

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

House Bill 1242
 Appropriations

(Delegate McClenahan, *et al.*)

Retirement and Pensions - Military Service Credit - Membership in the United States Coast Guard

This pension bill provides members of the State Retirement and Pension System (SRPS) with four months of military service credit for each year of service with a reserve component of the U.S. Coast Guard, up to a maximum of 36 months of military service credit for such service, with certain conditions.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: State pension liabilities could increase by \$1.4 million from granting additional pension service credit, resulting in increased annual pension contributions of \$78,000 beginning in FY 2004, and increasing 5% per year thereafter based on actuarial assumptions.

| (in dollars) | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|---------------|---------|------------|------------|------------|------------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF/SF/FF Exp. | 0 | 78,000 | 81,900 | 86,000 | 90,300 |
| Net Effect | \$0 | (\$78,000) | (\$81,900) | (\$86,000) | (\$90,300) |

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

Local Effect: For local governments that participate in SRPS, aggregate liabilities could increase by \$139,000, resulting in increased annual pension contributions of \$7,800 beginning in FY 2004, and increasing 5% per year thereafter.

Small Business Effect: None.

Analysis

Bill Summary: For participants in SRPS (including participating governmental unit employees), the bill allows for military credit for service of up to three years with the U.S. Coast Guard reserves. Because these employees are already eligible for service credit for active duty during their two-week training periods, it is assumed that the service credit granted under the bill will apply to general annual participation as members of the reserves. Under the bill, SRPS members could earn credit for their annual participation in the Coast Guard reserves during employment with the State, regardless of the amount of time spent on active duty.

Current Law: Members of a State or local pension system in Maryland may receive up to five years of military service credit for service that interrupts employment. A recent opinion by the Attorney General concludes that this provision also applies to members of the National Guard or a reserve component of the U.S. armed forces who are also State or local government employees: (1) if the member's unit is called into active duty; or (2) during the member's annual two-week training.

In addition, State employees and other participants in SRPS may receive service credit for other military service (not covered under the "interruption" provision discussed above) in a reserve or active component of the U.S. armed forces, such as service prior to State employment, with certain conditions. First, the member may receive such credit only after ten years of creditable service in SRPS. Second, the member may receive a maximum of five years of military credit under this provision. Finally, with certain exceptions discussed below, the member may not receive credit for that military service if the member receives credit for military service from another retirement system for which retirement benefits have been or will be received by the member.

An SRPS member may not receive military credit for military service if the member is eligible for a standard military pension for that service. The "no double-dipping" provision, however, does not apply to a federal military reserve pension, which generally requires 20 years of service. The opinion by the Attorney General concludes that SRPS members with service in the military reserves are eligible for military credit under this provision for the accumulation of their two-week annual training periods.

Background: Unlike current law that requires credit for military service that interrupts employment, which serves to ensure that the employee does not receive less than 12 months for that year, this bill would allow Coast Guard reserves members to receive 16 months of service in a year (12 months of normal service plus 4 months of military service). This pension credit would be in addition to any federal military pension for

which the member is eligible. The bill is therefore parallel to Chapter 699 (HB 897/SB 21) of 2000 which provided similar credit for service in the Maryland National Guard.

State Expenditures: The Coast Guard estimates that there are 8,000 Coast Guard reservists in the United States, of which approximately 1,400 are in the mid-Atlantic region (including 320 reservists in the Maryland/District of Columbia area and others who may reside in Delaware, Pennsylvania, or Virginia but who work full-time for the State, as a Maryland teacher, or with a participating employer in SRPS).

It is estimated that there are 12 members of the military reserves who are also State employee or teacher members of SRPS. This estimate includes SRPS members with ten or more years of State service who are active or former reserves members. These members could apply for credit immediately under the bill. The estimate also includes SRPS members with less than ten years of State service who participate in the reserves and who would be eligible for military credits upon attaining ten years of service.

Assuming that all these State SRPS members have served (or will serve) at least nine years in the reserves, these members would each be eligible for the maximum additional credit of three years of military service credit based on four months for each year of service. The statutory provision limiting total military credit to five years, however, still applies. Because many of these members are assumed to have been in active Coast Guard service prior to joining the reserves (and hence currently eligible to receive military credit for the active duty), it is assumed that these members will receive only an additional two years (less than the full three years) of service on average.

The State's actuary informally estimates that if these SRPS members were to receive an additional two years of military service credit and one more State member of SRPS were to join the reserves each year thereafter, the increased liability to SRPS would be \$1.4 million, which would be amortized over the statutory 25 years, with a first-year cost beginning in fiscal 2004 of \$78,000, increasing 5% per year thereafter. The actuarial impact is based not only on the number of employees, but also on the pension systems in which they participate. Because it is estimated that a relatively high number of reserves members participate in the State Police Retirement System and the Law Enforcement Officers' Pension Systems (LEOPS), the actuarial costs of the additional credit are higher because those systems are more generous.

Local Expenditures: For systems that participate in SRPS, it is estimated that there are two local employees participating in the reserves who may be eligible for the two years of credit, with one member added each year thereafter. The actuary informally estimates that the bill would increase total liabilities by \$139,000 based on these participants. This

amount would be amortized over the next 25 years at a first-year cost of \$7,800 beginning in fiscal 2004. Future year expenditures would increase 5% annually.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Retirement Agency, Milliman USA, Department of Legislative Services

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