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By: **Allegany County Delegation**

Introduced and read first time: February 9, 2005

Assigned to: Appropriations

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A BILL ENTITLED

1 AN ACT concerning

2 **Local Fire and Police System - Withdrawal of Participating Governmental**  
3 **Units**

4 FOR the purpose of requiring that if a participating governmental unit withdraws  
5 from the Local Fire and Police System on or after a certain date, all of the  
6 employees of the participating governmental unit who are members of the Local  
7 Fire and Police System must also withdraw; requiring the Board of Trustees of  
8 the State Retirement and Pension System to transfer certain liabilities and  
9 assets allocable to certain former vested members, retirees, or surviving  
10 beneficiaries of deceased members, former vested members, or retirees of the  
11 Local Fire and Police System to the Employees' Pension System by a certain  
12 date; requiring that after the Board of Trustees of the State Retirement and  
13 Pension System transfers certain liabilities and assets, certain former vested  
14 members, retirees, or surviving beneficiaries of deceased members, former  
15 vested members, or retirees of the Local Fire and Police System shall become  
16 former vested members, retirees, or surviving beneficiaries of deceased  
17 members, former vested members, or retirees of the Employees' Pension System;  
18 requiring that certain former vested members, retirees, or surviving  
19 beneficiaries of deceased members, former vested members, or retirees of the  
20 Local Fire and Police System who become former vested members, retirees, or  
21 surviving beneficiaries of deceased members, former vested members, or  
22 retirees of the Employees' Pension System shall receive certain benefits; and  
23 generally relating to the withdrawal of participating governmental units in the  
24 Local Fire and Police System.

25 BY repealing and reenacting, with amendments,  
26 Article - State Personnel and Pensions  
27 Section 21-306 and 31-302  
28 Annotated Code of Maryland  
29 (2004 Replacement Volume)

30 BY adding to  
31 Article - State Personnel and Pensions  
32 Section 23-501 to be under the new subtitle "Subtitle 5. Retirees, Former Vested

1 Members, Deferred Vested Retirees, and Surviving Beneficiaries of the  
2 Local Fire and Police System"  
3 Annotated Code of Maryland  
4 (2004 Replacement Volume)

5 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF  
6 MARYLAND, That the Laws of Maryland read as follows:

7 **Article - State Personnel and Pensions**

8 21-306.

9 (a) (1) Each fiscal year, on behalf of its employees who are members of the  
10 Local Fire and Police System, a participating governmental unit shall pay an amount  
11 equal to or greater than the product of multiplying:

12 (i) the aggregate annual earnable compensation of those members;  
13 and

14 (ii) the sum of the normal contribution rate and the accrued  
15 liability contribution rate, as determined under this section.

16 (2) Each fiscal year, in addition to the amounts required to be paid under  
17 paragraph (1) of this subsection, a participating governmental unit shall pay:

18 (i) the special accrued liability contribution required by subsection  
19 (d) of this section; and

20 (ii) any withdrawal liability contribution required by subsection (e)  
21 of this section.

22 (3) The amounts determined under paragraphs (1) and (2) of this  
23 subsection shall be based on an actuarial determination of the amounts that are  
24 required to preserve the integrity of the accumulation fund of the Local Fire and  
25 Police System, using:

26 (i) the entry-age actuarial cost method;

27 (ii) actuarial assumptions adopted by the Board of Trustees; and

28 (iii) the asset valuation method recommended by the actuary and  
29 adopted by the Board of Trustees.

30 (4) The actuary shall compute the contributions payable under this  
31 section.

32 (5) The amounts computed under this section are a charge against the  
33 participating governmental unit to be paid in accordance with § 21-309 of this  
34 subtitle.

1 (b) (1) As part of each actuarial valuation, the actuary shall determine the  
2 normal contributions, net of member contributions, on account of members of the  
3 Local Fire and Police System.

4 (2) Except as provided in paragraph (3) of this subsection, the normal  
5 contribution rate for the Local Fire and Police System equals the fraction that has:

6 (i) as its numerator, the sum of the normal contributions  
7 determined under this subsection; and

8 (ii) as its denominator, the aggregate annual earnable  
9 compensation of the members of the Local Fire and Police System.

10 (3) On the recommendation of the actuary, the Board of Trustees may  
11 adjust the normal contribution rate determined under this section to provide for:

12 (i) experience gains and losses;

13 (ii) the effect of changes in actuarial assumptions; and

14 (iii) the effect of legislation enacted after July 1, 1989.

