HB 734

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 734 (Delegate A. Jones, *et al.*)
Appropriations

Correctional Officers' Retirement System - Transfer of Service Credit from Employees' Pension System

This pension bill authorizes a member of the Correctional Officers' Retirement System to receive eligibility service credit for service transferred from the Employees' Pension System if the member was vested but the membership in the Employees' Pension System was terminated as a result of being laid off for nondisciplinary reasons.

The bill takes effect July 1, 1999.

Fiscal Summary

State Effect: Increase in pension liabilities of $3.1 million, resulting in an increase in annual employer pension contributions of $193,000 (all funds) beginning in fiscal 2001, and increasing thereafter based on actuarial assumptions.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
All Revenues	$0	$0	$0	$0	$0
All Expenditures	0	193,000	203,000	213,000	223,000
Net Effect	$0	($193,000)	($203,000)	($213,000)	($223,000)

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

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

State Expenditures: Under current law, correctional officers serving in any of the first six job classifications, and security attendants at Clifton T. Perkins Hospital Center, are eligible for membership in the Correctional Officers' Retirement System (CORS). CORS is a contributory system; members contribute 5% of their annual salary. Members are eligible for a service retirement benefit with 20 years of creditable service, of which the last five must be as an eligible correctional officer, security attendant, or a combination of these positions. Correctional officers qualify for a vested benefit at age 55 with at least five years of creditable service. Security attendants at Clifton T. Perkins Hospital Center are eligible to collect a vested benefit at age 60. Retirees of CORS receive an unlimited, compound cost of living adjustment.

Under current law, if correctional officers transfer from the Employees' Pension System (EPS), those officers may transfer service credits from the EPS to CORS provided (1) there is no break in employment (less than 30 days); and (2) the correctional officers apply to transfer their past credits within one year of enrolling in CORS. If there is a break in employment - a break of more than 30 days - then the correctional officers cannot transfer service credits.

This proposal would permit correctional officers to transfer service credits from the EPS to CORS even with a break in employment provided (1) the correctional officers are vested in the Employees' Pension System; and (2) they were terminated as a result of lay offs for non-disciplinary reasons.

This bill would affect Division of Correction employees who (1) were laid off (primarily as a result of budget reductions in the early 1990s); (2) were division employees other than correctional officers such as teachers, librarians, etc.; (3) have become employed again with the Division of Correction; and (4) subsequently became correctional officers. The Retirement Agency advises that it has identified 39 correctional officers who have vested accounts in the EPS. Since the average EPS member has 11.9 years of service, and since vesting requires a minimum of five years, it is reasonable to assume this group averaged eight years of service when they were laid off. Past and current salaries are unknown.

The employer contribution rate for participation in CORS is the same as the contribution rate for the employees' retirement and pension systems (blended in the employees' system rate). Thus, the additional liabilities associated with this proposal will not affect the Department of Public Safety and Correctional Services directly, but will be spread across all agencies with employees that participate in the employees' systems.

The bill has not been presented to the State's actuary for a formal actuarial analysis. Based on the above demographic information, however, the actuary informally estimates that the proposal will increase system liabilities by $3.1 million. Amortizing these liabilities over 19 years (through fiscal 2020) results in a first-year amortization payment of $193,000 in fiscal 2001. These amortization payments would increase by more than 5% per year because the blended employees' rate does not reflect, and underestimates, the true cost of the CORS benefit provided to these employees.

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

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