Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 1 (Senator Currie, *et al.*)
Budget and Taxation

State Police Retirement System - Deferred Retirement Option Program - Eligibility

This bill allows specified members of the State Police Retirement System (SPRS) to participate in the Deferred Retirement Option Program (DROP) retroactively. The bill also provides that 6% interest, compounded monthly, shall be applied to any DROP payments. The bill is effective from July 1, 2005 through June 30, 2006.

Fiscal Summary

State Effect: State pension liabilities could increase by $3.5 million, resulting in increased annual State pension contributions with a first year (2007) cost of $210,000. Out-year costs reflect actuarial assumptions.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues	$0	$0	$0	$0	$0
GF/SF/FF Exp.	0	210,000	220,000	230,000	240,000
Net Effect	$0	($210,000)	($220,000)	($230,000)	($240,000)

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 provides that members of SPRS who were less than 60 years old and had accumulated 24 years of service as of July 1, 1999 may participate in DROP retroactively. The bill provides the enrollment procedures and provides that the DROP period ends on the date the application for enrollment is submitted. The DROP period is to begin the lessor of four years or the difference between age 60 and the member's age as of the date of application, prior to submitting the application.

Current Law: Under DROP, a member elects to technically "retire" but agrees to work for no more than a fixed additional period of service. The member receives pension benefits payments into an interest-bearing account held by the State Retirement Agency. When the DROP period ends and "true" retirement begins, the retiree receives a monthly retirement benefit based on the years of service and salary at the time the retiree entered DROP, plus a lump sum payment equal to the value of the DROP account.

Members of SPRS are eligible to participate in DROP if they have at least 22 and less than 28 years of eligibility service, and are less than 60 years old. Eligible members elect to participate for a period not greater than the lesser of: (1) four years; (2) the difference between 28 years and the eligibility service credit as of the date of election to participate in DROP; (3) the difference between age 60 and the member's age as of the date of the member's election to participate in the DROP; or (4) a term selected by the member.

Background: DROP was established in statute by Chapter 122 of 1999, which required the Department of Budget and Management to seek approval of the proposed DROP program with the Internal Revenue Service (IRS). This approval took over a year to secure, and certain members of SPRS were subsequently excluded from participation in the DROP program. The program limits participation to no more than four years, governed by the member's age. While awaiting IRS approval for the DROP program, these members passed age 60 and were no longer eligible for DROP, despite accumulating the required service time.

State Fiscal Effect: The State Retirement Agency and the State's actuary estimate that this bill would affect approximately 15 members of SPRS with significant length of service who would, if allowed, participate in DROP. It is assumed that all 13 members will elect to join DROP, based on two factors: (1) SPRS allows members to earn only up to 28 years of service credit; and (2) the step increases in pay at that stage in an officer's career are relatively small. Based on this data, the State's actuary informally estimates that the bill would add $3.5 million in liabilities to SPRS. Amortizing those costs over 25 years results in a first year (fiscal 2007) employer cost of $210,000. Out-year costs reflect actuarial assumptions.

Employer contributions would cover the cost of monthly allowance checks, accumulated cost-of-living adjustments, 6% compound interest, and a refund of employee contributions (with 4% interest) made into the system during the DROP period. These officers, by electing to join DROP retroactively, are forfeiting the employer contributions made on their behalf, and the right to a higher benefit. The monthly benefit allowance is calculated as of the starting date of the DROP period, and as such is lower than it would be at present or moving forward.

Additional Information

Prior Introductions: Similar legislation was introduced in the 2004 session. HB 707 was unfavorably reported by the Appropriations Committee and SB 344 was unfavorably reported by the Budget and Taxation Committee.

Cross File: None.

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

Fiscal Note History: First Reader - February 8, 2005
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