Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

House Bill 47 (Delegate Cadden, *et al.*)
Appropriations Budget and Taxation

Law Enforcement Officers' Pension System - Deferred Retirement Option Program - Eligibility

This bill allows specified members of the Law Enforcement Officers Pension System (LEOPS) to participate in the Deferred Retirement Option Program (DROP). The bill also provides that 6% interest, compounded monthly, shall be applied to any DROP payments.

The bill is effective July 1, 2005.

Fiscal Summary

State Effect: State pension liabilities could increase by $2.2 million, resulting in increased annual State pension contributions with a first year (2007) cost of $129,100. 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 Expenditure	0	77,500	84,000	84,000	90,500
SF Expenditure	0	25,800	28,000	28,000	30,200
FF Expenditure	0	25,800	28,000	28,000	30,200
Net Effect	$0	($129,100)	($140,000)	($140,000)	($150,900)

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 a member of LEOPS who had accumulated more than 25 years of service as of July 1, 2000 may participate in DROP. The bill provides the DROP enrollment procedures and stipulates that a member may participate for a period not greater than the lesser of: (1) four years; (2) the difference between the mandatory retirement age for the member and the member's age as of the date of application to participate in DROP; or (3) a term selected by the member.

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 benefit 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 LEOPS are eligible to participate in DROP if they have at least 25 and less than 30 years of eligibility service. Eligible members elect to participate for a period not greater than the lesser of: (1) five years; (2) the difference between 30 years and the service credit as of the date of election to participate in DROP; or (3) 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 LEOPS were subsequently excluded from participation in the DROP program. The program limits participation to no more than five years, governed by the member's age. While awaiting IRS approval for the DROP program, these members reached the mandatory retirement age 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 28 members of LEOPS with significant length of service who would, if allowed, participate in DROP prospectively. It is assumed that 14 of 28 members will elect to join DROP, based on two factors: (1) LEOPS allows members to earn only up to 30 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 $2.2 million in liabilities to LEOPS. Amortizing those costs over 25 years results in a first year (fiscal 2007) employer cost of $129,100. Out-year costs reflect actuarial assumptions.

Employer contributions would cover the cost of monthly allowance checks and accumulated cost-of-living adjustments.

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: SB 21 (Senator Currie, *et al.*) – Budget and Taxation.

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

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