# HB 116

**Department of Legislative Services**
Maryland General Assembly
2002 Session

## FISCAL NOTE
**Revised**

House Bill 116 (Delegate Hubbard)
Appropriations

**Law Enforcement Officers' Pension System - Membership - Division of Parole and Probation of the Department of Public Safety and Correctional Services**

This pension bill includes agents of the Division of Parole and Probation (DPP) of the Department of Public Safety and Correctional Services in the Law Enforcement Officers' Pension System (LEOPS).

The bill takes effect July 1, 2002.

## Fiscal Summary

**State Effect:** State pension contributions by DPP (general funds) would increase by $12.1 million in FY 2003 to reflect the higher contribution rate for LEOPS members. In addition, State pension liabilities would increase by $68.8 million, resulting in increased employer pension contributions by DPP of $11.3 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 Expenditure | 12.1 | 11.3 | 11.8 | 12.4 | 13.1 |
| Net Effect | ($12.1) | ($11.3) | ($11.8) | ($12.4) | ($13.1) |

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** DPP agents would have the option (at least through December 31, 2002) to transfer to LEOPS. Future employees would be in the LEOPS. The bill also requires an asset transfer from the employees' systems to LEOPS of accumulated employer contributions plus interest for the members who transfer.

**Current Law:** DPP agents are currently members of the Employees' Pension System (EPS), or in some cases, the Employees' Retirement System (ERS) for older employees who did not transfer to EPS. The EPS is a "30 and out" retirement plan that provides a benefit equal to 1.4% of average final compensation for each year of service after July 1, 1998, and 1.2% of average final compensation for each year of service prior to that date. A 2% member contribution is required.

**Background:** LEOPS members may retire with full benefits at age 50 or with 25 years of service, regardless of age. There is a 4% mandatory employee contribution. The benefit formula provides 2% of average final compensation (AFC) for each year of service up to a maximum 30 years (or 60% of AFC). LEOPS members are eligible for a Deferred Retirement Option Program (DROP), which allows them to technically "retire" while continuing to work, with their accrued pension benefits accumulating in an account for payment at termination of employment.

Membership in LEOPS includes the following public safety employees:

- Department of Natural Resources police and rangers;
- Maryland Investigative Services Unit officers (Comptroller's Office);
- Maryland Transportation Authority police officers;
- Baltimore City Deputy Sheriffs;
- University of Maryland police officers;
- Morgan State University police officers;
- State Fire Marshal and Deputy State Fire Marshals;
- law enforcement officers of an electing governmental unit;
- Maryland Aviation Administration Fire Rescue Service officers;
- Department of General Services police officers;
- Department of Health and Mental Hygiene police officers;
- Motor Vehicle Administration police officers;
- Department of Labor, Licensing, and Regulation police officers; and
- Martin State Airport firefighters.

Existing law requires an asset transfer from the ERS and EPS to LEOPS of accumulated employer contributions plus interest when members are transferred.

DPP agents are not sworn police officers. Rather, they are certified by the Maryland Correctional Training Commission.

Senate Bill 783 of 2001 was referred by the Senate Budget and Taxation Committee to the Joint Committee on Pensions for interim study. A report by the Department of Legislative Services found that the majority of states and other jurisdictions place their parole and probation agents in their general employees' pension plan. A minority of jurisdictions place their agents in their law enforcement, or other enhanced pension plan. The joint committee declined to sponsor any legislation on this subject.

**State Expenditures:** There are currently approximately 880 DPP agents and supervisors, with a total payroll of $39.7 million. It is assumed that all would transfer to LEOPS. As a result of the change, the fiscal 2003 employer contribution rate for these officers will increase from 5.74% of pay (under EPS) to 36.10%, an increase of 30.68% of pay per year. This amount is estimated at $12.1 million for fiscal 2003 only.

In addition, the actuary informally estimates that the net increased actuarial liabilities under the proposal would be approximately $68.8 million (including the additional liabilities to LEOPS offset somewhat by the transfer of assets from the employees' systems). The actuarial liabilities are amortized over 25 years. The total ongoing cost of the enhancement (including the amortization payments plus the difference in normal costs between EPS and LEOPS) is estimated at $11.3 million beginning in fiscal 2004, increasing approximately 5% per year thereafter.

The State Retirement Agency advises that it would incur $10,000 in additional administrative expenses in transferring these employees from EPS to LEOPS.

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## Additional Information

**Prior Introductions:** House Bill 1437 of 2001 received an unfavorable report from the House Appropriations Committee. Senate Bill 783 of 2001 was referred to interim study by the Senate Budget and Taxation Committee (see discussion above).

**Cross File:** Senate Bill 179 (Senator Bromwell) – Budget and Taxation.

**Information Source(s):** Department of Public Safety and Correctional Services, State Retirement Agency, Milliman USA, Department of Legislative Services

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Analysis by: Matthew D. Riven

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