

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 334 (Senator McFadden, *et al.*)
Budget and Taxation

Referred to Appropriations

Law Enforcement Officers' Pension System - Membership

This amended pension bill authorizes certain Baltimore City Deputy Sheriffs to become members of the Law Enforcement Officers' Pension System (LEOPS). It also requires that law enforcement officers of the Department of Natural Resources (DNR) and Maryland Investigation Services (MIS) who are currently eligible for LEOPS to elect membership by December 31, 1997.

Fiscal Summary

State Effect: Increased general fund expenditures for employer pension contributions of \$296,900 in FY 1998 due to higher normal costs, increasing to \$445,500 in FY 1999 due to higher actuarial liabilities, and increasing 5% per year thereafter.

| (in dollars) | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 |
|-----------------|-------------|-------------|-------------|-------------|-------------|
| GF Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditures | \$296,900 | \$445,500 | \$467,100 | \$490,500 | \$514,800 |
| Net Effect | (\$296,900) | (\$445,500) | (\$467,100) | (\$490,500) | (\$514,800) |

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

Local Effect: None. This bill would not impact expenditures by Baltimore City because the State already pays the employer pension contributions for Baltimore City Deputy Sheriffs.

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

Fiscal Analysis

Background: Currently, Baltimore City Deputy Sheriffs are members of the Employees' Retirement System (ERS) or Employees' Pension System (EPS) participating as "State" employees. Although Baltimore City pays the salaries and most fringe benefits, the State currently pays the employer's contribution for retirement benefits. Both the ERS and EPS

require 30 years of service for an unreduced retirement benefit, while the LEOPS allows for an unreduced benefit after 25 years of service.

State Expenditures: Under the proposed legislation, Baltimore City Deputy Sheriffs employed on June 30, 1997 would have the option of joining the LEOPS. Deputy sheriffs employed after that date would be enrolled in the LEOPS. The bill provides for a transfer of assets from the ERS and EPS to the LEOPS based on the employer contributions plus interest for the employees who transfer. Eligible deputy sheriffs would have until December 31, 1997 to elect membership in the LEOPS. Current deputy sheriffs would not be allowed into the LEOPS if they transferred from the ERS to the EPS on or after December 1, 1996. This prevents the deputy sheriffs from receiving a transfer refund by switching to the EPS, and then transferring with no reduction to the LEOPS.

There are currently 74 positions in the Baltimore City Sheriff's Office. The average salary for these positions is \$32,769. Total payroll is approximately \$2.5 million. It is estimated that 85% of the deputy sheriffs participate in EPS and 15% participate in the ERS. The employer contribution rate for the two employees' systems is 8.21% for fiscal 1998; the rate for LEOPS is 26.27%. While this bill has not been forwarded to the State's actuary for a detailed actuarial analysis, based on data from the Retirement Agency and an estimate on a similar bill from the 1996 session, the actuary was able to offer an informal estimate. The actuary estimates that the net increased actuarial liabilities to the MSRPS under the proposal would be \$2.3 million. These net additional liabilities reflect additional liabilities to LEOPS offset somewhat by decreased liabilities to the EPS. The \$2.3 million liability would be amortized over 21 years through the year 2020. The first year amortization payment is estimated at \$133,000 beginning in fiscal 1999, 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. This amount is estimated at \$296,900 beginning in fiscal 1998, also increasing 5% per year thereafter permanently. In total, employer contributions are estimated to increase \$296,900 in fiscal 1998, increasing to \$445,500 in fiscal 1999, and increasing 5% per year thereafter.

Any increase in employer contributions resulting from requiring eligible DNR and MIS police to transfer to LEOPS by December 31, 1997 is expected to be minimal.

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

Fiscal Note History: First Reader - February 4, 1997
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