HB 464

Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 464 (Delegate Sossi, *et al.*)
Appropriations

Pensions - Local Public Safety Pension Assistance Program

This bill creates a Local Public Safety Pension Assistance Program and a Local Public Safety Pension Assistance Program Fund. Local governmental units may enroll their law enforcement officers or detention center officers in the Law Enforcement Officers' Pension System (LEOPS) or Local Fire and Police System (LFPS) and receive a low-interest loan from the State. The loan could subsidize up to 30% of the "buy-in" costs associated with the actuarial liabilities transferred to LEOPS or LFPS. The State Retirement Agency will administer the revolving loan program.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: State expenditures (general funds) would increase by the amount of the initial State appropriation, the timing and amount of which are not specified in the bill. The State would incur costs reflecting the difference between the State's cost of money and the interest rate of the low-interest loans (the interest rate is not specified in the bill). There would also be ongoing administrative expenditures by the State Retirement Agency that would be charged to the revolving fund; based on assumed participation in the program, these administrative costs are assumed to be minimal.

Local Effect: Local governmental units that wish to enroll their law enforcement officers or detention center officers in LEOPS or LFPS could experience a small decline in their employer pension contributions due to the subsidized loan program. These loan amounts would have to be repaid.

Small Business Effect: None.

Analysis

Bill Summary: The Local Public Safety Pension Assistance Program Fund is a special, nonlapsing, revolving fund that consists of: (1) money appropriated by the State to the fund; (2) repayments on loans made from the fund; and (3) any investment earnings of the fund. The fund would be used to: (1) provide low-interest loans under the program; and (2) cover any costs incurred by the State Retirement Agency in the administration of the program.

The program will be operated by the State Retirement Agency. The program will provide low-interest loans drawn from the fund to local jurisdictions that wish to become participating governmental units under the LEOPS or LFPS of the State of Maryland but can only afford to pay part of the buy-in cost. Governmental units eligible to participate would include counties, municipal corporations, and special taxing areas.

A loan made under the program may fund up to 30% of the buy-in cost of a loan applicant to become a participating governmental unit. A loan applicant shall provide to the State Retirement Agency: (1) evidence that the loan applicant can afford to pay 70% or more but less than 100% of the buy-in cost; and (2) any other information required by the agency.

The State Retirement Agency would be required to report to the General Assembly on or before December 31 of each year on the status and operation of the Local Public Safety Pension Assistance Program and the Local Public Safety Pension Assistance Fund.

Current Law: Local governmental units with sworn law enforcement officers may opt to participate in the State's LEOPS or LFPS as a participating employer. Local governments may also enroll their firefighters in LFPS. Detention center officers are not currently eligible for either plan.

When a local governmental unit elects to participate in a State plan such as LEOPS or LFPS, it is required to transfer all the prior service credit of the transferred members, which reflects the unit's actuarial liabilities. These liabilities are reduced by any assets the unit may transfer from its prior plan.

Background: The contribution rate for the "local pool" of LEOPS for fiscal 2003 is 29.59% of payroll, of which 20.25% represents the plan's normal cost (cost of future accrued service of existing members), and 9.34% represents the pool's accumulated unfunded actuarial liabilities (UAL). For LFPS, the fiscal 2003 contribution rate is 14.78%, of which 11.15% is normal cost and 3.63% is UAL.

When a unit joins one of these plans, the unit must pay the full contribution rate, including the UAL component. However, the State's actuary estimates the unit's unfunded liabilities in proportion to the pool's UAL. If the unit's unfunded liabilities are less (proportionally) than the pool's UAL, then the unit receives a reduction in its contribution rate. If the unit's unfunded liabilities are more than the pool's UAL, then the unit must pay a surcharge (or special payment) in addition to the contribution rate.

State Expenditures: It is not clear from the bill whether "buy-in costs" reflect only the special payment (for those units required to make such a payment) or the UAL component of the rate plus the special payment. (It clearly does not reflect the normal cost, because this is an ongoing charge rather than an existing liability.) Under either scenario, because the normal cost is the largest part of the contribution rate, the unit would receive a subsidy for only a fraction of the unit's new contribution rate. Moreover, the bill only allows the unit to borrow against 30% of the buy-in cost.

The following example may be illustrative. It is assumed that a unit wishes to join LEOPS, but would be subject to a special payment of 2% of payroll. Depending on the interpretation of the bill, the unit would be eligible to borrow up to 30% of either: (1) the 2% special payment; or (2) the special payment plus the UAL (2% plus 9.49%). In either event, the unit will still have to pay the normal cost, which at 20.25% of pay, constitutes the majority of the employer contribution.

For this reason, it is assumed that relatively few employers will take advantage of the loan program, and that the size of the loan program will be relatively small. Nevertheless, State general fund expenditures would increase by the amount of the initial State appropriation, the timing and amount of which are not specified in the bill. On an ongoing basis, the State would incur costs reflecting the difference between the State's cost of money and the interest rate of the low-interest loans (the interest rate is not specified in the bill).

There would also be ongoing administrative expenditures by the State Retirement Agency that would be charged to the revolving fund. Based on the assumption that few units will participate, the agency's administrative costs would be minimal. If participation proves to be higher than assumed, then the administrative costs could be higher.

Local Expenditures: For the reasons discussed above, Legislative Services estimates that participation in the program will be relatively low because the reduction in an employer's contributions would be relatively small under the bill. Based on the assumptions above, an employer's contributions could decrease by approximately 15% at most (and probably much less). The contribution reduction would have to be repaid under the terms of the low-interest loan. As under current law, the local governmental unit would be required to absorb the cost of any actuarial studies or valuation done on their behalf.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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