

**Department of Legislative Services**  
Maryland General Assembly  
2004 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 1057 (Delegate James) (Chairman, Joint Committee on Pensions)  
Appropriations Budget and Taxation

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**State Retirement and Pension System - Administration - Simplification**

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This pension bill discontinues certain transfer provisions, closes the Local Fire and Police System (LFPS) to new membership, and provides for specified technical corrections to the State Personnel and Pensions Article.

The bill is effective July 1, 2004 with certain provisions effective January 1, 2005.

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**Fiscal Summary**

**State Effect:** The provisions of this bill do not affect benefits or pension system liabilities. State Retirement Agency administrative expenses could decrease by a minimal amount.

**Local Effect:** None.

**Small Business Effect:** None.

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**Analysis**

**Bill Summary:** The major provisions of the bill that are effective October 1, 2004 are:

- *Eliminate optional membership.* Membership in the Employees' Pension System (EPS) is optional for the following: elected or appointed officials; employees of the Governor's Office; employees of the Senate or House of Delegates; and members of the Prince George's County Board of License Commissioners. Few members with optional membership elect to forgo membership today.

Participation in State and local health benefit programs during retirement is based on receiving a retirement allowance from the system. Individuals who presently have elected not to participate and continue in their present position would be grandfathered and, therefore, continue to remain in their present nonelect status.

- *Eliminate 130-day membership requirement for officials.* Like other members of EPS, the appointed officials will enroll in EPS if they are to work at least 500 hours in a given fiscal year.
- *Abolish the Employees' Retirement System (ERS) tier in the Law Enforcement Officers Pension System (LEOPS).* In the past 10 years the General Assembly has amended eligibility for membership in LEOPS numerous times in order to place all of its law enforcement officers (except the State Police and correctional officers) in LEOPS. Few local employers that now may elect to participate in LEOPS have law enforcement employees who have service and membership prior to 1980, or who have not transferred to a pension system. Employers that elect to participate in LEOPS for the future would participate in the general LEOPS only. Retirement system members would be given the option of remaining in ERS or joining the "pension system" tier of LEOPS. The bill provides a final six-month window for members to transfer and discontinues the option on January 1, 2005.
- *Temporary suspension of disability retirement allowance – clarifications.* The bill clarifies that: (1) the board shall, after giving notice, suspend the retiree's allowance; and (2) the suspension begins as of the date the retiree returns to employment with a participating employer.
- *Investment and fiduciary training sites.* The bill permits board members to receive their required eight hours of investment and fiduciary training in the State, rather than limiting that training to only the State Retirement Agency.
- *Investment Operations Manual – title correction.* The bill changes the references in the State Personnel and Pensions Article for the board developed investment manual to the Investment Policy Manual.

The major provisions of the bill that are effective January 1, 2005 are:

- *Discontinue transfers from the Teachers' Retirement System (TRS) or ERS to the Teachers' Pension System (TPS) or EPS.* Since the establishment of TPS/EPS in 1980, members of TRS/ERS have had the ability to transfer out of a retirement system into a corresponding pension system. The majority of transfers occurred

during the initial six months of the program in 1980 and during the early 1990s when the transfer interest rate peaked at 15.8%. Only four members transferred out of their respective retirement system into the corresponding pension system in 2003. Members who do transfer are subject to an unfavorable pension formula that does not reflect 1998 enhancements.

- *Discontinue alternate retirement selections for TRS/ERS.* In 1984, legislation was passed that required retirement system members to make an election of one of three selections to retain benefits in their retirement system. Few members have altered their selection after making their initial selection in 1984. If a change did occur after the initial selection, it normally involved a transfer out of the retirement systems to a pension system. Individuals who elected to remain in their retirement system are not likely to alter their plan selection now and, in effect, lose the benefits of the higher employee contributions they have been making for almost 20 years in order to step down to a lesser benefit.
- *Discontinue voluntary contributions.* Members of TRS/ERS are presently permitted to make additional contributions to their accounts. At retirement, these funds may be withdrawn or paid out in the form of a monthly annuity. In the last several decades, investment opportunities have grown through employer-offered supplemental benefit plans that offer greater investment choices.
- *Discontinue LFPS.* Current employers would continue to participate. Employers seeking coverage through the State system for their law enforcement employees would be eligible to enroll in LEOPS. Only Hurlock and Cumberland remain as LFPS participating employers. These jurisdictions will be able to add new members to LFPS.
- *Participation in LEOPS on behalf of firefighters – Participating Governmental Units (PGUs).* The bill authorizes a PGU to participate in LEOPS on behalf of their law enforcement and/or their firefighters if 60% of their law enforcement officers or their firefighters who are members of their local pension system petition to become members of LEOPS. The legislative body of the PGU must approve the participation. Firefighter is defined as: (1) a paid firefighter as determined by the eligible governmental unit; or (2) a paid paramedic as determined by the eligible governmental unit.

**Background:** In a recent report conducted by Cost Effectiveness Management, Inc. (CEM), the Maryland State Retirement and Pension System ranked second among a peer group of 18 similar public pension systems in terms of complexity of its laws,

regulations, and procedures. The provisions in the bill are intended to remove State pension provisions that are obsolete, or provide benefit options to a *de minibus* number of members.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 4, 2004  
ncs/mdr Revised - House Third Reader - March 25, 2004

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