SB 530

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

Senate Bill 530 (Senators Exum and Currie)
Budget and Taxation

Law Enforcement Officers' Pension System - Transfers of Members of the Mass Transit Police Force

This pension bill includes members of the Mass Transit Administration (MTA) police force in the Law Enforcement Officers' Pension System (LEOPS).

The bill takes effect July 1, 2001.

Fiscal Summary

State Effect: State pension contributions by the Mass Transit Administration (Transportation Trust Fund) would increase in FY 2002 to reflect the higher contribution rate for LEOPS members. In addition, State pension liabilities would increase by $19.6 million, resulting in increased employer pension contributions by the Mass Transit Administration of $3.0 million beginning in FY 2003, and increasing 5% per year thereafter based on actuarial assumptions.

($ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	$0	$0	$0	$0	$0
SF Expenditure	1.8	3.0	3.2	3.3	3.5
Net Effect	($1.8)	($3.0)	($3.2)	($3.3)	($3.5)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Under this proposal, the MTA police officers would have the option (at least through December 31, 2001) to transfer to LEOPS. Future employees would be in the LEOPS. The bill also requires an asset transfer from the officers' current pension system to LEOPS of accumulated employer contributions plus interest for the members who transfer.

Current Law: MTA police officers are currently in the same pension plan as other MTA employees. This plan is collectively bargained and does not include management employees. A member is eligible for a normal service retirement at age 52 with 30 years of service or at age 65 with five years of service. The benefit equals 1.3% of average final compensation times years of service; however, there is a minimum benefit of $450 per month and a current maximum benefit (adjusted annually as part of collective bargaining) of $45 per month times years of service. There is no mandatory employee contribution; however, the employee may contribute to fund a death benefit. The plan's assets are invested by the State Retirement and Pension System (SRPS) although the plan is not a part of the SRPS. Milliman & Robertson, Inc., the SRPS's actuary, also provides actuarial services to the MTA plan.

The actuary advises that 99% of MTA police officers receive the maximum benefit at the time of retirement, which for the current year would be $540 per year for each year of service ($45 times 12 months).

Background: LEOPS members may retire with full benefits at age 50 or with 25 years of service, regardless of age. There is a 4% mandatory employee contribution. The benefit formula provides 2% of average final compensation (AFC) for each year of service up to a maximum 30 years (or 60% of AFC). LEOPS members are eligible for a Deferred Retirement Option Program (DROP), which allows them to technically "retire" while continuing to work, with their accrued pension benefits accumulating in an account for payment at termination of employment.

Membership in 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 of an electing governmental unit;
- 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.

State Expenditures: There are currently 152 police officers employed by the MTA, with an average salary of $43,600. It is assumed that all 152 officers would transfer to LEOPS. The MTA plan's employer contribution is currently not calculated as a percentage of pay; rather, the MTA pays its contribution on a flat dollars-per-person basis. Converted to a percentage basis, the contribution to fund pensions for active police officers equals approximately 5.3% of payroll. As a result of the change, the fiscal 2002 employer contribution rate for these officers will increase from approximately 5.3% of pay to 32.41% (the LEOPS contribution rate), an increase of 27.11% of pay per year. This amount is estimated at $1.8 million for fiscal 2002 only.

The actuary informally estimates that the net increased actuarial liabilities and additional normal costs under the proposal would be approximately $19.6 million (including the additional liabilities to LEOPS offset somewhat by the transfer of assets from the MTA plan). The actuarial liabilities are amortized over 18 years through the year 2020.

The MTA currently budgets a fixed amount for pensions. Because almost all employees receive the maximum benefit, these costs only increase for growth in payroll (not accounted for here) and increases in the collectively bargained maximum benefit. Since 1983, the maximum benefit has increased each year by approximately one dollar per month of service). Given that pattern, Legislative Services believes that it is reasonable to forecast similar growth in the future, although any deviation from that pattern of collective bargaining would change future costs accordingly.

The annual ongoing cost of the enhancement (including the amortization payments plus the difference in normal costs between the MTA plan and LEOPS) is estimated at $3.0 million beginning in fiscal 2003, increasing approximately 5% per year thereafter. MTA funding comes from the Transportation Trust Fund (special funds).

The State Retirement Agency advises that it would incur $10,000 in additional administrative expenses in transferring these employees from the MTA plan to LEOPS.

Additional Information

Prior Introductions: None.

Cross File: HB 917 (Delegate Hutchins) Appropriations.

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

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ef/jr

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