

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE
Revised

Senate Bill 594

(Senator Currie)

Budget and Taxation

Appropriations

State Police Retirement System - DROP - Eligibility and Participation

This pension bill alters the eligibility requirements for participation in the Deferred Retirement Option Program (DROP) by members of the State Police Retirement System.

The bill takes effect July 1, 2002 and applies retroactively to current DROP participants.

Fiscal Summary

State Effect: Pension liabilities of the State Police Retirement System could increase by approximately \$826,000, resulting in increased pension contributions by the Department of State Police (general funds) of \$46,000 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
SF Expenditure	0	46,000	48,000	51,000	53,000
Net Effect	\$0	(\$46,000)	(\$48,000)	(\$51,000)	(\$53,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: A member of the State Police Retirement System (including the Secretary of State Police) becomes eligible for DROP if the member has at least 22 years of service and is less than 60 years old. (The existing service ceiling of 28 years is

dropped.) Under the bill, an eligible member may elect to participate in DROP for a period not to exceed the lesser of: (a) four years; (b) the difference between age 60 and the member's age as of the date of election to participate in DROP; or (c) a term selected by the member.

Current Law: Members must have at least 22 but less than 28 years of service and be less than 60 years old to participate in DROP. Eligible members may elect to participate for a period not greater than the lesser of: (a) four years; (b) the difference between 28 years and the member's eligibility service as of the date of election to participate in DROP; (c) the difference between age 60 and the member's age as of the date of election to participate in DROP; or (4) a term selected by the member. The Secretary of State Police is eligible to participate in DROP if the Secretary has at least 22 years of service.

Background: Chapter 123 of 1999 enhanced the benefits of the State Police Retirement System and created DROP. DROP allows a member to technically "retire" from the State Police Retirement System while continuing to be employed as a trooper or other position by the Department of State Police. During the period of DROP, the member's retirement benefits are paid into a fictional account held by the pension system. The member does not accrue any additional years of service after entering DROP and the member's average final compensation is based on the salary at the time of entering DROP.

The deferred accruing benefits under DROP are subject to an unlimited cost-of-living adjustment, the same as for those members in receipt of their monthly allowances. In addition, while benefit amounts are placed in DROP, they earn 6.0% interest compounded monthly. The amount held in DROP is paid in a lump sum to the retiree or designated beneficiary within 90 days of the end of participation in DROP. The retiree or beneficiary may also request all or a portion of the funds be transferred to an eligible retirement plan. When the DROP period ends, the "normal" retirement benefit is paid with appropriate cost-of-living adjustments.

Chapter 123 was initially developed as part of collective bargaining. As initially introduced, the bargaining parties agreed to a five-year DROP with a minimum entry service of 23 years of service and a maximum of 28 years. During the legislative process, certain changes to the legislation were made (including addition of an enhancement for existing retirees) and DROP was altered to a maximum of four years, with a minimum entry of 22 years of service and a maximum of 28 years.

State Expenditures: As of February 1, 2002, there were 72 members of the State Police Retirement System who elected DROP on or after July 1, 1999.

The actuary informally advises that removing the 28-year service cap for participation in DROP will increase liabilities to the State Police Retirement System by approximately \$826,000. Amortizing these liabilities over 25 years results in increased employer pension contributions of \$46,000 beginning in fiscal 2004 and increasing 5% per year thereafter based on actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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