

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 806
 Appropriations

(Delegate James, *et al.*)

Budget and Taxation

State Police Retirement System - Retirees and Beneficiaries of Retirees - Benefits

This bill increases retirement benefits paid by the State Police Retirement System (SPRS) to specified current normal service retirees and their beneficiaries. Retirees receiving annual benefit payments of less than \$25,000 receive an enhancement equal to the difference between \$25,000 and their annual benefit. Beneficiaries receiving annual benefit payments of less than \$12,500 receive an enhancement equal to the difference between \$12,500 and their annual benefit. The bill applies to normal service retirees of SPRS who retired on or before June 30, 1999 with at least 270 months (22.5 years) of service credit at the time of retirement and their beneficiaries.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: State pension liabilities increase by \$228,000 based on informal calculations by the State’s actuary. Amortization of that amount results in a first-year increase in general fund pension contributions by the Department of State Police of \$14,000 in FY 2008, increasing thereafter according to actuarial assumptions.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	14,000	15,000	16,000	17,000
Net Effect	\$0	(\$14,000)	(\$15,000)	(\$16,000)	(\$17,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: SPRS members contribute 8% of their annual compensation and are eligible for normal service retirement after 22 years or upon reaching age 50. Retirement is mandatory at age 60. Normal service retirees earn 2.55% of their average final compensation for each year of service, but their retirement allowance cannot exceed 71.4% of their average final compensation at the time of retirement.

Chapter 123 of 1999 provided benefit enhancements to SPRS retirees who retired on or before July 1, 1999, or their beneficiaries. The enhancement applied equally to normal service retirees, ordinary disability retirees, special disability retirees, and all beneficiaries. The enhancement provided annual lump sum payments as follows:

- \$1,200 for retirees who had been retired not more than 5 years;
- \$1,500 for retirees who had been retired more than 5 years but less than 10 years;
- \$1,800 for retirees who had been retired more than 10 years but less than 15 years; and
- \$2,100 for retirees who had been retired more than 15 years.

These lump sum payments were subject to annual inflators based on the Consumer Price Index. For instance, a \$1,200 enhancement in 1999 has increased to \$1,447 in 2006.

State Expenditures: Based on a review of its records, SRA has determined that the bill will affect a total of 11 SPRS retirees and no beneficiaries. The average benefit enhancement is \$1,477 per individual. While the bill does not specify whether the new annual payments are subject to annual cost-of-living increases, this analysis assumes that they are.

Based on the above assumptions and SPRS benefit levels, the State's actuary informally estimates that State pension liabilities increase by \$228,000. Amortizing that amount over 25 years results in an increase in general fund expenditures by the Department of State Police of \$14,000 in fiscal 2008 for the employer's share of increased pension contributions. Those payments increase annually according to actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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