15 (c) (1) The accrued liability contribution rate for the Local Fire and Police  
16 System shall be computed as the percent of the aggregate earnable compensation of  
17 the members of the Local Fire and Police System that is sufficient to liquidate over 40  
18 years beginning July 1, 1989, the amount, as of June 30, 1989, by which the total  
19 liabilities of the Local Fire and Police System exceeded the sum of:

20 (i) the assets in the accumulation fund and the annuity savings  
21 fund of the Local Fire and Police System; and

22 (ii) the present value of future normal contributions, future special  
23 accrued liability contributions, future withdrawal liability contributions, and future  
24 member contributions.

25 (2) On the recommendation of the actuary, the Board of Trustees may  
26 adjust the accrued liability contribution rate to reflect:

27 (i) experience gains and losses;

28 (ii) the effect of changes in actuarial assumptions; and

29 (iii) the effect of legislation enacted after July 1, 1989.

30 (d) (1) In this subsection, "special accrued liability" means, as to any  
31 participating governmental unit, the liability of the Local Fire and Police System on  
32 account of the employees of the participating governmental unit who elect to become  
33 members under § 28-202(b) of this article.

1           (2)     Each participating governmental unit shall make a special accrued  
2 liability contribution on account of the participation of its employees in the Local Fire  
3 and Police System.

4           (3)     The special accrued liability contribution shall be determined by an  
5 actuarial valuation of the special accrued liability as of the date of approval of  
6 participation by the legislative body of the participating governmental unit.

7           (4)     Except as provided in paragraph (5) of this subsection, the annual  
8 special accrued liability contribution of each participating governmental unit shall be  
9 the level annual payment that is sufficient to liquidate, over 25 years beginning on  
10 the date of approval by the legislative body of the participating governmental unit,  
11 the amount by which the special accrued liability of the participating governmental  
12 unit exceeds the sum of:

13           (i)     the present value, as of the date of approval, of future normal  
14 contributions, future accrued liability contributions, and future member contributions  
15 on behalf of or by members who are employees of the participating governmental unit;  
16 and

17           (ii)    any cash and securities transferred to the Local Fire and Police  
18 System in accordance with § 31-205(b) of this article.

19           (5)     Subject to the approval of the Board of Trustees, a participating  
20 governmental unit may liquidate its unfunded special accrued liability:

21           (i)     over a period not to exceed 40 years; or

22           (ii)    subject to the actuary's concurrence, by means of annual  
23 payments other than level annual payments.

24           (6)     The expense of making the initial special accrued liability actuarial  
25 valuation shall be assessed against and paid by the participating governmental unit  
26 on whose account it is necessary.

27       (e)   (1)   (i)     In this subsection the following words have the meanings  
28 indicated.

29           (ii)    "Active participant funding ratio" means the ratio determined  
30 by the actuary as provided under paragraph (3) of this subsection.

31           (iii)   "Complement of the active participant funding ratio" is a ratio  
32 equal to 1 minus the active participant funding ratio.

33           (2)   (i)     On and after the date of a participating governmental unit's  
34 withdrawal from the Local Fire and Police System under § 31-302(b) of this article,  
35 the participating governmental unit and its employees are not required to make any  
36 further contributions to the Local Fire and Police System [for those employees who  
37 elect to withdraw from the Local Fire and Police System].

1 (ii) [As of the effective date of withdrawal, the participating  
2 governmental unit shall continue to make any contributions required under  
3 subsection (a) of this section on behalf of those employees who do not elect to  
4 withdraw from the Local Fire and Police System.

5 (iii)] As of the effective date of withdrawal of a participating  
6 governmental unit from the Local Fire and Police System, the Board of Trustees shall  
7 transfer to the administrative board of the local pension system the assets that are  
8 allocable to the employees of the participating governmental unit [who elect to  
9 withdraw from the Local Fire and Police System] as determined under paragraph (4)  
10 of this subsection.

11 (3) (i) As of June 30 of each fiscal year, the actuary shall determine  
12 the active participant funding ratio for the participating governmental units as  
13 provided in this section.

