

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 707 (Delegate Cadden, *et al.*)
 Appropriations

Pensions - Deferred Retirement Option Programs - Eligibility

This pension bill alters the eligibility requirements for the Deferred Retirement Option Programs (DROP) for certain members of the State Police Retirement System (SPRS) and the Law Enforcement Officers Pension System (LEOPS) who were members of their respective systems at the time of the DROPs' creation.

The bill is effective July 1, 2004.

Fiscal Summary

State Effect: State pension liabilities would increase \$3.6 million, resulting in increased annual State pension contributions of \$217,000. Out-year costs reflect actuarial assumptions.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF/SF/FF Exp.	0	217,000	225,000	234,000	244,000
Net Effect	\$0	(\$217,000)	(\$225,000)	(\$234,000)	(\$244,000)

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 permits current members of SPRS to participate in DROP if the members: (1) were members of SPRS on or before the date DROP became available to members of SPRS; (2) had accrued too much eligibility service as of that date DROP

became available to participate in DROP for four years; and (3) are less than 60 years old.

If members of SPRS are eligible to participate in DROP based on the provisions of this bill, they may elect to participate in SPRS DROP for a period not to exceed the lesser of: (1) four years; (2) the difference between age 60 and the member's age as of the date that the member elected to participate in DROP; or (3) a term selected by the member.

Similarly, the bill also permits current members of LEOPS to participate in DROP if the members: (1) were members of LEOPS on or before the date DROP became available to members of LEOPS; and (2) had accrued too much eligibility service as of that date the DROP became available to members of SPRS to participate in DROP for five years.

If a member of LEOPS is eligible to participate in DROP based on the provisions of this bill, they may elect to participate in LEOPS DROP for a period not to exceed the lesser of (1) five years; (2) the difference between the mandatory retirement age and the members' age as of the date that the members elected to participate in DROP; or (3) a term selected by the member.

Current Law: Under DROP, a member elects to technically "retire" but agrees to work for no more than a fixed additional period of service. The member receives benefits payments into an interest-bearing account held by the State Retirement Agency. 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 they entered DROP, plus a lump sum payment equal to the value of the DROP account.

Members of SPRS, except the Secretary of State Police, are eligible to participate in DROP if the members have at least 22 but less than 28 years of service and are less than 60 years old. Eligible members may participate for a period not greater than the lesser of: four 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.

Under current law, to be eligible for LEOPS DROP, a member must have a minimum 25 but less than 30 years of eligibility service. The length of their participation in DROP is the lesser of: five years; the difference between the member's service and 30 years; or the term selected by the member.

State Fiscal Effect: The State Retirement Agency and the State's actuary estimate that this bill would affect approximately 20 members of SPRS and 16 members of LEOPS with significant length of service who would, if allowed, participate in a DROP for a

period longer than is currently permitted. No new members can become eligible for the provisions of this bill. Based on this data, the State's actuary estimates that that the bill would add \$2.3 million in liabilities to SPRS and \$1.3 million to LEOPS. Amortizing those costs over 25 years results in fiscal 2006 employer contributions of \$139,000 for SPRS and \$78,000 for LEOPS. Out-year costs reflect actuarial assumptions. **Exhibit 1** details the annual cost of the bill for both systems.

Exhibit 1
Breakdown of Annual Costs by System

	<u>SPRS</u>	<u>LEOPS</u>	<u>Combined</u>
Fiscal 2006	\$139,000	\$78,000	\$217,000
Fiscal 2007	144,000	81,000	225,000
Fiscal 2008	150,000	84,000	234,000
Fiscal 2009	156,000	88,000	244,000

Additional Information

Prior Introductions: None.

Cross File: SB 344 (Senator Stoltzfus, *et al.*) – Budget and Taxation.

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

Fiscal Note History: First Reader - February 18, 2004
ncs/mdr

Analysis by: Daniel P. Tompkins

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