

Department of Legislative Services  
 Maryland General Assembly  
 2004 Session

FISCAL AND POLICY NOTE

House Bill 1004 (Delegate James, *et al.*)  
 Appropriations

State Police Retirement System - Retirees and Beneficiaries of Retirees - Benefits

This pension bill provides an enhanced benefit for retirees of the State Police Retirement System (SPRS) who retire on or before June 30, 2004.

The bill is effective July 1, 2004.

Fiscal Summary

**State Effect:** State pension liabilities would increase by \$100.2 million, resulting in increased Department of State Police (DSP) employer contributions of \$5.6 million beginning in FY 2006 and increasing in future years based on actuarial assumptions. DSP expenses are assumed to be 75% general funds, 20% special funds, and 5% federal funds. Special fund expenditures would increase \$54,300 in FY 2005 in the State Retirement Agency (SRA) for administrative expenses; future year administrative costs reflect inflation.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	4.2	4.4	4.6	4.8
SF Expenditure	.1	1.2	1.2	1.3	1.3
FF Expenditure	0	.3	.3	.3	.3
Net Effect	(\$.1)	(\$5.7)	(\$5.9)	(\$6.2)	(\$6.4)

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** This bill establishes a minimum annual benefit allowance for all retirees (service, ordinary disability, and special disability) and beneficiaries of SPRS who retire on or before July 1, 2004. The enhanced benefit will equal a minimum of \$35,000 per year for retirees who retired with 22 or more years of creditable service and a reduced pro rata enhancement for those who retired with fewer than 22 years of creditable service. Beneficiaries would receive a 50% survivor benefit equal to a minimum of \$17,500, with beneficiaries of retirees who retired with fewer than 22 years of creditable service receiving a reduced pro rata enhancement. The same minimums and proration of the adjustments applies to retirees and beneficiaries receiving benefits from ordinary and special disabilities.

A separate, unlimited, compound cost-of-living adjustment (COLA) will be applied to the adjustment, with the first COLA on the adjustment occurring July 1, 2005.

**Current Law:** Members of SPRS are eligible to retire at age 50 regardless of service, or with 22 years of creditable service, regardless of age. Except for the Superintendent, members of SPRS have a mandatory retirement age of 60. The basic service allowance for SPRS is 2.55% times average final salary (AFS) times years of service. For illustrative purposes, a member retiring today at age 52 with 28 years of service and an AFS of \$50,000 would receive an annual benefit of \$35,700.

**Background:** For illustrative purposes, under the bill, a retiree with 22 or more years of service and a benefit on July 1, 2004 of \$33,000 would be provided an additional benefit of \$2,000 per year, for a total annual benefit of \$35,000. The monthly benefit would increase approximately \$166. If the retiree only had 18 years of service at retirement, the prorated benefit enhancement (216 months divided by 264 months) would be \$1,636, (81.8%) or \$136 per month.

Chapters 122 and 123 of 1999 provided an annual enhancement to existing retirees and beneficiaries ranging from \$100 to \$175 per month based on the years retired. Those retired the longest received the higher bonus payments.

**State Expenditures:** There are 907 retirees and 32 beneficiaries who would be affected by this bill. The State's actuary advises that average annual benefits for the retirees are assumed to increase from \$26,213 to \$34,252, an increase of \$8,039. Average annual benefits for beneficiaries are assumed to increase from \$12,930 to \$16,968, an increase of \$4,038.

Total liabilities in SPRS will increase \$100.2 million and would drop SPRS from 121% funded on an actuarial basis to 110% funded. That 11% drop in actuarial funding will

trigger a fiscal 2006 employer contribution rate of 6.57%. The fiscal 2005 contribution rate is 0.0%. Assuming a fiscal 2006 payroll of \$85.7 million, State expenditures by DSP for employer contributions will increase by \$5.6 million. The Department of Legislative Services (DLS) has assumed a 75%/20%/5% general, special, federal fund split. Future year payments reflect actuarial assumptions.

The bill provides that any actuarial liability must be funded by the portion of the actuarial value of the assets of SPRS that exceed the actuarial liabilities of SPRS. DLS advises that this mechanism will have no effect on the actuarial cost of the bill or on the required employer contribution rate in fiscal 2006.

SRA advises that its current benefit administration system does not have sufficient capacity to handle the benefit and COLA calculations of the third level on SPRS (the basic allowance, the enhanced benefit and COLA from 1999, and the provisions of this bill). SRA estimates that manual calculations would be required and that temporary contractual employees would be insufficient. The agency is not able to estimate the number of additional personnel or resources needed.

DLS advises that at least one additional permanent accountant would be required to assist in the benefit calculations for this new tier of benefits, given the constraints described by the agency. Special fund expenditures could increase by an estimated \$54,284 in fiscal 2005, which accounts for a 90-day start-up delay. This estimate reflects the cost of SRA hiring one accountant to perform manual calculations of enhanced benefits and COLAs. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$52,654
Operating Expenses	<u>1,630</u>
<b>Total FY 2005 State Expenditures</b>	<b>\$54,284</b>

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

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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 2, 2004  
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Analysis by: Daniel P. Tompkins

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