

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

Senate Bill 175 (Senator Exum. *et al.*)

Budget and Taxation

**Law Enforcement Officers' Pension System - Participation by Eligible
Governmental Units Subject to Required Member Contributions**

This pension bill allows a local governmental unit to participate in the Law Enforcement Officers' Pension System (LEOPS) with a reduced employer contribution that is offset by a 6% employee contribution.

Fiscal Summary

State Effect: None. This bill does not affect the State component of the State Retirement and Pension System. Administrative changes by the State Retirement Agency could be handled with existing resources.

Local Effect: Reduction in employer contributions of 5.4% of pay for a unit of local government that participates in the local LEOPS pension system and opts to require its members to make an employee contribution.

Small Business Effect: None.

Analysis

Current Law: Local governments have the option to participate in LEOPS, which is a State pension system that offers a "25-and-out" retirement and other benefits tailored to law enforcement officers. LEOPS' current membership includes sworn law enforcement officers from the Department of Natural Resources, the University System of Maryland, the Maryland Transportation Authority, and certain other State law enforcement units. LEOPS provides full retirement benefits after 25 years of service or at age 50. The benefit is 1% of average final salary up to the Social Security Integration Level (SSIL), and 1.7% for average final salary in

excess of the SSIL, multiplied by the years and months of service. There also is a supplemental benefit from the date of retirement until age 62 (eligibility for Social Security), bringing the total benefit during that period to 1.7% on all salary. LEOPS provides enhanced death and disability benefits reflecting the hazardous nature of law enforcement.

The employer contribution rate for the system is 22.96% of compensation for fiscal 2000 and 23.38% of compensation for fiscal 2001. There is no member contribution for members who make less than the Social Security Wage Base (currently \$76,200).

Background: Chapter 494 of 1998 allowed local governmental units to participate in LEOPS, which previously had been available to units of State government only. Partly because of the relatively high employer contribution rate, however, no local government has enrolled.

State Expenditures: The Retirement Agency estimates data programming costs associated with altering employee contribution rates at \$50,000. The Department of Legislative Services advises that under the agency's new computer system, changes to the pension system's benefit structure should be relatively easy to make. Legislative Services estimates that the changes under this bill could be absorbed within existing resources.

Local Expenditures: Under the proposal, a governmental unit will have the option to participate in LEOPS: (1) under the current structure (no employee contribution); or (2) under a structure in which the employee will contribute 6% of compensation. Under the latter structure, the governmental unit's contribution rate will be adjusted by the State's actuary to reflect the member contributions.

The State's actuary estimates that the fiscal 2001 employer contribution rate under the bill will be 17.98% of salary, a reduction of 5.4% versus the current rate. The decrease for the employer is less than 6% because a portion of employee contributions are ultimately refunded to members who quit prior to vesting. Employer contributions, on the other hand, are not refundable. Under the bill, a 17.98% employer contribution plus 6% employee contribution will provide the same level of contributions as the current 23.38% employer rate, assuming a 90% retention rate among the employees of the participating employer.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 1, 2000

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