

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

Senate Bill 255

(Senator Stone, *et al.*)

Budget and Taxation

Pensions - Military Service Credit - Membership in United States Reserves

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 armed forces of the United States, up to a maximum of 36 months of military service credit for such service, with certain conditions.

Fiscal Summary

State Effect: State pension liabilities could increase by \$45.6 million from granting additional pension service credit to State SRPS members who participate in the military reserves, resulting in increased annual pension contributions of \$2.5 million beginning in FY 2004, and increasing 5% per year thereafter based on actuarial assumptions.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	\$0	\$0	\$0	\$0	\$0
GF/SF/FF Exp.	0	2.5	2.7	2.8	2.9
Net Effect	\$0	(\$2.5)	(\$2.7)	(\$2.8)	(\$2.9)

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

Local Effect: For local governments that participate in the SRPS, aggregate liabilities could increase by \$2.2 million, resulting in increased annual pension contributions of \$122,000 beginning in FY 2004, and increasing 5% per year thereafter.

Small Business Effect: None.

Analysis

Bill Summary: For participants in the SRPS (including participating governmental unit employees), the bill allows for military credit for service of up to three years with the military 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 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 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 the 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 the 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 reserves members to receive 16 months of service in a year (12 months of normal service plus four 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 Department of Defense estimates that there are 35,253 members or retirees of the seven reserve components (Army Reserves, Air Force Reserves, Navy Reserves, Marine Reserves, Coast Guard Reserves, Army National Guard, and Air Guard) who reside in Maryland. Of these, 25,229 are in the five branch reserves and the remaining 10,024 are in the Army National Guard or Air Guard (but not necessarily the Maryland National Guard or Maryland Air Guard).

It is assumed that the bill is intended to apply to members of the five branch reserves who are employees of employers that participate in the SRPS. It is assumed that the bill does not apply to members of the National Guard of other states, even if they are Maryland residents and employees of an employer that participates in the SRPS. This assumption is based on the fact that the Maryland National Guard was specifically referenced in Chapter 699 of 2000. It is assumed that if the intention of this bill were to include all participants in the National Guard, including non-Maryland units, then this bill would have modified or deleted the language specifically referring to the Maryland National Guard.

Based on: (1) the assumption above; (2) the estimated participation in the Maryland National Guard by State and local employee members of the SRPS under Chapter 699 of 2000; and (3) the proportion of members of the branch reserves compared to the number of National Guard members, it is estimated that there are 525 members of the military reserves who are also State employee members of the 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 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 52 more State members of the SRPS were to join the reserves each year thereafter, the increased liability to the SRPS would be \$45.6 million, which would be amortized over the statutory 25 years, with a first-year cost beginning in fiscal 2004 of \$2.5 million, 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 the SRPS, it is estimated that there are 75 local employees participating in the reserves who may be eligible for the two years of credit, with eight members added each year thereafter. The actuary informally estimates that the bill would increase total liabilities by \$2.2 million based on these participants. This amount would be amortized over the next 25 years at a first-year cost of \$122,000 beginning in fiscal 2004. Future year expenditures would increase 5% annually.

Additional Comments: This bill takes effect October 1, 2002. Pension bills normally take effect July 1 to conform with the fiscal year of SRPS.

Additional Information

Prior Introductions: HB 1454 of 2001 received an unfavorable report from the House Appropriations Committee.

Cross File: HB 23 (Delegate K. Kelley, *et al.*) – Appropriations.

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

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