

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

House Bill 1445
 Appropriations

(Chairman, Appropriations Committee)

State Police Retirement System - Purchase of Service Credit

This pension bill permits a member of the State Police Retirement System (SPRS) to purchase service credit for a period of time during which the member was employed by a political subdivision of the State. The amount that a member must pay under the bill for such additional service depends upon whether the member held membership in the pension system for a political subdivision while employed by that political subdivision.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: Based on assumed patterns of service purchase, State pension liabilities would increase by \$5.4 million, resulting in increased pension costs by the Department of State Police beginning in FY 2004 of approximately \$299,100, increasing 5% per year thereafter based on actuarial assumptions. These expenses are estimated to be 80% general funds and 20% special funds.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	239,300	251,200	263,800	277,000
SF Expenditure	0	59,800	62,800	66,000	69,200
Net Effect	\$0	(\$299,100)	(\$314,000)	(\$329,800)	(\$346,200)

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 SPRS may purchase service credit at the “member’s cost” for periods of employment during which the individual previously held membership in a pension system of a political subdivision. The member’s cost equals the accumulated contributions the individual made to the member’s former system for the period of service the member is purchasing plus regular interest to date of payment.

A member of SPRS who was employed by a political subdivision but not a member of the pension system for that subdivision may purchase service credit at “full cost” for that employment. Full cost equals the annuity reserve and the pension reserve required to fund the additional allowance. A member purchasing service credit at full cost may not purchase more than ten years of prior service.

Current Law: A member of SPRS may purchase service credit at the member’s cost for the following types of service:

- periods of employment from July 1, 1970 through June 30, 1972, during which the member elected to delay enrollment in SPRS; and
- a period of employment when the member was on an employer-approved leave of absence, not exceeding two years, as qualified for purchase by the Board of Trustees for the State Retirement and Pension System.

Members of SPRS may purchase service credit at full cost for federal service and out-of-state service with a political subdivision. This purchase may not exceed ten years of service credit.

Background: This bill is the product of collective bargaining.

The majority of SPRS members who would be affected by this bill are individuals who: (1) became members of SPRS after leaving employment with a political subdivision of the State and the pension system for that political subdivision; and (2) failed to transfer their service credit with their former system within a year of joining SPRS. This bill will entitle these individuals to purchase their prior service credit from their former system at the member’s cost. The total purchase cost for each of these members will vary due to the different contribution rates set by each of their former systems.

State Expenditures: The total purchase cost for SPRS members who would purchase service credit at full cost also cannot be precisely estimated at this time because it is uncertain how much service members would elect to purchase. The State Retirement Agency advises that the amount necessary to purchase service credit at full cost can range from a minimal amount to several hundred thousand dollars, depending on the amount of credit being purchased and the additional benefits that will be received based on the additional service.

The State Retirement Agency advises that there are 12 SPRS members who failed to transfer their service credit from their former pension system to the State within the first year of their membership in SPRS. There is only one SPRS member who would purchase service credit at full cost for prior employment with a political subdivision. It is assumed that, on average, these 13 members will purchase four years of service credit. In addition, it is assumed that in the future, at least one additional SPRS member per year will elect to purchase service credit as a result of the provisions of this bill.

The actuary informally estimates the actuarial liabilities associated with such purchases at \$5.4 million. Amortizing this liability over 25 years results in a first year increase in State pension costs of approximately \$299,100 beginning in fiscal 2004, and increasing 5% per year thereafter based on actuarial assumptions. These personnel expenditures are estimated to be 80% general funds and 20% special funds.

The State Retirement Agency can handle the additional administrative requirements from existing budgeted resources.

Additional Comments: The bill does not prohibit a SPRS member from purchasing service credit if the member will continue to receive credit for this service from the former system, thus enabling the individual to potentially receive a benefit from both SPRS and the member's former system. Nor does the bill place a limit on the amount of service credit that a member may purchase at the member's cost for service credit in the individual's former system.

A member purchasing service credit under this bill at full cost, may only purchase service credit for which the member is not otherwise entitled to service credit.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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lc/mdr

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