

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

Senate Bill 95 (Chairman, Budget and Taxation Committee)
 (By Request – Departmental – Public Safety and Correctional Services)
 Budget and Taxation

**Law Enforcement Officers' Pension System - Membership - Department of
 Public Safety and Correctional Services - Internal Investigative Unit Investigators**

This departmental bill allows officers of the Internal Investigative Unit (IIU) within the Department of Public Safety and Correctional Services (DPSCS) to transfer from the Correctional Officers' Retirement System (CORS) to the Law Enforcement Officers' Pension System (LEOPS).

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund expenditures for DPSCS would increase by \$265,700 in FY 2007 to pay the higher LEOPS employer contribution for 16 employees. Total State pension liabilities would increase by \$86,000, which would have a negligible effect on State pension contributions. Out-year costs for DPSCS reflect payroll growth and a constant employee contribution percentage.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	265,700	270,000	274,300	278,700	283,200
Net Effect	(\$265,700)	(\$270,000)	(\$274,300)	(\$278,700)	(\$283,200)

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

Local Effect: None.

Small Business Effect: DPSCS has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary: An individual who is employed in the IIU as of June 30, 2006 and who has been granted the powers of a police officer has the option of transferring from CORS to LEOPS by December 31, 2006. If the individual chooses to transfer to LEOPS, the State Retirement and Pension System must transfer all employer contributions made on his or her behalf to CORS, plus interest, to LEOPS. Also, any individual choosing to transfer to LEOPS must pay the LEOPS 4% employee contribution, plus 5% interest compounded annually, retroactive to July 1, 2000.

Current Law: CORS members contribute 5% of their annual compensation and are eligible for a full service retirement after 20 years of service. Their retirement benefit is 1.8% of their average final compensation multiplied by their years of service.

LEOPS members contribute 4% of their annual compensation and are eligible for full service retirement at age 50 or with 25 years of service. Their retirement benefit is 2% of average final compensation multiplied by their years of service (up to 30).

Members who transfer credit from CORS to LEOPS and pay the retroactive employee contribution of 4% back to July 1, 2000 must be refunded any difference between what they contributed to CORS and what they pay to LEOPS. Since the CORS employee contribution is 5%, members who choose to transfer under this bill will be entitled to a refund for the difference between 4% and 5%.

Background: DPSCS formed an investigative unit in 1985. Initially it consisted of members of the Maryland State Police and correctional officers from the Division of Correction. The correctional officers attended entrance level police academies and were certified as police officers. The unit conducted criminal and misconduct investigations.

When the Maryland State Police became an independent agency, the unit continued to operate with a staff of just corrections officers who participated in CORS. In 1999, the Maryland General Assembly created IIU. In 2003, IIU positions were reclassified, which resulted in increased grade and pay for all members, but left IIU members ineligible for CORS, although they continue to participate in CORS, serving in an acting capacity in their new classifications. According to the unit, the Department of Budget and Management has indicated that the position reclassifications will not be complete until the officers withdraw from CORS.

State Expenditures: The IIU currently consists of 17 positions, of which 4 are vacant and 1 is occupied by an employee collecting a retirement benefit from the State Police Retirement System, and therefore is not eligible to collect another State benefit. Their average salary is \$49,183. All of the employees have at least 5 years of experience, with 5 employees having more than 15 years of experience.

Due to the peculiarities of CORS, annual State employer contributions by DPSCS under this bill increase by \$265,745 beginning in fiscal 2008, and increase thereafter according to payroll growth and employee turnover assumptions. The large increase in State contributions, given the small increase in State pension liability, stems from the peculiarities of CORS. CORS is a subsystem of the Employees' Combined System (ECS). Absent this bill, DPSCS would pay 6.83% of payroll for these employees in fiscal 2007, which is the ECS employer contribution established by the State's actuary. This is despite the fact that CORS benefits are much more generous than benefits provided to most other State employees in ECS, so State employees are in effect subsidizing the higher CORS benefits. By comparison, the employer contribution for LEOPS will be 40.60% of payroll in fiscal 2007. Therefore, by removing these CORS members from ECS, DPSCS will have to pay the difference between the LEOPS rate of 40.60% and the ECS rate of 6.83%.

Future year expenditures reflect 4.6% annual payroll increases and 3% employee turnover.

Additional Comments: The Department of Legislative Services notes that the bill is silent with respect to the disposition of employee contributions made to CORS before July 1, 2000. As noted above, under State law employees are entitled to a refund of the difference between the 5% CORS employee contribution and the 4% LEOPS employee contribution for the retroactive payments required under current law. However, all the members affected by this bill have more than five years of service, and therefore have been paying 5% of their annual compensation to CORS since before July 1, 2000. It is unclear whether those payments should also be refunded or whether they remain in CORS.

Additional Information

Prior Introductions: HB 664 was introduced during the 2004 session and received an unfavorable report from the House Appropriations Committee.

Cross File: None.

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

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ncs/jr

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