
By: **Allegany County Delegation**

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Assigned to: Appropriations

Committee Report: Favorable

House action: Adopted

Read second time: March 8, 2005

CHAPTER _____

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

1 Annotated Code of Maryland
2 (2004 Replacement Volume)

3 BY adding to

4 Article - State Personnel and Pensions
5 Section 23-501 to be under the new subtitle "Subtitle 5. Retirees, Former Vested
6 Members, Deferred Vested Retirees, and Surviving Beneficiaries of the
7 Local Fire and Police System"
8 Annotated Code of Maryland
9 (2004 Replacement Volume)

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

12 **Article - State Personnel and Pensions**

13 21-306.

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

17 (i) the aggregate annual earnable compensation of those members;
18 and

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

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

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

25 (ii) any withdrawal liability contribution required by subsection (e)
26 of this section.

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

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

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

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

1 (4) The actuary shall compute the contributions payable under this
2 section.

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

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

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

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

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

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

17 (i) experience gains and losses;

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

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

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

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

27 (ii) the present value of future normal contributions, future special
28 accrued liability contributions, future withdrawal liability contributions, and future
29 member contributions.

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

32 (i) experience gains and losses;

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

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

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

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

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

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

17 (i) the present value, as of the date of approval, of future normal
18 contributions, future accrued liability contributions, and future member contributions
19 on behalf of or by members who are employees of the participating governmental unit;
20 and

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

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

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

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

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

31 (e) (1) (i) In this subsection the following words have the meanings
32 indicated.

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

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

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

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

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

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

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

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

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

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

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

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

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

4 (ii) The actuary shall first multiply the active participant funding
5 ratio for the fiscal year preceding the effective date of withdrawal of the participating
6 governmental unit by the actuarial liability allocable to the employees of the
7 participating governmental unit who [elect to] withdraw.

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

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

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

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

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

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

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

31 2. prepay all or a portion of the withdrawal liability
32 contribution.]

33 (F) (1) THIS SUBSECTION ONLY APPLIES TO A FORMER VESTED MEMBER,
34 RETIREE, OR SURVIVING BENEFICIARY OF A DECEASED MEMBER, FORMER VESTED
35 MEMBER, OR RETIREE, WHO WHILE A MEMBER OF THE LOCAL FIRE AND POLICE
36 SYSTEM WAS EMPLOYED BY A PARTICIPATING GOVERNMENTAL UNIT THAT
37 WITHDREW FROM THE LOCAL FIRE AND POLICE SYSTEM ON OR BEFORE DECEMBER
38 31, 2004.

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

3 (I) THE LIABILITIES ALLOCABLE TO THE FORMER VESTED
4 MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED MEMBERS,
5 FORMER VESTED MEMBERS, OR RETIREES THAT ARE ACCRUED ON OR BEFORE JUNE
6 30, 2005, AS DETERMINED BY AN ACTUARIAL VALUATION OF THESE LIABILITIES AS
7 OF JUNE 30, 2005, BASED ON ASSUMPTIONS THAT WILL BE USED IN THE ACTUARIAL
8 VALUATION OF THE SEVERAL SYSTEMS AS OF JUNE 30, 2005; AND

9 (II) THE ACTUARIAL VALUE OF ASSETS FOR THE FORMER VESTED
10 MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED MEMBERS,
11 FORMER VESTED MEMBERS, OR RETIREES THAT IS EQUAL TO THE LIABILITIES AS OF
12 THE DATE THEIR EMPLOYER WITHDREW FROM THE LOCAL FIRE AND POLICE
13 SYSTEM ADJUSTED TO REFLECT:

14 1. ANY BENEFIT PAYMENTS ATTRIBUTABLE TO THE FORMER
15 VESTED MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED
16 MEMBERS, FORMER VESTED MEMBERS, OR RETIREES; AND

17 2. THE ACTUAL INVESTMENT EXPERIENCE BASED ON THE
18 ACTUARIAL VALUATION OF ASSETS.

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

21 (II) AFTER THE TRANSFER HAS BEEN COMPLETED, THE FORMER
22 VESTED MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED
23 MEMBERS, FORMER VESTED MEMBERS, OR RETIREES SHALL BECOME FORMER
24 VESTED MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED
25 MEMBERS, FORMER VESTED MEMBERS, OR RETIREES OF THE EMPLOYEES' PENSION
26 SYSTEM.

