SB 652

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

Senate Bill 652 (Senator Lawlah, *et al.*)
Budget and Taxation

State Police Retirement System - Benefits

This pension bill increases the retirement allowance of retirees (and their beneficiaries) of the State Police Retirement System who retired on or before June 30, 1999.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: State pension liabilities would increase by $35.6 million, resulting in increased employer pension contributions by the Department of State Police (general funds) of $2.0 million beginning in FY 2004, and increasing 5% per year thereafter based on actuarial assumptions. Administrative expenditures by the State Retirement Agency could increase by $50,000 in FY 2003.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	1,984,000	2,083,000	2,187,000	2,296,000
SF Expenditure	50,000	0	0	0	0
Net Effect	($50,000)	($1,984,000)	($2,083,000)	($2,187,000)	($2,296,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill provides that retirees, or beneficiaries of retirees, who retired on or before June 30, 1999 with a service retirement allowance, would receive an annual retirement allowance adjustment as follows:

- as of July 1, 2002, equaling 3% of the retiree's or beneficiary's current retirement allowance;
- as of July 1, 2003, equaling 3% of the retiree's or beneficiary's current retirement allowance;
- as of July 1, 2004, equaling 3% of the retiree's or beneficiary's current retirement allowance; and
- as of July 1, 2005, equaling 4% of the retiree's or beneficiary's current retirement allowance.

Retirees or beneficiaries would receive unlimited cost-of-living adjustments (COLAs) on this supplement each year from fiscal 2003 through fiscal 2006.

Current Law: A retiree, or a beneficiary of a retiree, who retired on or before June 30, 1999 with a service retirement is currently entitled to receive an annual retirement benefit equal to approximately 2.2% of average final compensation for each year of service, plus unlimited COLAs on this basic allowance. In addition, these retirees or beneficiaries receive a supplement as of July 1, 1999, as follows:

- $1,200 for a retiree who has been retired not more than 5 years;
- $1,500 for a retiree who has been retired more than 5 years but not more than 10 years;
- $1,800 for a retiree who has been retired more than 10 years but not more than 15 years; and
- $2,100 for a retiree who has been retired more than 15 years.

This supplement is also subject to an unlimited COLA.

Background: Chapter 123 of 1999 enhanced the benefit structure (by increasing the accrual rate and reducing the number of years until full retirement) for active members of the State Police Retirement System and provided the supplement described above to existing State Police retirees and their beneficiaries. The bill was proposed as part of collective bargaining and was amended by the General Assembly to provide the retiree supplement.

State Expenditures: The fiscal estimate described in this fiscal note assumes that the proposed supplement (and COLA) would be in addition to all existing benefits. The total benefit for an eligible service retiree would therefore be calculated as follows: (1) the basic benefit; (2) the accumulated COLAs on the basic benefit; (3) the adjustment under Chapter 122 of 1999; (4) the accumulated COLAs on the 1999 adjustment; (5) the 13% adjustment (over four years) proposed in this bill; and (6) the accumulated COLAs on this adjustment. (See discussion below in Additional Comments regarding this assumption.)

There are 1,013 service retirees and beneficiaries of retirees who retired on or before June 30, 1999. The State's actuary informally estimates that increasing the benefit for service retirees would result in an increase in system liabilities of $35.6 million. Amortizing these liabilities over 25 years would result in additional pension contributions of $2.0 million in fiscal 2004. Future year payments would increase by 5% per year based on actuarial assumptions.

The State Retirement Agency will incur administrative expenditures of approximately $50,000 (for additional computer programming and additional overtime and/or contractual personnel costs) in fiscal 2003, to administer the bill.

Additional Comments: Two additional comments regarding this bill should be noted. First, while the proposal does not define "current retirement allowance," the State Retirement Agency interprets this to include all previous adjustments including accumulated COLAs and the existing supplement (i.e., gross annual benefit). The language of the bill, however, appears to delete the existing supplement. Under a literal reading of the bill, therefore, the new supplement would be applied only to the basic allowance (plus COLAs). The fiscal note does not follow this interpretation, however, because for many retirees, such an interpretation would result in a lower benefit than under current law (if, for example, the proposed 3% increase is less than the existing $2,100 supplement). Thus, the fiscal estimate assumes that the existing supplement remains in place. The bill should be clarified, however.

Also, the benefit adjustment under this bill applies only to service retirees and beneficiaries; it does not apply to disability retirees and their beneficiaries. The fiscal estimate is prepared accordingly.

Additional Information

Prior Introductions: HB 361 of 2001, a similar bill that would have provided a 13% supplement, received an unfavorable report from the House Appropriations Committee.

SB 364 of 2001, its companion bill, received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: HB 1023 (Delegate Dewberry, *et al.*) – Appropriations.

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

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ncs/jr

Analysis by: Matthew D. Riven

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510