

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE
Revised

House Bill 605 (Chairman, Appropriations Committee)
 (Departmental - Budget and Management)

Appropriations

**Law Enforcement Officers' Pension System - Police Officers and Fire Rescue
 Employees - Membership**

This departmental bill expands membership in the Law Enforcement Officers' Pension System (LEOPS) to include members of the BWI Airport Fire and Rescue Department and police officers of the Department of General Services; the Department of Health and Mental Hygiene; the Motor Vehicle Administration; and the Department of Labor, Licensing, and Regulation.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: Pension contributions will increase by \$1.1 million in FY 2001 due to an increased employer pension contribution rate for these employees. Based on enactment of the LEOPS enhancement (HB 604), pension liabilities and normal costs would increase by \$11 million, resulting in increased pension contributions of \$1.8 million in FY 2002, increasing 5% per year thereafter.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
All Revenues	\$0	\$0	\$0	\$0	\$0
GF Expend.	745,600	1,170,000	1,228,500	1,289,900	1,354,400
SF Expend.	401,500	630,000	661,500	694,600	729,300
Net Effect	(\$1,147,000)	(\$1,800,000)	(\$1,890,000)	(\$1,984,500)	(\$2,083,700)

*Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect
 Numbers may not total due to rounding.*

Local Effect: None.

Small Business Effect: The Department of Budget and Management has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: Under this proposal, these fire rescue and police officers employed on or before June 30, 2000, would have the option (until December 29, 2000) to transfer to the LEOPS. Future employees would be in the LEOPS.

Current personnel would not be allowed into the LEOPS if they transferred from the Employees' Retirement System (ERS) to the Employees' Pension System (EPS) on or after April 1, 1998. This prohibition prevents these personnel 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.

LEOPS members, upon reaching age 62, currently receive 1% of average final compensation up to the Social Security Integration Level and 1.7% of average final compensation in excess of the integration level, for each year of service. From the period from retirement to age 62, the member receives a supplement so that the total benefit equals 1.7% of average final compensation for each year of service until the member reaches age 62 (and becomes eligible for Social Security).

The integration level in calendar 2000 is \$33,000. The average salary for a LEOPS member is \$43,277; based on that salary, the annual benefit for 25 years of service would be \$12,625 and for 30 years would be \$15,141 (or about 1.2% of average final compensation for each year of service).

Members are eligible for normal service retirement at 25 years of service or age 50 (not changed under bill). Members pay no employee contribution for salary up to the Social Security Wage Base (currently \$76,200) and 5% of compensation above the wage base. LEOPS members participate in Social Security, and this would not change under the bill. LEOPS members receive a 3% simple COLA.

Current Law: The fire rescue and police officers covered under the bill are currently

members of the EPS (or in some cases, the ERS for older employees who did not transfer to EPS).

The EPS is a “30 and out” retirement plan that provides a benefit equal to 1.4% of average final compensation for each year of service after July 1, 1998, and 1.2% of average final compensation for each year of service prior to that date. A 2% member contribution is required. The plan provides a 3% compound cost-of-living adjustment (COLA).

Background: This bill was the product of collective bargaining negotiations between the Governor and the employees’ representatives.

History of LEOPS

The LEOPS system was created in 1994 as the “Natural Resources Pension System” for sworn law enforcement officers and rangers of the Department of Natural Resources. It has since been expanded to other State and local law enforcement officers and was renamed in 1996. The current membership of LEOPS is illustrated below.

Membership in Law Enforcement Officers’ Pension System		
Group	Inclusion Legislation	Members
DNR Rangers and Police	Ch. 6 of 1994	387
Comptroller’s Office - Maryland Investigative Services Unit	Ch. 438 of 1996	10
Baltimore City Deputy Sheriffs	Ch. 162 of 1997	84
Maryland Transportation Authority	Ch. 149 of 1997; Ch. 514 of 1998 (for port police, merged into MdTA)	345
State Fire Marshal and Deputy Fire Marshals	Ch. 554 of 1998	33
University System of Maryland	Ch. 390 of 1998 (but effective 7/1/99)	220
Morgan State University	Ch. 10 of 1999	25
Retirees, Former Vested Members, and Miscellaneous	--	203
Total		1,307

Comparison versus other State pension systems

Currently, sworn law enforcement officers employed by the State are in three different pension systems. The table below compares the employer costs and employee benefits of each of the three plans.

Comparison of State Pension Systems for Law Enforcement Officers					
System	Member-ship	Employee Contribution	FY 2001 Employer Contribution	Benefit at retirement (assuming 25 years and age 55) as % of AFC*	Benefit at Age 62
State Police Retirement System	2,962	8%; no Soc. Sec.	8.44%; no Soc. Sec.	64% of AFC	64% of AFC
LEOPS (includes DNR police and rangers; Balto. deputy sheriffs; MdTA police; Comptroller's investigators; university police)	1,307	No contribution up to Soc. Sec. wage base (\$33,000), 5% thereafter; plus 6.2% Soc. Sec. contribution	23.38%; plus 6.2% Soc. Sec.	43% of AFC	30% of AFC plus estimated 20% of AFC from Soc. Sec.
Employees' Pension System	78,923	2%; plus 6.2% Soc. Sec.	5.71%; plus 6.2% Soc. Sec.	20% of AFC (after early retirement reduction)	20% of AFC plus 20% of AFC from Soc. Sec. (after early retirement reduction)

* AFC = average final compensation

State Expenditures: Membership in LEOPS would be expanded to cover the following additional State employees.

Group	Number of Employees	Total Payroll
Dept. of General Services Police	52	\$1,927,403
Motor Vehicle Administration Police	5	\$170,563
BWI Fire & Rescue Department	54	\$2,172,466
Dept. of Health and Mental Hygiene Police	52	\$1,829,988
Dept. of Labor, Licensing, and Regulation Police	11	\$390,808
Total	174	\$6,491,228

It is assumed that all 174 police and fire/rescue personnel would transfer to LEOPS. As a result of the change, the fiscal 2001 employer contribution rate for these officers will increase from 5.71% of pay (under EPS) to 23.38%, an increase of 17.67% of pay per year. This amount is estimated at \$1.1 million for fiscal 2001 only.

Another bill, HB 604, was also developed as part of collective bargaining and would enhance the benefit structure of LEOPS. The actuary informally estimates that the net increased actuarial liabilities and additional normal costs to the State Retirement and Pension System of Maryland under the proposal would be approximately \$11 million (including the additional liabilities to LEOPS offset somewhat by decreased liabilities to the employees' systems). The actuarial liabilities are amortized over 19 years through the year 2020. The total ongoing cost of the enhancement is estimated at \$1.8 million beginning in fiscal 2002, and increasing approximately 5% per year thereafter. This includes the amortization payment plus the difference in normal costs between EPS and LEOPS. These costs are estimated to be 65% general fund and 35% special fund.

The State Retirement Agency advises that it would incur administrative expenses in transferring these employees from EPS to LEOPS, resulting in an additional \$10,000 in special fund expenditures.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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