

**Department of Legislative Services**  
 Maryland General Assembly  
 2003 Session

**FISCAL AND POLICY NOTE**

House Bill 1115 (Delegate Oaks)  
 Appropriations

**State Police Retirement System and Law Enforcement Officers' Pension System -  
 DROP - Eligibility and Participation**

This pension bill alters the eligibility requirements for members of the State Police Retirement System (SPRS) or the Law Enforcement Officers' Pension System (LEOPS) who participate in the Deferred Retirement Option Program (DROP). The bill eliminates the maximum years of service an SPRS or LEOPS member may have at the time that the member joins DROP or during the member's participation in DROP.

The bill takes effect July 1, 2003 and applies retroactively to any SPRS member who joined DROP on or after July 1, 1999 or any LEOPS member who joined DROP on or after July 1, 1998.

**Fiscal Summary**

**State Effect:** State pension liabilities will increase by approximately \$1 million based on estimated patterns of earlier retirement. Amortizing these additional liabilities over 25 years results in an increase in State pension contributions of \$60,000 in FY 2005 increasing 5% per year based on actuarial assumptions. These additional costs would be spread amongst the Department of State Police (DSP) and all agencies with LEOPS officers.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	\$0	\$0	\$0	\$0	\$0
GF/SF/FF Exp.	0	60,000	63,000	66,200	69,500
Net Effect	\$0	(\$60,000)	(\$63,000)	(\$66,200)	(\$69,500)

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

**Local Effect:** Local governments that participate in LEOPS (currently Cambridge, Hyattsville, Greenbelt, and Kent County) would experience a minimal increase in pension liabilities and corresponding increase in employer contributions.

**Small Business Effect:** None.

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## Analysis

**Current Law:** The following applies to both the SPRS and LEOPS DROP provisions. Under DROP, a member elects to technically “retire” but does not end active employment. Rather, the member agrees to work for no more than a fixed additional period of service. Upon electing DROP, the member receives benefits payments into a fictional account held by the State Retirement Agency; this account earns 6% interest. When the DROP period ends and “true” retirement begins, the retiree receives a monthly retirement benefit based on the years of service and salary at the time of the DROP election, plus a lump sum payment of the value of the DROP account.

Election to participate in DROP is irrevocable. Participation ends when the member reaches the maximum age, dies, is terminated (under the terms of the DROP agreement or otherwise), agrees to shorten the term of participation, or accepts a special disability retirement (members are permitted to file and receive special disability retirement while a participant in DROP and actively employed by the State Police). Benefits deferred are periodically adjusted for cost of living, the same as for those members in receipt of their monthly allowances.

Members of the State Police (except the Secretary (Superintendent) of the State Police) are eligible to participate in DROP if they have at least 22 and less than 28 years of service and are less than 60 years old. (The Secretary is not currently subject to the age requirement or the cap on years of service.) Eligible members elect to participate for a period not greater than the lesser of: 4 years, the difference between 28 years and the service credit as of the date of election to participate in DROP, the difference between age 60 and the member’s age as of the date of election to participate in DROP, or a term selected by the member.

Members of LEOPS are eligible to participate in DROP if they have at least 25 and less than 30 years of eligibility service. Eligible members elect to participate for a period not greater than the lesser of: 5 years, the difference between 30 years and the service credit as of the date of election to participate in DROP, or a term selected by the member.

**Background:** The following tables illustrate participation in the SPRS and LEOPS DROPS.

**State Police**

135	State Police have applied for DROP since inception
9	Ineligible or opted not to participate in DROP
126	Total participation in DROP since inception
34	Terminated from DROP
92	Remain in DROP

**LEOPS**

85	LEOPS have applied for DROP since inception
6	Ineligible or opted not to participate in DROP
79	Total participation in DROP since inception
14	Terminated from DROP
65	Remain in DROP

**State Expenditures:** The proposal permits SPRS members to be eligible for (and/or to continue participate in) DROP after accruing 28 years of service. Similarly, the proposal permits LEOPS members to be eligible for (and/or to continue participate in) DROP after accruing 30 years of service. This proposal affects several groups: (1) those members who are currently in DROP and who may be eligible to extend their time in DROP; (2) members who were previously denied participation in DROP or whose participation in DROP would have been for less than the maximum number of years, based on their years of service, but who could now elect DROP for the maximum period; and (3) future DROP participants. It appears that the retroactive provisions would not apply to SPRS or LEOPS former members who are currently retired (and not employed), even if they were previously denied participation in DROP or were allowed to participate in DROP for less than the maximum number of years, based on their years of service.

The State's actuary advises that there is no actuarial impact from extending the DROP period for existing DROP participants. Those participants are considered retirees and their pension benefits have already actuarially accrued; whether these benefits are paid directly to the member or into the member's fictional DROP account is irrelevant for actuarial purposes. The actuary advises, however, that to the extent that a change in DROP rules encourages active members to "retire" and enter DROP earlier than they otherwise would, then actuarial costs increase. The actuary currently assumes that most law enforcement officers retire when first eligible for a normal service retirement; the remainder retire over several following years.

To the extent that, under the bill, members retire earlier than they otherwise would have because of the elimination of the years-of-service cap on DROP participation, State pension liabilities will increase. Based on these estimated patterns of earlier retirement, the State's actuary informally estimates that State pension liabilities will increase by approximately \$1 million. Amortizing these additional liabilities over 25 years results in an increase in State pension contributions of \$60,000 in fiscal 2005, increasing 5% per year based on actuarial assumptions. These additional costs would be spread amongst DSP and all agencies with LEOPS officers.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 17, 2003  
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