27 (G) (1) THIS SUBSECTION APPLIES ONLY TO A FORMER VESTED MEMBER,
28 RETIREE, OR SURVIVING BENEFICIARY OF A DECEASED MEMBER, FORMER VESTED
29 MEMBER, OR RETIREE, WHO WHILE A MEMBER OF THE LOCAL FIRE AND POLICE
30 SYSTEM WAS EMPLOYED BY A PARTICIPATING GOVERNMENTAL UNIT
31 PARTICIPATING IN THE LOCAL FIRE AND POLICE SYSTEM ON OR AFTER JUNE 30,
32 2005.

33 (2) IF A PARTICIPATING GOVERNMENTAL UNIT WITHDRAWS FROM THE
34 LOCAL FIRE AND POLICE SYSTEM ON OR AFTER JUNE 30, 2005, AS PROVIDED UNDER
35 § 31-302 OF THIS ARTICLE, THE BOARD OF TRUSTEES SHALL TRANSFER TO THE
36 EMPLOYEES' PENSION SYSTEM:

37 (I) THE LIABILITIES ALLOCABLE TO THE FORMER VESTED
38 MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED MEMBERS,
39 FORMER VESTED MEMBERS, OR RETIREES THAT ARE ACCRUED ON OR BEFORE THE
40 DATE THE PARTICIPATING GOVERNMENTAL UNIT ELECTS TO WITHDRAW, AS
41 DETERMINED BY AN ACTUARIAL VALUATION OF THESE LIABILITIES AS OF THE DATE

1 THE PARTICIPATING GOVERNMENTAL UNIT ELECTS TO WITHDRAW, BASED ON
2 ASSUMPTIONS THAT WILL BE USED IN THE ACTUARIAL VALUATION OF THE SEVERAL
3 SYSTEMS AS OF THE DATE THE PARTICIPATING GOVERNMENTAL UNIT ELECTS TO
4 WITHDRAW; AND

5 (II) THE ACTUARIAL VALUE OF ASSETS FOR THE FORMER VESTED
6 MEMBERS, RETIREES, OR SURVIVING BENEFICIARIES OF DECEASED MEMBERS,
7 FORMER VESTED MEMBERS, OR RETIREES THAT IS EQUAL TO THE LIABILITIES AS OF
8 THE DATE THE PARTICIPATING GOVERNMENTAL UNIT ELECTS TO WITHDRAW FROM
9 THE LOCAL FIRE AND POLICE SYSTEM ADJUSTED TO REFLECT:

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

13 2. THE ACTUAL INVESTMENT EXPERIENCE BASED ON THE
14 ACTUARIAL VALUATION OF ASSETS.

15 (3) (I) A TRANSFER MADE UNDER PARAGRAPH (2) OF THIS
16 SUBSECTION SHALL BE COMPLETED WITHIN 1 YEAR OF THE DATE THE
17 PARTICIPATING GOVERNMENTAL UNIT ELECTS TO WITHDRAW.

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

24 SUBTITLE 5. RETIREES, FORMER VESTED MEMBERS, DEFERRED VESTED RETIREES,
25 AND SURVIVING BENEFICIARIES OF THE LOCAL FIRE AND POLICE SYSTEM.

26 23-501.

27 (A) THIS SECTION APPLIES TO AN INDIVIDUAL WHO IS A FORMER VESTED
28 MEMBER, RETIREE, OR SURVIVING BENEFICIARY OF A DECEASED MEMBER, FORMER
29 VESTED MEMBER, OR RETIREE, WHO, ON OR AFTER JUNE 30, 2005, IS REQUIRED TO
30 BECOME A FORMER VESTED MEMBER, RETIREE, OR SURVIVING BENEFICIARY OF A
31 DECEASED MEMBER, FORMER VESTED MEMBER, OR RETIREE OF THE EMPLOYEES'
32 PENSION SYSTEM AS PROVIDED UNDER § 21-306(F) OR (G) OF THIS ARTICLE.

33 (B) AN INDIVIDUAL DESCRIBED UNDER SUBSECTION (A) OF THIS SECTION
34 SHALL CONTINUE TO RECEIVE BENEFITS IN ACCORDANCE WITH THE PROVISIONS OF
35 TITLE 28 OF THIS ARTICLE.

36 31-302.

37 (a) The legislative body of a participating governmental unit may withdraw
38 from participation in the employees' systems and transfer to a local pension system

1 any of the following groups of employees of the governmental unit who consent to the
2 withdrawal:

- 3 (1) all employees of the participating governmental unit;
- 4 (2) fire fighters;
- 5 (3) law enforcement personnel; or
- 6 (4) subject to the approval of the Board of Trustees, a homogeneous unit
7 of at least 10 employees.

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

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

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