HB 604

Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 604 (Delegate Hubbard)
Appropriations

Correctional Officers' Retirement System - Membership - Division of Parole and Probation

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This pension bill provides a pension enhancement to agents of the Division of Parole and Probation of the Department of Public Safety and Correctional Services.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: State pension liabilities would increase by approximately $19.7 million, resulting in increased employer pension contributions (all funds) of approximately $340,000 beginning in FY 2005 and increasing by approximately 30-40% per year thereafter because of a defect in the funding mechanism for the Correctional Officers' Retirement System (CORS). It should also be noted that correcting a flaw in the bill regarding the cost-of-living adjustment (COLA) would result in the total cost of the bill being $28.4 million, resulting in increased employer pension contributions of approximately $830,000 per year in FY 2005 and increasing by approximately 30-40% per year thereafter.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	$0	$0	$0	$0	$0
SF Expenditure	50,000	50,000	50,000	50,000	50,000
GF/SF/FF Exp.	0	340,000	930,000	1,260,000	1,630,000
Net Effect	($50,000)	($390,000)	($980,000)	($1,310,000)	($1,680,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill's major provisions are as follows:

- a special tier of benefits would be created within CORS to provide benefits to these agents at a level that is greater than the current Employees' Pension System (EPS) structure, but less than the CORS structure;

- the minimum years of service for a normal service retirement benefit is reduced from 30 years (under EPS) to 25 years under the new CORS tier, and the minimum age for an unreduced benefit (regardless of years of service) is reduced from 62 to 55;

- the accrual rate (or multiplier) is increased from 1.4% of average final compensation (under EPS) to 1.8% (existing CORS accrual rate);

- members receive a 3% simple COLA rather than the unlimited CORS COLA (it is assumed that a technical correction would provide a 3% compound COLA equal to their current EPS COLA);

- members would contribute 5% of earnable compensation (CORS contribution rate) rather than 2% (EPS contribution rate);

- all other provisions of CORS would apply to the agents in this tier; and

- new agents would be automatically enrolled in this CORS tier; existing agents would have the option to transfer into it before December 31, 2003. For those members who transfer, the State Retirement and Pension System (SRPS) would transfer all previous employer and employee contributions from EPS to CORS.

Current Law: See discussion above.

Background: The issue of the benefit levels of parole and probation agents was studied by the Joint Committee on Pensions during the 2001 and 2002 interims. A study by the Department of Legislative Services in 2001 indicated that of 29 states and localities surveyed, 17 included their agents in their general employees' systems, as Maryland currently does. The other jurisdictions included their agents in their public safety pension systems or operated systems specific to the agents. An analysis by the State's actuary and Legislative Services in the 2002 interim indicated that transferring these agents to CORS (with all the CORS benefit provisions) would increase liabilities by $78.4 million, with a first year cost of $3.5 million. The analysis indicated that keeping the agents in EPS but providing a "25 and out" benefit rather than a "30 and out" benefit resulted in increased liabilities of $6.4 million, with a first year cost of $370,000.

SB 783 and HB 1437 of 2001 (both failed) would have included these agents in the Law Enforcement Officers' Pension System. These proposals would have increased State liabilities by $41.0 million, with a first year cost of $8.3 million.

State Expenditures: There are approximately 748 State parole and probation agents, with an average salary of $45,076. This count excludes supervisors, who are not covered by the bill as drafted. It is assumed that virtually all eligible current agents would transfer. Based on these data, the State's actuary informally estimates that the proposal would increase State pension liabilities by approximately $19.7 million, resulting in increased employer pension contributions (all funds) of approximately $340,000 beginning in fiscal 2005.

These pension contributions are projected to increase by approximately 30-40% per year thereafter because of an anomaly in the funding mechanism for CORS. CORS pension funding is incorporated into the general employees' systems rate; however, the "normal rate" component of the employees' contribution rate does not reflect CORS's higher benefit provisions. This anomaly results in annual unfunded liabilities to the employees' system funding levels; this proposal would parallel that effect.

It should also be noted that the bill provides for a 3% simple COLA, while the affected members currently have a more generous 3% compound COLA. While the fiscal estimate is based on the bill as drafted, if this provision is changed, increased liabilities of approximately $28.4 million and increased employer pension contributions of approximately $830,000 per year in fiscal 2005 and increasing by approximately 30-40% per year thereafter would result.

State Expenditures: The State Retirement Agency would incur approximately $50,000 per year to administer the bill.

Additional Information

Prior Introductions: None.

Cross File: SB 627 (Senator Jimeno) – Budget and Taxation.

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

Fiscal Note History: First Reader - March 5, 2003
ncs/jr

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