transfer service from EPS or ERS to CORS.

The affected positions are:

- administrative aide;
- office secretary;
- office supervisor;
- commitment records specialist, specialist lead, specialist manager, or specialist supervisor; and
- volunteer activities coordinator or coordinator supervisor.

Individuals affected by the bill who do not have creditable service in EPS before July 1, 2008, are required to have their service credit in EPS transferred to CORS and combined with future CORS service. If any of these individuals is granted an ordinary disability benefit, the Board of Trustees of the State Retirement and Pension System (SRPS) must calculate and pay the ordinary disability benefit that is greater under either CORS or EPS.

**Current Law/Background:** Based on data provided by DPSCS, the actuary has determined that the bill affects approximately 131 individuals currently employed in DPSCS and 37 vacant positions in DPSCS that will be filled by eligible individuals in the future.

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; (7) correctional case management specialists, supervisors, or managers; (8) parole and probation agents, supervisors, or regional administrators; (9) specified counselors, social workers, psychologists, recreation officers, and supervisory personnel within DPSCS; and (10) specified employees within the Department of Juvenile Services.

Although the bill applies to members of both ERS and EPS, membership data provided by DPSCS indicates that all affected members participate only in EPS (ERS 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 to EPS, 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 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 will 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 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 will 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.

**Exhibit 1**
**Pension Plan Provisions**

| | Employees' Pension System | | |
|---|---|---|---|
| | **Hired Before July 1, 2011** | **Hired After June 30, 2011** | **CORS** |
| 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<br>2.0% (1998-2006)<br>3.0% in 2007<br>4.0% in 2008<br>5.0% (2009-2011)<br>7.0% after June 30, 2011 | 7.0% | 5.0% |
| Benefit Multiplier | 1.8% (after 1998)<br>1.2% (before 1998) | 1.5% | 1.818% of AFC |

AFC: average final compensation
CORS: Correctional Officers' Retirement System

[1]Retiree must have at least 5 years of service.
[2]Retiree must have at least 10 years of service.
[3]Retiree 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 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. However, the bill exempts affected individuals from this provision of Title 37.

Normal retirement age for most vested CORS members is age 55; 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. Chapters 688 and 689 of 2017 added parole and probation agents, supervisors, and regional administrators. Chapter 690 of 2017 added specified counselors, social workers, psychologists, and recreation officers within DPSCS. Chapter 579 of 2018 added specified detention center employees of the Department of Juvenile Services and specified supervisory positions within DPSCS (that had been inadvertently omitted from earlier legislation).

**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. There will be some service credit in EPS that was 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 for individuals who transfer creditable service from EPS to CORS. This factor increases State pension liabilities because accrued credit is being paid at a higher benefit level.

A countervailing factor is the bill's requirement that members vest in CORS (either 5 or 10 years) before they retire with a CORS benefit. This may result in some individuals remaining employed longer than they otherwise would or not transferring creditable service to CORS. Delayed retirements reduce State pension liabilities because payments are made for fewer years. The exemption from the provision of Title 37 has no fiscal effect because individuals affected by the bill still have to wait at least 5 years to vest in CORS before retiring.

The bill's fiscal effect varies depending on the number and demographic characteristics of the current EPS members who are either required to or elect to transfer prior creditable service in EPS to CORS. If a substantial number of affected employees with significant creditable service accrued prior to 1998 transfer, the effect will be greater because all of that credit is paid at the 1.818% multiplier instead of 1.2%. The bill requires anyone hired since July 1, 2008, to transfer their service credit from EPS to CORS. This includes everyone hired since July 1, 2011, who are currently earning a benefit of 1.5% in EPS, which increases the cost because that service credit will also be paid at the higher 1.818% rate under the bill.

Finally, the analysis assumes that any individual who is within 5 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 5 or 10 years in order to vest and retire with a CORS benefit. Given that the individual is within 5 years of retirement, the actuary assumes that the individual does not elect to work longer but instead chooses to retire with an EPS benefit. 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 either 5 or 10 years of service. Based on the data provided by DPSCS, the General Assembly's actuary has determined that 52 of the members affected by this bill are eligible for retirement within 5 years.

The actuary assumed that the vacant positions would be filled by individuals who mirror the average or typical characteristics of the active employees.

The General Assembly's actuary advises that, with these assumptions, State pension liabilities increase by $2.1 million, and the normal cost increases by $320,000. SRPS uses a 25-year closed amortization schedule as of July 1, 2013. Amortizing the increase in liabilities over the remaining years of the closed amortization period and adding the full normal cost increase results in a first year cost of $360,000 in fiscal 2021. State pension costs in the combined employees' system (which includes both CORS and EPS) are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds and grow according to actuarial assumptions.

For the purposes of this estimate, the actuary calculated the effect of members earning the more generous CORS benefit rather than the EPS benefit and assumed the liabilities are incorporated in the June 30, 2019 valuation, with the fiscal effect beginning in fiscal 2021. However, the full effect of the bill will not be known until affected members who are not required to transfer their service credit notify the system whether they intend to transfer service credit from EPS to CORS. In most cases, they will notify the system after the bill's effective date (they must be told of the opportunity to transfer credit by January 2020), so all the transfers will not be recognized until the June 30, 2020 valuation, which determines contribution rates for fiscal 2022. Thus, the actual fiscal impact and timing of the impact of the bill will depend on the number of individuals who elect to transfer service credit to CORS and when those transfers occur, which may be less than the actuary's estimate.

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 new members, they must acquire either 5 or 10 years of service credit, depending on when they first joined EPS.

## Additional Information

**Prior Introductions:** None.

**Cross File:** SB 278 (Senator Edwards, *et al.*) - Budget and Taxation.

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

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