Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

Senate Bill 7 (Senator Exum)
Budget and Taxation

Law Enforcement Officers' Pension System - Contributions

This pension bill changes the employee contribution rate for members of the Law Enforcement Officers' Pension System (LEOPS) to 8% of earnable compensation. (The current contribution rate for LEOPS members ranges between 4% and 7% of pay.) The bill also requires the State to pay pension contributions to LEOPS on behalf of local governments that participate in LEOPS (“Local LEOPS”) if the Local LEOPS contribution rate exceeds 28% of pay.

The bill takes effect July 1, 2001.

Fiscal Summary

State Effect: State aid to Cambridge, the only local government currently participating in LEOPS, would increase by $64,000 in FY 2002, and is estimated to be one-time only, depending on the contribution rate certified for Local LEOPS. Beginning in FY 2003, State contributions would decrease by $2.1 million due to increased employee contributions, increasing 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 Expenditure	64,000	(2,100,000)	2,200,000	2,300,000	2,400,000
Net Effect	($64,000)	$2,100,000	($2,200,000)	($2,300,000)	($2,400,000)

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

Local Effect: Local governments participating in Local LEOPS would receive additional aid from the State of approximately $64,000 in FY 2002. In FY 2003, employer contributions would decrease by $69,000, due to increased employee contributions, increasing 5% per year based on actuarial assumptions.

Small Business Effect: None.

Analysis

Bill Summary: The bill requires that for each fiscal year in which the sum of the normal contribution rate and the accrued liability rate exceeds 28%, the State must pay an amount equal to the excess over 28% of the sum of the normal contribution rate and the accrued liability rate multiplied by the aggregate annual earnable compensation of the employees of a participating governmental unit who are members of the Law Enforcement Officers' Pension System. Such payments by the State would reduce the participating governmental unit contribution, not the employees' contributions. The State's contribution on behalf of the local governments would be limited to 4% of pay.

Current Law: LEOPS members currently make varying contributions depending on which "tier" of LEOPS they are enrolled. Members of the "pension" tier contribute 4% of pay. Members of the "retirement" tier contribute 7% of pay if they elect to receive an unlimited cost-of-living adjustment (COLA) and 5% of pay if they elect a COLA capped at 5%.

Background: Chapter 494 of 1998 opened the LEOPS plan to participating local governments. Participation in the plan is at the local government's (not the State's) expense, and these assets and liabilities are part of the municipal pool within the SRPS. The State's actuary preliminarily estimates that the employer contribution rate for Local LEOPS will be 31.83% in fiscal 2002, which is similar to the State LEOPS rate of 32.41% in fiscal 2002. Because of the high contribution rate, relatively few local jurisdictions have elected to join Local LEOPS. Currently, the City of Cambridge is the only participant, with 45 members and a payroll of $1.6 million.

State Expenditures: The fiscal impact of the bill's components will be felt at different times due to the State's method of financing the SRPS.

Fiscal 2002 Impact

Beginning July 1, 2001, the SRPS would collect 8% of member compensation as the employee contribution, versus the current range of contributions. In general, increased employee contributions result in lowered employer contributions. Because, however, the State's fiscal 2002 employer contribution rate for LEOPS (32.41%) has already been certified and cannot be changed, the impact on the State's contribution rate will not be felt until fiscal 2003. Thus, the State would collect an additional $1.98 million above the total collections necessary, which would act as an actuarial gain to the system. This gain would be amortized over 18 years, through fiscal 2020, and result in a minimal decrease in actuarial costs each year over that period.

Similarly, the fiscal 2002 Local LEOPS employer rate would not be adjusted for the increased employee contributions; this rate reduction would be felt in 2003. As a result, the provision requiring the State to pay the additional local contributions above 28% of pay would trigger in fiscal 2002. The State would be required to pay $64,000 of Cambridge's employer cost. This estimate is based on 3.83% of payroll (the portion of the employer contribution rate in excess of 28% up to a maximum of 4%) times the city's fiscal 2002 payroll, and assumes no other local governments join Local LEOPS. (The terms of this bill would make Local LEOPS more attractive to local governments, but Legislative Services cannot anticipate which employers might choose to join.)

Fiscal 2003 Impact

In fiscal 2003, the contributions by the State and the local government(s) would decline to reflect the higher employee contributions. It is estimated that increasing the employee contribution by 4% would result in a decrease of 3.9% in the employer rate (factoring in refunds of employee contributions). In the State's case, this reduced expenditure is estimated to be $2.1 million, increasing 5% per year thereafter based on actuarial assumptions.

Assuming the fiscal 2003 contribution for Local LEOPS declines from 31.83% to under 28%, no additional State contributions on behalf of the participating governments would be required.

Local Expenditures: Expenditures by Local LEOPS employers would not be affected in fiscal 2002, because that contribution rate has been established. The Local LEOPS plan, however, would collect 8% of pay from employees, resulting in a $66,000 actuarial gain, amortized over 20 years for a minimal reduction in employer contributions over that period.

The employer contribution rate would decline in fiscal 2003 from 31.83% to 27.93% to reflect the increased employee contributions, saving the local government(s) approximately $69,000. The local government(s) would also save from any transfers from the State should the rate prove to be above 28%.

Additional Comments: The bill provides for local governments to make contributions up to a rate of 28% of pay for their LEOPS participants, and for the State to make any additional contributions, up to another 4% of pay. It is not clear whether the State or the local government would make any contributions should the rate exceed 32% of pay (28% plus 4%).

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 – January 22, 2001
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