

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 510

(Senator DeGrange, *et al.*)

Budget and Taxation

Appropriations

**Law Enforcement Officers' Pension System - Membership - Aviators with the
 Department of State Police**

This bill allows civilian pilot employees of the Department of State Police (DSP) who operate aircraft for the State Emergency Medical System and who are employed on June 30, 2005 to join the Law Enforcement Officers' Pension System (LEOPS) by December 31, 2005. The bill does not apply to pilots who transferred from the Employees' Retirement System to the Employees' Pension System (EPS) on or after April 1, 1998.

The bill is effective July 1, 2005.

Fiscal Summary

State Effect: State pension contributions on behalf of civilian pilots will increase by \$529,100 in FY 2006 (reflecting the increased employer contribution rate) and by \$558,300 in FY 2007 (reflecting normal costs and increased actuarial liabilities of \$1.4 million), increasing annually thereafter.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	105,800	47,400	49,300	51,300	53,300
SF Expenditure	423,300	189,700	197,200	205,100	213,300
GF/SF/FF Exp.	0	321,200	334,000	347,800	361,500
Net Effect	(\$529,100)	(\$558,300)	(\$580,500)	(\$604,200)	(\$628,100)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: Like all nonuniformed DSP employees, civilian pilots are members of EPS. LEOPS is made up of police officers from Executive Branch agencies (*e.g.*, the Departments of General Services; Natural Resources; Health and Mental Hygiene; Labor, Licensing, and Regulation) as well as the Maryland Transportation Authority, the University System of Maryland, Morgan State University, and other State entities. Baltimore City police officers and the State Fire Marshal and deputy marshals are also members of LEOPS.

Service retirement in EPS is available after 30 years or at age 62 versus after 25 years or age 50 in LEOPS. EPS members contribute 2% of salary and receive an annual retirement benefit equal to the product of years of service and 1.4% of average final salary versus 7% contribution and 2% multiplier in LEOPS.

Of the 28 pilots eligible for transfer to LEOPS under the bill, 15 are retired active duty military personnel, and are thus also receiving a military pension.

State Fiscal Effect: The proposed transfer to LEOPS affects both components used to calculate pension contributions: the increase in payroll upon which the contributions are made the contribution rate which is applied to payroll and the level of pension liabilities (expressed in the contribution rate) which is applied against payroll.

Employer Contribution Rate

The total payroll associated with these pilots is \$1.6 million. Based on a 38.47% employer contribution rate versus the 5.76% contribution rate for EPS, State pension contributions would increase by \$529,100 beginning in fiscal 2006, and increasing an estimated 4% per year thereafter. These costs would be split 80% special funds/20% general funds, reflecting the funding ratio of the State's Emergency Medical System. The special funds would come from the Maryland Emergency Medical System Operations Fund (MEMSOF).

Actuarial Liabilities

Transferring these 28 pilots to LEOPS would have two offsetting effects on State pension liabilities. By moving these employees to a system with a better benefit, pension liabilities will increase. On the other hand, pension assets will increase, because the contributions, which are based on the normal cost rate and the unfunded actuarial liability contribution rates, will also increase. It is estimated that net actuarial liabilities will increase by approximately \$1.4 million as a result of the transfer of these pilots. Amortizing these liabilities over 25 years will result in a first year increase in State

pension contributions of \$558,300 beginning in fiscal 2007, and increasing thereafter based on actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: HB 949 (Delegate G. Clagett, *et al.*) – Appropriations.

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

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