Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 783 (Allegany County Delegation)
Appropriations Budget and Taxation

Local Fire and Police System - Withdrawal of Participating Governmental Units

This bill transfers to the Employees' Pension System (EPS) the assets and liabilities associated with the retirees, vested former members, and surviving beneficiaries of a participating governmental unit (PGU) that withdrew from the Local Fire and Police System (LFPS) on or before December 31, 2004. These retirees, former vested members, and surviving beneficiaries of LFPS become retirees, former vested members, and surviving beneficiaries of EPS. The bill provides that benefits to these individuals will be issued at the same level as under LFPS.

Finally, the bill provides that employees of PGUs that withdraw from LFPS on or after June 1, 2005 may no longer elect to remain members of LFPS.

The bill is effective June 1, 2005.

Fiscal Summary

State Effect: State pension system liabilities could increase $2.0 million, resulting in increased State pension employer contributions of $120,000 in FY 2007.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues	$0	$0	$0	$0	$0
GF/SF/FF Exp.	0	120,000	124,800	129,800	135,000
Net Effect	$0	($120,000)	($124,800)	($129,800)	($135,000)

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

Local Effect: Contribution rates for the Town of Hurlock and the City of Cumberland will increase to reflect new actuarial assumptions. These increases will be offset by the removal of the unfunded liability associated with "orphaned retirees" from withdrawn PGUs.

Small Business Effect: None.

Analysis

Bill Summary: This bill transfers assets and liabilities associated with retirees, vested terminated members, and beneficiaries of LFPS to EPS if the PGU that employed the member withdrew from LFPS on or before December 31, 2004.

Current Law: Upon withdrawal of a PGU from LFPS, current members are given the option of moving to the new plan (*e.g.*, Law Enforcement Officers' Pension System) or remaining in LFPS. The assets of the transferring members move to the new system with the members. The withdrawing PGU is required to make continued contributions to LFPS for those current members who do not elect to join EPS.

Retirees and vested terminated members of the PGU remain in the LFPS pool.

Background: LFPS was established in the early 1990s, primarily as a means to provide a 25-year benefit to local governments for their law enforcement officers and fire fighters. While it initially appeared that LFPS would attract many local governments, only five enrolled. Only two remain – Town of Hurlock and City of Cumberland. As of January 1, 2005, LFPS became a closed system. No new employers may participate.

Three previous employers (Cambridge, Greenbelt, and Salisbury) withdrew from LFPS in the past several years in order to transfer their police and fire fighters to the Law Enforcement Officers' Pension System. When each locality withdrew, the State's actuary calculated the portion of that governmental unit's assets that remained in LFPS to cover the liabilities of the retired and vested terminated members who remained under LFPS – referred to by the actuary as "orphans." At the time of withdrawal, the assets held covered projected liabilities. However, after the five-year experience study in 2003, actuarial assumptions (mortality, COLA adjustment, and investment returns) were adjusted. Investment returns did not meet actuarial assumptions and the assets for the "orphans" no longer covered projected liabilities, *i.e.*, an unfunded liability was created.

This increase in liabilities, however, was no longer assigned to, or the responsibility of the withdrawn employers. It became a responsibility of the LFPS pool, or the remaining participating employers – Hurlock and Cumberland. Instead of increasing the contribution rate from 14.31% to over 26%, the board of trustees chose to temporarily freeze rates at 14.31% in 2005.

State Fiscal Effect: State pension liabilities could increase by $2.0 million, with a first year amortized cost of $120,000 in fiscal 2007 increasing annually based on actuarial assumptions. This occurs because the bill transfers retirees of PGUs withdrawn from LFPS to EPS. Due to new actuarial assumptions, the assets for these retirees no longer cover the liabilities, *i.e.*, an unfunded liability exists.

Local Fiscal Effect: Hurlock and Cumberland face a potential 12% contribution rate increase to 26% without the removal of the "orphans" from the liability pool. The provisions of the bill will slow this increase in the rate, but the new actuarial assumptions on mortality, investments, and COLA adjustments will still require the rate for these municipalities to increase, although not to 26%.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 20, 2005
n/jr

Analysis by: Martin L. Levine

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