HB 361

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 361 (Delegate Cadden, *et al.*)
Appropriations

State Police Retirement System - Benefits

This pension bill increases the benefit of State Police Retirement System service retirees and beneficiaries by 13% on July 1, 2001, in addition to any cost-of-living adjustment (COLA) these retirees and beneficiaries would have otherwise received.

The bill takes effect July 1, 2001.

Fiscal Summary

State Effect: State pension liabilities would increase by $43.3 million, resulting in increased employer pension contributions by the Department of State Police (general funds) of $3.1 million beginning in FY 2003, and increasing 5% per year thereafter based on actuarial assumptions.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	3,070,000	3,224,000	3,385,000	3,554,000
Net Effect	$0	($3,070,000)	($3,224,000)	($3,385,000)	($3,554,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Retirees of the State Police Retirement System receive a compounded unlimited cost of living adjustment (COLA) during retirement. To receive the annual COLA, a retiree must be retired at least one full year as of July 1. If a retiree does not meet this criteria, then the first COLA is payable the following July.

Background: Chapter 122 (SB 141) of 1999, in addition to increasing the pension benefit provisions for active members of the State Police system, provided retirees and beneficiaries (including disability retirees and their beneficiaries) of the system who retired on or before June 30, 1999 with an adjustment to their service retirement benefit based on the years retired. Retirees who were retired 5 years or less received a $1,200 annual increase; those with more than 5 years but not more than 10 years received a $1,500 annual increase; those with more than 10 years but not more than 15 years received an $1,800 annual increase; and those with more than 15 years received a $2,100 annual increase. Retirees receive a prospective annual unlimited COLA on this adjustment in addition their existing benefit and COLA.

State Expenditures: Under this proposal, a State Police retiree or beneficiary of a retiree who retired on or before June 30, 1999 with a service retirement will receive a special retirement allowance adjustment as of July 1, 2001, equaling 13% of the retiree's or beneficiary's current retirement allowance. While the proposal does not define "current retirement allowance," the Retirement Agency interprets this to include all previous adjustments including accumulated COLAs (gross annual benefit). Retirees would therefore receive a prospective annual unlimited COLA on this lump sum adjustment in addition to: (1) the basic benefit; (2) the adjustment under Chapter 122 of 1999; and (3) the accumulated COLAs on the basic benefit and 1999 adjustment.

There are currently 1,388 retirees and beneficiaries of the State Police Retirement System with an average retirement allowance of $29,701. The State's actuary informally estimates that increasing the benefit for service retirees would result in an increase in system liabilities of $43.3 million. Amortizing these liabilities over 18 years (through fiscal 2020) would result in additional pension contributions of $3.1 million in fiscal 2003. Future year payments would increase by 5% per year based on actuarial assumptions.

The State Retirement Agency advises that there would be administrative expenditures associated with reprogramming the benefit allowance and COLA in the agency's new computer system. The agency notes that the cost of such programming changes is determined by the vendor, and could total $100,000. Legislative Services believes that such programming costs are excessive given the straightforward proposed change in benefits. The agency also advises that there will be administrative expenditures to process the benefits manually prior to the “go live” date (October 1, 2001) for the new computer system. Such costs could total $16,000 to employ three contractual fiscal analysts for 800 hours each.

Additional Comments: The benefit adjustment under this bill applies to service retirees and beneficiaries; it does not apply to disability retirees and their beneficiaries.

Additional Information

Prior Introductions: None.

Cross File: SB 364 (Senator Lawlah, *et al.*) **-** Budget and Taxation.

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

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