14 (ii) The active participant funding ratio shall be a fraction, not to  
15 exceed 1, that has:

16 1. as its numerator, the assets to the credit of the  
17 participating governmental units in the accumulation fund and the annuity savings  
18 fund of the Local Fire and Police System as adjusted under subparagraph (iii) of this  
19 paragraph, decreased by the sum of the actuarial liabilities allocable to retirees of the  
20 Local Fire and Police System who retired from the service of the participating  
21 governmental unit and the designated beneficiaries of those retirees, former members  
22 of the Local Fire and Police System who are eligible for a vested allowance who  
23 separated from employment with the participating governmental unit, and members  
24 of the Local Fire and Police System who separated from employment with the  
25 participating governmental unit but who may become eligible to receive prior  
26 eligibility service credit under § 28-303 of this article; and

27 2. as its denominator, the actuarial liabilities that are  
28 allocable to the employees of the participating governmental units who are members  
29 of the Local Fire and Police System.

30 (iii) The assets to the credit of the participating governmental units  
31 as of the valuation date shall be increased by the sum of the outstanding balances of:

32 1. the special accrued liability attributable to the  
33 participating governmental units under subsection (d) of this section; and

34 2. the withdrawal liability attributable to the participating  
35 governmental units under paragraph (5) of this subsection.

36 (4) (i) The assets that are allocable to the employees of a participating  
37 governmental unit who [elect to] withdraw from the Local Fire and Police System  
38 shall be computed by the actuary as provided in this paragraph.

39 (ii) The actuary shall first multiply the active participant funding  
40 ratio for the fiscal year preceding the effective date of withdrawal of the participating

1 governmental unit by the actuarial liability allocable to the employees of the  
2 participating governmental unit who [elect to] withdraw.

3 (iii) The actuary shall reduce the amount determined under  
4 subparagraph (ii) of this paragraph by the outstanding balance of the special accrued  
5 liability contribution attributable to the participating governmental unit as of the  
6 effective date of withdrawal.

7 [(5) (i) The withdrawal liability contribution of a participating  
8 governmental unit shall be computed by the actuary as provided in this paragraph.

9 (ii) The actuary shall multiply the complement of the active  
10 participant funding ratio for the fiscal year preceding the effective date of withdrawal  
11 of the participating governmental unit by the actuarial liability allocable to the  
12 employees of the participating governmental unit who elect to remain members of the  
13 Local Fire and Police System.

14 (iii) The amount determined under subparagraph (ii) of this  
15 paragraph may not be less than zero.

16 (iv) Except as provided in subparagraph (v) of this paragraph, the  
17 annual withdrawal liability contribution of a participating governmental unit shall be  
18 the annual payment that is sufficient to liquidate, over not more than 25 years, the  
19 withdrawal liability contribution by means of annual payments that increase each  
20 year based on the actuarial assumptions adopted by the Board of Trustees on the  
21 recommendation of the actuary.

22 (v) Subject to the approval of the Board of Trustees and the  
23 actuary's concurrence, a participating governmental unit:

24 1. may liquidate the withdrawal liability contribution by  
25 means of level annual payments or over a term of less than 25 years; or

26 2. prepay all or a portion of the withdrawal liability  
27 contribution.]

28 (F) (1) THIS SUBSECTION ONLY APPLIES TO A FORMER VESTED MEMBER,  
29 RETIREE, OR SURVIVING BENEFICIARY OF A DECEASED MEMBER, FORMER VESTED  
30 MEMBER, OR RETIREE, WHO WHILE A MEMBER OF THE LOCAL FIRE AND POLICE  
31 SYSTEM WAS EMPLOYED BY A PARTICIPATING GOVERNMENTAL UNIT THAT  
32 WITHDREW FROM THE LOCAL FIRE AND POLICE SYSTEM ON OR BEFORE DECEMBER  
33 31, 2004.

34 (2) THE BOARD OF TRUSTEES SHALL TRANSFER TO THE EMPLOYEES'  
35 PENSION SYSTEM:

36 (I) THE LIABILITIES ALLOCABLE TO THE FORMER VESTED  
37 MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED MEMBERS,  
38 FORMER VESTED MEMBERS, OR RETIREES THAT ARE ACCRUED ON OR BEFORE JUNE  
39 30, 2005, AS DETERMINED BY AN ACTUARIAL VALUATION OF THESE LIABILITIES AS

1 OF JUNE 30, 2005, BASED ON ASSUMPTIONS THAT WILL BE USED IN THE ACTUARIAL  
2 VALUATION OF THE SEVERAL SYSTEMS AS OF JUNE 30, 2005; AND

