

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

Senate Bill 661 (Senator McFadden)
 Budget and Taxation

**Law Enforcement Officers' Pension System - Transfers of Members of the
 Maryland Transit Administration Police Force**

This pension bill transfers members of the Mass Transit Administration (MTA) police force into the Law Enforcement Officers' Pension System (LEOPS).

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: For FY 2004, pension contributions by MTA (Transportation Trust Fund) would increase by \$2.6 million to reflect the existing higher contribution rate for LEOPS. In addition, State pension liabilities would increase by \$22.8 million, resulting in increased employer contributions to LEOPS by MTA and other State agencies of \$3.0 million (all funds) beginning in FY 2005, and increasing 5% per year thereafter based on actuarial assumptions. Special fund expenditures for the State Retirement Agency would increase by \$10,000 in FY 2004 only.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	2.6	2.7	2.8	3.0	3.1
GF/SF/FF Exp.	0	.3	.3	.4	.4
Net Effect	(\$2.6)	(\$3.0)	(\$3.2)	(\$3.4)	(\$3.5)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: MTA police officers are State employees and are currently in the same pension plan as other MTA employees. This plan is collectively bargained and does not include management employees. A member is eligible for a normal service retirement at age 52 with 30 years of service or at age 65 with five years of service. The benefit equals 1.3% of average final compensation times years of service; however, there is a minimum benefit of \$450 per month and a current maximum benefit (adjusted annually as part of collective bargaining) of \$46 per month times years of service (projected to increase to \$50 per month by fiscal 2005). There is no mandatory employee contribution; however, the employee may contribute to fund a death benefit. Virtually all MTA police officers receive the maximum benefit at the time of retirement, which for the current year would be \$552 per year for each year of service (\$46 times 12 months).

The MTA plan's assets are invested by the State Retirement and Pension System (SRPS) although the plan is not a part of SRPS. Milliman USA, SRPS's actuary, also provides actuarial services to the MTA plan. The actuary advises that the MTA plan is approximately 36.3% unfunded on an actuarial basis.

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. (Under the bill, members transferring from the MTA plan to LEOPS will have to pay the 4% contribution they would have paid under the LEOPS plan since it became contributory in 2000.) 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;
- Martin State Airport firefighters; and
- Division of Rehabilitation Services police officers of the Department of Education.

State Expenditures: There are currently 154 police officers employed by MTA with an average salary of approximately \$52,300. The actuary informally estimates MTA's total contributions in fiscal 2004 will be approximately \$389,000. Under the bill, MTA would be required to pay the LEOPS contribution rate of 35.13% of pay, or \$3.0 million, for fiscal 2004. This represents an increase of \$2.6 million for fiscal 2004.

In addition, the actuary informally estimates that the net increased actuarial liabilities under the proposal would be approximately \$22.8 million (including the additional liabilities to LEOPS offset somewhat by the transfer of assets from the MTA plan and repayment of missed LEOPS employee contributions). Amortizing these actuarial liabilities over 25 years, plus the increased normal costs associated with the improved benefit, results in a first-year cost of \$3.1 million beginning in fiscal 2005 and increasing 5% per year thereafter based on actuarial assumptions. Some of these costs – approximately \$2.7 million in fiscal 2005 – would be borne by MTA. The remainder of the cost would be borne by other agencies that participate in LEOPS, reflecting the increase in unfunded liabilities associated with the transferred members.

The State Retirement Agency would incur \$10,000 in additional administrative expenses in transferring these employees from the MTA plan to LEOPS.

Additional Information

Prior Introductions: None. SB 282 of 2002, a similar bill, received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: HB 1035 (Delegate DeBoy, *et al.*) – Appropriations.

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

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ncs/jr

Analysis by: Matthew D. Riven

Direct Inquiries to:
(410) 946-5510
(301) 970-5510