HB 188

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 188 (Delegates Hubbard and G. Clagett)
Appropriations

Correctional Officers' Retirement System - Membership - Division of Parole and Probation

This pension bill provides a pension enhancement to agents of the Division of Parole and Probation of the Department of Public Safety and Correctional Services.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: State pension liabilities would increase by approximately $32.0 million, resulting in increased employer pension contributions (all funds) of approximately $1.1 million beginning in FY 2006 and increasing by approximately 30%-40% per year thereafter because of an anomaly in the funding mechanism for the Correctional Officers' Retirement System (CORS). Special fund expenditures would increase by $10,000 annually for the State Retirement Agency to administer the provisions of this bill.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	630,000	714,000	804,000	900,000
SF Expenditure	10,000	220,000	248,000	278,000	310,000
FF Expenditure	0	210,000	238,000	268,000	300,000
Net Effect	($10,000)	($1,060,000)	($1,200,000)	($1,350,000)	($1,510,000)

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's major provisions are as follows:

- a special tier of benefits would be created within CORS to provide benefits to these agents at a level that is greater than the current Employees' Pension System (EPS) structure, but less than the CORS structure;
- the minimum years of service for a normal service retirement benefit is reduced from 30 years (under EPS) to 25 years under the new CORS tier, and the minimum age for an unreduced benefit (regardless of years of service) is reduced from 62 to 55;
- the accrual rate (or multiplier) is increased from 1.4% of average final compensation (under EPS) to 1.8% (existing CORS accrual rate);
- members receive a 3% simple COLA rather than the unlimited CORS COLA;
- members would contribute 5% of earnable compensation (CORS contribution rate) rather than 2% (EPS contribution rate);
- all other provisions of CORS would apply to the agents in this tier; and
- new agents would be automatically enrolled in this CORS tier; existing agents would have the option to transfer into it before December 31, 2004. For those members who transfer, the State Retirement and Pension System (SRPS) would transfer all previous employer and employee contributions from EPS to CORS.

Current Law: See discussion above.

Background: The issue of the benefit levels of parole and probation agents was studied by the Joint Committee on Pensions during the 2001 and 2002 interims. A study by the Department of Legislative Services in 2001 indicated that of 29 states and localities surveyed, 17 included their agents in their general employees' systems, as Maryland currently does. The other jurisdictions included their agents in their public safety pension systems or operated systems specific to the agents.

State Fiscal Effect: There are approximately 746 State parole and probation agents, with an average salary of $44,671. This count excludes supervisors, who are not covered by the bill as drafted. It is assumed that virtually all eligible current agents would transfer.

Based on these data, the State's actuary informally estimates that the proposal would increase State pension liabilities by approximately $32.0 million, resulting in increased employer pension contributions (all funds) of approximately $1.1 million beginning in fiscal 2006.

These pension contributions are projected to increase by approximately 30%-40% per year thereafter because of an anomaly in the funding mechanism for CORS. CORS pension funding is incorporated into the general employees' systems rate; however, the "normal rate" component 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; this proposal would parallel that effect.

State Expenditures: The State Retirement Agency would incur approximately $10,000 to administer the provisions of the bill related to accounting services, mailings, seminars, and other counseling services to members. The agency also estimates that $300,000 in one-time staff and contractual computer reprogramming costs would be required. The Department of Legislative Services notes that the agency is processing benefits on a 30-year old computer system and significant additional programming costs may be incurred, but advises that there is no reliable estimate of the magnitude of those costs.

Additional Comments: It should also be noted that the bill provides for a 3% simple COLA, while the affected members currently have a more generous 3% compound COLA. While the fiscal estimate is based on the bill as drafted, if this provision is changed, increased liabilities of approximately $37.7 million and increased employer pension contributions of approximately $1.4 million per year in fiscal 2006 and increasing by approximately 30%-40% per year thereafter would result.

Additional Information

Prior Introductions: In 2003, HB 604, a similar bill, received an unfavorable report from the Appropriations Committee.

Cross File: None.

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

Fiscal Note History: First Reader - February 9, 2004
mh/mdr

Analysis by: Daniel P. Tompkins

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