3 (II) THE ACTUARIAL VALUE OF ASSETS FOR THE FORMER VESTED  
4 MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED MEMBERS,  
5 FORMER VESTED MEMBERS, OR RETIREES THAT IS EQUAL TO THE LIABILITIES AS OF  
6 THE DATE THEIR EMPLOYER WITHDREW FROM THE LOCAL FIRE AND POLICE  
7 SYSTEM ADJUSTED TO REFLECT:

8 1. ANY BENEFIT PAYMENTS ATTRIBUTABLE TO THE FORMER  
9 VESTED MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED  
10 MEMBERS, FORMER VESTED MEMBERS, OR RETIREES; AND

11 2. THE ACTUAL INVESTMENT EXPERIENCE BASED ON THE  
12 ACTUARIAL VALUATION OF ASSETS.

13 (3) (I) A TRANSFER MADE UNDER PARAGRAPH (2) OF THIS  
14 SUBSECTION SHALL BE COMPLETED ON OR BEFORE DECEMBER 31, 2005.

15 (II) AFTER THE TRANSFER HAS BEEN COMPLETED, THE FORMER  
16 VESTED MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED  
17 MEMBERS, FORMER VESTED MEMBERS, OR RETIREES SHALL BECOME FORMER  
18 VESTED MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED  
19 MEMBERS, FORMER VESTED MEMBERS, OR RETIREES OF THE EMPLOYEES' PENSION  
20 SYSTEM.

21 (G) (1) THIS SUBSECTION APPLIES ONLY TO A FORMER VESTED MEMBER,  
22 RETIREE, OR SURVIVING BENEFICIARY OF A DECEASED MEMBER, FORMER VESTED  
23 MEMBER, OR RETIREE, WHO WHILE A MEMBER OF THE LOCAL FIRE AND POLICE  
24 SYSTEM WAS EMPLOYED BY A PARTICIPATING GOVERNMENTAL UNIT  
25 PARTICIPATING IN THE LOCAL FIRE AND POLICE SYSTEM ON OR AFTER JUNE 30,  
26 2005.

27 (2) IF A PARTICIPATING GOVERNMENTAL UNIT WITHDRAWS FROM THE  
28 LOCAL FIRE AND POLICE SYSTEM ON OR AFTER JUNE 30, 2005, AS PROVIDED UNDER  
29 § 31-302 OF THIS ARTICLE, THE BOARD OF TRUSTEES SHALL TRANSFER TO THE  
30 EMPLOYEES' PENSION SYSTEM:

31 (I) THE LIABILITIES ALLOCABLE TO THE FORMER VESTED  
32 MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED MEMBERS,  
33 FORMER VESTED MEMBERS, OR RETIREES THAT ARE ACCRUED ON OR BEFORE THE  
34 DATE THE PARTICIPATING GOVERNMENTAL UNIT ELECTS TO WITHDRAW, AS  
35 DETERMINED BY AN ACTUARIAL VALUATION OF THESE LIABILITIES AS OF THE DATE  
36 THE PARTICIPATING GOVERNMENTAL UNIT ELECTS TO WITHDRAW, BASED ON  
37 ASSUMPTIONS THAT WILL BE USED IN THE ACTUARIAL VALUATION OF THE SEVERAL  
38 SYSTEMS AS OF THE DATE THE PARTICIPATING GOVERNMENTAL UNIT ELECTS TO  
39 WITHDRAW; AND

40 (II) THE ACTUARIAL VALUE OF ASSETS FOR THE FORMER VESTED  
41 MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED MEMBERS,





1           (4)       subject to the approval of the Board of Trustees, a homogeneous unit  
2 of at least 10 employees.

3       (b)       The legislative body of a participating governmental unit may withdraw  
4 from participation in the Local Fire and Police System and SHALL transfer to a local  
5 pension system [the law enforcement officers or fire fighters of the participating  
6 governmental unit who consent to the withdrawal] ALL EMPLOYEES OF THE  
7 PARTICIPATING GOVERNMENTAL UNIT.

8       (c)       The legislative body of a participating governmental unit may withdraw  
9 from participation in the Law Enforcement Officers' Pension System and transfer to a  
10 local pension system the law enforcement officers of the participating governmental  
11 unit who consent to the withdrawal.

12       SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect  
13 June 1, 2005.