SB 300

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

Senate Bill 300 Senator Currie, et al.)
Budget and Taxation Appropriations

Law Enforcement Officers' Pension System - Benefits

This pension bill increases the benefit formula of the "retirement tier" of the Law Enforcement Officers Pension System (LEOPS) from a 2.0% accrual rate to 2.3% of a member's average final compensation for each year of service.

The bill takes effect July 1, 2001.

Fiscal Summary

State Effect: State pension liabilities would increase by $4.6 million, resulting in additional pension contributions of $327,400 (all funds) in FY 2003. Future year payments would increase by 5% per year based on actuarial assumptions.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	$0	$0	$0	$0	$0
GF/SF/FF Exp.	0	327,400	343,800	361,000	379,000
Net Effect	$0	($327,400)	($343,800)	($361,000)	($379,000)

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

Local Effect: None. The only local government that participates in LEOPS has no employees who would be affected by the bill.

Small Business Effect: None.

Analysis

Bill Summary: The bill also provides that a member of LEOPS who did not elect to participate in the Law Enforcement Officers' Modified Pension Benefit under Chapter 395 of 2000 will receive each benefit enhancement added on or after July 1, 2001 to the Law Enforcement Officers' Modified Pension Benefit.

Current Law: Membership in the Law Enforcement Officers Pension System (LEOPS) includes the following public safety employees:

- Department of Natural Resources police and rangers;
- Maryland Investigative Services Unit officers (Comptroller's Office);
- Maryland Transportation Authority police officers;
- Baltimore City Deputy Sheriffs;
- University of Maryland police officers;
- Morgan State University police officers;
- State Fire Marshal and Deputy State Fire Marshals;
- law enforcement officers employed by a participating governmental unit that on or after July 1, 1999 has elected to participate in LEOPS;
- Maryland Aviation Administration Fire Rescue Service officers;
- Department of General Services police officers;
- Department of Health and Mental Hygiene police officers;
- Motor Vehicle Administration police officers; and
- Department of Labor, Licensing, and Regulation police officers.

When these agencies became eligible to enroll their law enforcement officers in LEOPS, their existing officers -- who were members of the Employees' Retirement System (ERS) or the Employees' Pension System (EPS) -- were eligible to transfer from the employees' systems to LEOPS. New law enforcement personnel automatically became members of the LEOPS at employment.

The majority of LEOPS members who transferred from an employee system came from the EPS. These transferees and all new enrollees in LEOPS receive the "LEOPS pension tier" benefit structure. They may retire with full benefits at age 50 or with 25 years of service, regardless of age. Chapter 395 of 2000 provided enhanced pension benefits, including a higher benefit multiplier to the LEOPS pension tier members. There is now a 4% mandatory employee contribution on annual salary beginning July 1, 2000. Chapter 395 increased the benefit formula to provide 2% of average final compensation (AFC) for each year of service up to a maximum 30 years. (Thus, the members' annual basic allowance may not exceed 60% of AFC.) Certain other benefits were added, including establishment of a Deferred Retirement Option Program (DROP).

A much smaller group (currently 59 law enforcement officers) transferred from the ERS, and receives a "LEOPS retirement tier" benefit structure. LEOPS retirement tier members receive 2% of AFC for the first 30 years of membership and 1% of AFC for each year over 30. Their contribution rate remains the same as their contribution rate in the ERS (5% or 7% of annual earnable compensation).

Background: LEOPS retirement tier members did not receive an increase to their basic pension benefit formula under Chapter 395, although other provisions of the bill did affect them, including the increased disability benefits and participation in DROP. They therefore receive the same benefit for the first 30 years of employment (60% of AFC) as LEOPS pension tier members. LEOPS retirement tier members have contributed 5% to 7% of compensation throughout their career, while LEOPS pension tier members have contributed only 4% of pay since July 1, 2000. LEOPS retirement tier members do, however, receive a cost-of-living adjustment that is either up to 5% per year or unlimited (depending on their selected option), while LEOPS pension tier members receive up to a 3% COLA.

Under Chapter 395, LEOPS retirement tier members had the option to elect (with an irrevocable decision on or before December 31, 2000) to participate in the enhanced LEOPS pension tier. If these members elected to transfer to LEOPS pension tier, they would not have received a refund of any portion of their prior 5% to 7% employee contributions. As a result, few or no LEOPS retirement tier members transferred.

State Expenditures: There are 59 LEOPS retirement tier members eligible for this bill with an average salary of $61,000 and 24 years of service. The State's actuary informally estimates that system liabilities would increase by $4.6 million. Amortizing these liabilities over 18 years (through fiscal 2020) would result in additional pension contributions of $327,400 in fiscal 2003. Future year payments would increase by 5% per year based on actuarial assumptions.

The bill also requires that LEOPS retirement tier members receive any future benefit increases that are given to LEOPS pension tier members. It is not clear how this provision would be administered, or what the fiscal impact of it would be.

The State Retirement Agency advises that the change in benefits will result in additional computer programming costs of $300,000 and $5,000 in administrative costs. Legislative Services notes that the proposed benefit structure change is straightforward and that the agency could make the necessary changes with existing budgeted resources.

Local Expenditures: Currently, only the City of Cambridge participates in LEOPS. None of the city's LEOPS members are in the LEOPS retirement tier; hence, the city's contribution rate would not be affected.

Additional Information

Prior Introductions: None.

Cross File: HB 315 (Delegate Branch, *et al.*) – Appropriations.

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

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ef/jr

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