

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE
Revised

House Bill 664 (Chairman, Appropriations Committee)
 (By Request – Departmental – Public Safety and Correctional Services)
 Appropriations

**Law Enforcement Officers' Pension System - Membership - Internal
 Investigative Unit Investigators**

This departmental pension bill provides for the transfer of members of the Internal Investigative Unit (IIU) in the Department of Public Safety and Correctional Services (DPSCS) from the Correctional Officers' Retirement System (CORS) to the Law Enforcement Officers' Pension System (LEOPS), including all applicable assets and liabilities.

The bill is effective July 1, 2004.

Fiscal Summary

State Effect: State pension contributions by DPSCS would increase by \$260,200 in FY 2005 due to the higher employer contribution rate in LEOPS. Out-year costs reflect annualization and salary increases, an amortized payment schedule for the transferred employees, a reduction in liabilities related to an anomaly in the funding of CORS, and other actuarial assumptions.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	260,200	270,600	281,400	292,700	304,400
GF/SF/FF Exp.	0	(162,000)	(168,600)	(175,300)	(182,300)
Net Effect	(\$260,200)	(\$108,600)	(\$112,800)	(\$117,400)	(\$122,100)

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

Local Effect: None.

Small Business Effect: DPSCS has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: Chapter 393 of 1999 established IIU as a separate agency within DPSCS. IIU's investigators were provided with the same authority, including arrest powers, as police officers on departmental property and, under certain circumstances, off-site. Chapter 393 also included investigators of IIU with other law enforcement officers under provisions relating to the transmission of contagious diseases or viruses. The Act granted all civil immunities to an IIU investigator as would apply to a State police officer. IIU must make specified advanced notifications to other law enforcement agencies when conducting authorized investigations or enforcement actions in other agencies' jurisdictions.

Background: In July 1985, an investigative unit was formed within DPSCS and was comprised of the Maryland State Police, then a part of DPSCS, and correctional officers of the Division of Correction (DOC). Investigators in this unit conducted criminal and misconduct investigations. Correctional officers in the unit were sent to entrance level police academies and certified as police officers. When the Maryland State Police became a separate State department in July 1996, the unit consisted of only DOC investigators. Chapter 393 of 1999 established IIU within DPSCS as a new law enforcement agency in the State.

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.

Members of LEOPS may retire with full benefits at age 50 or with 25 years of service, regardless of age. There is a 4% mandatory employee contribution. 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. For fiscal 2005, the employer contribution rate is 37.73% of pay.

Members of CORS may retire with full benefits at age 55 or with 20 years of service. There is a mandatory 5% employee contribution. The benefit formula provides 1.8% of AFC for each year of service (with no limit on service credit).

While CORS is a separate statutory system, for actuarial purposes it is treated as part of the combined employees’ retirement and pension systems. The employees’ systems employer contribution rate is 4.73% of pay. This rate, however, is not sufficient to fund CORS pension obligations, resulting in annual additional unfunded liabilities to the combined systems. This anomaly results in 30%-40% annual unfunded liabilities for CORS.

State Fiscal Effect: As noted above, the employer contribution rate for members of the Employees’ Contributory Pension System is 4.73% in fiscal 2005; while the employer contribution rate for LEOPS is 37.73% in fiscal 2005. The difference in this “normal cost” portion of pension payments is 33.00%. Fiscal 2005 expenditures reflect the payment of the LEOPS employer contribution rates by DPSCS for the 17 members of IIU. These members have an average salary of \$46,383, resulting in a general fund expenditure increase of \$260,208.

Beginning in fiscal 2006, the State’s actuary will be able to amortize the additional normal costs over a 25-year period, resulting in fiscal 2006 general fund expenditures of \$117,280. Out-year costs are based on actuarial assumptions.

Because CORS pension funding is incorporated into the general employees’ systems rate; the “normal rate” 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. Adjusting for the transfer of employee and employer contributions from CORS to LEOPS will remove a portion of that anomaly from CORS and the liability will be properly funded in LEOPS because the employer contribution

rate is tied to the actuarial liabilities of the system. This corrective action will reduce total pension liabilities for the employees' systems by \$8,703 in fiscal 2006. The out-year effect of this provision will also reflect actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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Analysis by: Daniel P. Tompkins

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