SB 454

Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 454 (Senator Guzzone)
Budget and Taxation

Correctional Officers' Retirement System - Retirement - Eligibility and Allowance

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This bill allows specified parole and probation officers to retire from the Correctional Officers' Retirement System (CORS) if they have at least 20 years of combined service in CORS and either the Employees' Pension or Employees' Retirement Systems (EPS/ERS), without first vesting in CORS. It also eliminates a requirement that their retirement allowance be reduced for any missed contributions stemming from specified service credit being transferred from EPS/ERS to CORS. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: State pension liabilities increase by approximately $14.5 million; there is no discernible effect on the normal cost. Amortizing the liabilities over the 19 years remaining in the 25-year amortization period results in State pension contributions increasing by $1.05 million in FY 2021. Those costs are projected to increase according to actuarial assumptions and are assumed to be allocated 60% general funds, 20% special funds, and 20% federal and 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	630,000	654,000	660,000	678,000
SF Expenditure	0	210,000	218,000	220,000	226,000
FF/Other Expenditure	0	210,000	218,000	220,000	226,000
Net Effect	$0	($1,050,000)	($1,090,000)	($1,100,000)	($1,130,000)

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: Chapters 688 and 689 of 2017 made parole and probation agents, supervisors, and regional administrators members of CORS as a condition of their employment; they had previously been members of EPS/ERS. At the time, any parole and probation officer with prior service credit in EPS/ERS could elect to either transfer their service credit to CORS or keep it in EPS/ERS. However, Chapter 579 of 2018 subsequently required all affected members with no service credit prior to July 1, 2008, to transfer all EPS/ERS credit to CORS. **Exhibit 1** compares the benefits under CORS and EPS (no affected members were in ERS).

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 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

[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

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Under Chapters 688 and 689, all affected parole and probation agents can retire from CORS only after earning sufficient service credit in CORS to vest, even if they have enough service credit in EPS/ERS to retire. For those hired prior to July 1, 2011, vesting was five years; for those hired on or after that date, vesting was 10 years.

In general, if a member does not make the contribution required by law, the member's retirement allowance must be reduced by the actuarial equivalent of the missed accumulated contributions, including interest, compounded annually.

Background: As shown above in Exhibit 1, CORS members pay 5% of their earnable compensation annually; member contributions for EPS have changed over time. Prior to 1998, most EPS members paid no member contributions, and from fiscal 1998 through 2008, the EPS contribution rate was less than the CORS contribution rate. Under Chapters 688 and 689 and current law governing member transfers, members of EPS who transferred service credit to CORS that they earned before fiscal 2008 would have to pay the difference in member contributions for that service credit, with interest, or they would have a deficiency in their account. Chapters 688 and 689 gave those individuals a choice about transferring service credit because, for some, the cost of making up that deficiency would be prohibitive. Others who were close to retirement in EPS might not have wanted to wait 5 or 10 years to vest in CORS before retiring.

The State Retirement Agency advises that, of the 851 parole and probation officers affected by Chapters 688 and 689:

- 40 retired with a deficiency in their accounts and likely had their benefits reduced as a result;
- 44 transferred service credit from EPS and paid off their deficiency;
- 62 have not transferred to CORS and are no longer eligible to transfer under current law; and
- 705 transferred service credit to CORS and remain active, with a combined total deficiency of $6.2 million (within that group, those hired after July 1, 2008, likely have little or no deficiency).

State Expenditures: The bill increases State pension liabilities significantly in three ways:

- the State Retirement and Pension System (SRPS) absorbs the cumulative unpaid deficiency of $6.2 million owed by some portion of the 705 parole and probation agents who transferred without paying off their deficiency;
- some parole and probation agents can retire sooner because they can combine their EPS and CORS service credit and retire under CORS with 20 years of combined service without first having to vest in CORS; and
- it is assumed that SRPS must reimburse the 44 members who paid off their deficiencies and then absorb their combined unpaid deficiency.

Based on these components, the General Assembly's consulting actuary estimates that State pension liabilities increase by approximately $14.5 million; any effect on the normal cost is negligible and has no discernible effect on liabilities or employer contributions. Assuming that the increase in liabilities is recognized by the July 1, 2019, actuarial valuation and amortized over the remaining 19 years of the system's 25-year closed amortization period, State pension contributions increase by $1.05 million in fiscal 2021. That cost is projected to grow annually according to actuarial assumptions and is assumed to be allocated 60% general funds, 20% special funds, and 20% federal and other funds.

The Department of Legislative Services notes that the 62 individuals who did not transfer service credit to CORS may no longer do so, since they were required to transfer service credit within one year of changing plans under current law, and that window has closed. Thus, these individuals have no effect on State pension liabilities under the bill.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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sb/vlg

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