HB 1446

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 1446 (Chairman, Appropriations Committee)
Appropriations

State Police Retirement System - Service Retirement Benefits and Deferred Retirement Option Program

This pension bill enhances retirement benefits and changes the terms of the Deferred Retirement Option Program (DROP) of the State Police Retirement System (SPRS).

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: State Police Retirement System liabilities would increase by approximately $43.6 million, resulting in increased pension contributions by the Department of State Police of approximately $7.8 million beginning in FY 2004, increasing 5% per year thereafter. These costs are assumed to be 80% general funds and 20% special funds. State Retirement Agency administrative expenditures could increase by $50,000 in FY 2003 and $10,000 per year thereafter.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	6,240,000	6,552,000	6,879,600	7,223,600
SF Expenditure	50,000	1,570,000	1,648,000	1,729,900	1,815,900
Net Effect	($50,000)	($7,810,000)	($8,200,000)	($8,609,500)	($9,039,500)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: This bill allows State Police members to retire with unreduced benefits after 20 years of service, rather than 22 years as under current law. The bill increases the plan's multiplier from 2.55% of the member's average final compensation (AFC) for each year of service to 2.75% (and the maximum benefit is increased from 71.4% of AFC to 77% of AFC). Participation in the DROP may begin after 20 years of service, rather than after 22 years as under current law, and a member may participate in the DROP for up to five years, rather than four years as under current law.

Current Law: See discussion above.

Background: Chapter 123 (SB 141/HB 191) of 1999 was the product of collective bargaining and provided enhancements to the benefits of active and retired State Police members. As introduced, SB 141/HB 191 of 1999 would have shortened the years of service to 20 years (from the then-25 years), increased the multiplier to 2.75% (from the then-2.2% multiplier), and created a five-year DROP. The bill, as amended, enhanced the benefits versus the then-current law but less than what was negotiated in collective bargaining. Instead, the bill was amended to provide benefit increases to existing State Police retirees, who were not covered in the bill as introduced, within the same total fiscal impact level.

This bill is the product of the current round of collective bargaining and seeks those provisions that were initially negotiated in 1999.

State Expenditures: There are approximately 1,600 active members of the State Police system with an average salary of approximately $51,000. The bill would increase their maximum benefit to 77% of AFC, from 71.4%, as well as shorten the period to full retirement and change the terms of the DROP. The State's actuary informally estimates that the bill will increase liabilities of the State Police Retirement System by approximately $43.6 million. Amortizing the additional liabilities over 25 years and increasing the system's normal cost will result in additional employer pension contributions of approximately $7.8 million beginning in fiscal 2004 and increasing 5% per year thereafter based on actuarial assumptions. These costs are assumed to be 80% general funds and 20% special funds.

The State Retirement Agency advises that there would be a significant administrative cost to alter the benefit formula in the new computer system currently under procurement. The agency estimates $300,000 in additional programming costs, and $5,000 in administrative costs. Legislative Services notes that development of the new computer system is currently and indefinitely on hold. Legislative Services believes that it is more likely that the agency will have to reprogram its existing mainframe computer and process other transactions manually for the foreseeable future, resulting in additional overtime and/or contractual personnel expenditures. Legislative Services estimates these costs to be $50,000 in fiscal 2003 and $10,000 per year thereafter.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/jr

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