HB 1182

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 1182 (Delegate Heller)
Appropriations

University of Maryland Police Officers - Pensions and Retirement

This pension bill authorizes certain members of the University of Maryland police force to participate in the Law Enforcement Officers' Pension System (LEOPS). The bill is effective July 1, 1998.

Fiscal Summary

State Effect: Increased general fund expenditures for employer pension contributions of $1.3 million beginning in FY 1999 for pension normal costs, increasing to $1.8 million in FY 2000 due to increased actuarial liabilities, and increasing 5% per year thereafter.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	$0	$0	$0	$0	$0
GF ...	$1,253,100	$1,830,800	$1,922,300	$2,018,400	$2,119,400
Net Effect	($1,253,100)	($1,830,800)	($1,922,300)	($2,018,400)	($2,119,400)

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: None.

Small Business Effect: None. This bill would not directly affect small businesses.

Fiscal Analysis

State Expenditures: Under current law, University of Maryland police officers are members of the Employees' Pension System (EPS) or Employees' Retirement System (ERS). Under this proposal, current University of Maryland police officers (employed by University of Maryland on or before June 30, 1998) would have the option to transfer to the LEOPS, which offers unreduced retirement benefits after 25 years (versus 30 years in the EPS) and more generous benefits. Future University of Maryland police officers would be in the LEOPS.

Current University of Maryland police officers would not be allowed into the LEOPS if they transferred from the ERS to the EPS on or after December 1, 1996. This prevents these police officers from receiving a transfer refund of employee contributions by switching to the EPS, and then transferring to the LEOPS, where they would receive no reduction for their lack of employee contributions. The bill also requires an asset transfer from the ERS and EPS to the LEOPS of accumulated employer contributions plus interest for the members who transfer.

The University of Maryland police force consists of approximately 255 officers. The average salary is estimated to be $35,659; average years of service is 12.02 years. Fiscal 1996 payroll is estimated to be $9,100,000. While this bill has not been forwarded to the State's actuary for a detailed actuarial analysis, based on a study performed by the actuary for the University of Maryland in 1993, the actuary was able to offer an informal estimate. The actuary estimates that the net increased actuarial liabilities to the State pension system under the proposal would be $8.8 million. These net additional liabilities reflect additional liabilities to LEOPS offset somewhat by decreased liabilities to the EPS. The $8.8 million liability is amortized over 20 years from fiscal 2000 through 2020. The first year amortization payment is estimated at $515,000 beginning in fiscal 2000, and increasing approximately 5% per year thereafter.

In addition, the normal cost of employer contributions -- the amount the employer must contribute to fund future benefits exclusive of existing liabilities -- will increase from 6% of payroll (under the EPS) to 18.5% (under LEOPS), for an additional normal cost of 12.5% of payroll permanently. This amount is estimated at $1,253,100 beginning in fiscal 1999, also increasing 5% per year thereafter. In total, employer contributions are estimated to increase $1,253,100 in fiscal 1999, increasing to $1,830,800 in fiscal 2000, increasing 5% per year thereafter.

University of Maryland System (UMS) police officers are State-supported positions within the UMS. It is therefore assumed that the State would provide additional general funds for the additional pension costs. If the State were not to provide such funds, then the UMS would be obliged to fund the costs from other sources, i.e., increased tuition and fees, or cost-cutting in other areas.

Information Source(s): State Retirment Agency, Milliman & Robertson, Inc., Department of Fiscal Services

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