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DEPARTMENT OF BUDGET AND MANAGEMENT

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HOUSE BILL 1073 Law Enforcement Officers' Pension System – Military Service Credit (Johnson, et al)

STATEMENT OF INFORMATION

DATE: February 27, 2020

COMMITTEE: House Appropriations Committee

SUMMARY OF BILL: HB 1073 would authorize vested members or former members of the Law Enforcement Officers' Pension System (LEOPS) to apply military service as credit toward LEOPS retirement for prior military service, even if that member or former member received service credit for the same military service under another retirement system. This change would enable members or former members of LEOPS who are also eligible for a military pension based on active military service to apply up to five years of military service toward LEOPS eligibility and credit. Currently, only service earned as a National Guard member or reservist is authorized to be applied to more than one retirement system.

EXPLANATION: This bill will increase pension costs by enabling LEOPS members with qualifying service to retire earlier, and by allowing members to apply additional credit to pension calculations (the impact is unknown at this time). Additionally, the State's Other Post Employment Benefit (OPEB) liability will increase due to three factors: (1) employees will become eligible for retirement earlier; (2) after retirement, the retiree's share of the contribution would decrease (and the State's share will increase) as a result of the State's service-based subsidy formula; and (3) retirees may be more likely to elect post-employment health coverage than they otherwise would have.

The most recent OPEB valuation (June 30, 2019) assumed enactment of Chapter 767 of 2019 (retirees prescription reimbursement plans) would take effect January 1, 2021, and the Employer Group Waiver Plan (EGWP) would be terminated (Scenario A). However, in the event the State loses *Fitch v. State of Maryland,* the OPEB impact of HB 1073 compared to EGWP continuing indefinitely has also been evaluated (Scenario B).

The net OPEB liability would increase by $48,200 per active participant and $9,300 per terminated vested participant in the first year under Scenario A, and by $54,400 per active and $11,600 per terminated vested in the first year under Scenario B. The Department does not have information on how many individuals would qualify under the legislation. For illustrative purposes, 100 active members and 50 former members would result in an increase of $5.3 million in the net OPEB liability in the first year under Scenario A and $6 million under Scenario B.

As of June 30, 2019, the State's net OPEB liability was $14.3 billion and reflects a 2.4% funded ratio. High unfunded liabilities can be a cause of concern for rating agencies and threaten the State's AAA bond rating.

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