Department of Legislative Services

Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 456   (Delegate Jacobs)

Appropriations   Budget and Taxation

Correctional Officers' Retirement System - Kent County

This bill requires Kent County detention center officers to become members of the Correctional Officers' Retirement System (CORS) as a condition of employment, subject to Kent County beginning participation in CORS. Past eligibility and creditable service with Kent County transfers to CORS for the affected officers, and they are not subject to specified credit transfer provisions in current law. **The bill takes effect July 1, 2021.**

Fiscal Summary

State Effect: None. The bill affects only Kent County.

Local Effect: Assuming Kent County elects to participate in CORS, its pension liabilities increase by approximately $598,000, resulting in an annual withdrawal liability payment of approximately $51,300 through calendar 2045, as discussed below. In FY 2022, Kent County employer pension contributions increase additionally by an estimated $6,800. No effect on local revenues.

Small Business Effect: None.

Analysis

Current Law: In general, when a participating governmental unit (PGU) withdraws or transfers from a State pension plan, assets and liabilities credited to the withdrawing members are calculated in a manner specified by statute. If there is a net withdrawal liability, the withdrawing PGU must make regular payments to the State Retirement and Pension System until the liability is paid off. In the case of transfers to another plan, the

assets and liabilities from the original plan are transferred to the members' "new" plan, but they are still subject to the same withdrawal asset/liability calculation.

Title 37 of the State Personnel and Pensions Article governs transfers from the Employees' Pension System (EPS) to another contributory pension system (like CORS). Members transferring creditable service from EPS to another contributory system must pay the difference in 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. The bill exempts Kent County detention officers from having to pay the deficient contributions (and from getting refunds of excess contributions).

Exhibit 1 shows the benefit structures for EPS and CORS.

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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Local Expenditures: The State Retirement Agency (SRA) advises that Kent County requested an actuarial valuation in fall 2019 to determine the pension liabilities associated with the transfer of 29 detention center officers from EPS to CORS, and the resulting annual payments that Kent County would have to make to pay down that liability. The valuation was completed in December 2019, using asset and liability data from the June 2019 municipal valuation. The resulting calculations of liabilities and employer contributions were effective beginning in fiscal 2021. Since then, the system's actuary has completed a new municipal valuation as of June 2020, but Kent County has not requested a revised valuation of its liabilities. Therefore, a precise estimate of its current liabilities and future contributions based on the most recent valuation is not available. This analysis is based on the results from the 2019 valuation of Kent County liabilities conducted by SRA at Kent County's request.

As transferring members are not required to pay the difference in member contribution rates, Kent County assumes any additional liability from the lack of payment by the members. Assuming Kent County elects to participate in CORS and based on the withdrawal liability calculation by the system's actuary, Kent County's pension liabilities increase by approximately $598,000, resulting in an annual withdrawal liability payment of $51,300 through calendar 2045.

In fiscal 2022, Kent County's employer pension contribution increases further due to the contribution rate for CORS members being higher than the contribution for EPS members (assuming Kent County elects to participate in CORS). For fiscal 2022, the certified contribution rate for municipal members of EPS is 10.57%, and the certified rate for municipal members of CORS is 11.06%. Based on a fiscal 2019 payroll of approximately $1.4 million for detention center officers, Kent County's contribution increases by about $6,800, which is in addition to the withdrawal liability payment described above. To the extent that Kent County's payroll is substantially different than it was in fiscal 2019, the increase may be more or less. An estimate of out-year contribution differences is not feasible at this time as it is dependent on future actuarial calculations of contribution rates.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 606 (Senator Hershey) - Budget and Taxation.

Information Source(s): Bolton; Kent County; State Retirement Agency; Department of Legislative Services

Fiscal Note History: First Reader - February 2, 2021
rh/vlg   Third Reader - March 22, 2021

Analysis by: Michael C. Rubenstein   Direct Inquiries to:
(410) 946-5510
(301) 970-5510