

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 1596 (Delegate Hubbard)
 Appropriations

Correctional Officers' Retirement System - Membership - Division of Parole and Probation

This bill provides that agents of the Division of Parole and Probation (DPP) in the Department of Public Safety and Correctional Services (DPSCS) are members of the Correctional Officers' Retirement System (CORS).

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: State pension liabilities increase by \$38.7 million. Amortizing that amount over 25 years yields increased State pension costs beginning in FY 2008 of \$1.39 million (all funds), increasing annually 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 | 834,000 | 960,000 | 1,098,000 | 1,242,000 |
| SF Expenditure | 0 | 278,000 | 320,000 | 366,000 | 414,000 |
| FF Expenditure | 0 | 278,000 | 320,000 | 366,000 | 414,000 |
| Net Effect | \$0 | (\$1,390,000) | (\$1,600,000) | (\$1,830,000) | (\$2,070,000) |

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Agents employed by DPP on June 30, 2006 may choose to transfer to CORS before December 31, 2006. All prior employee and employer contributions made on the agents' behalf to the Employees' Retirement System (ERS) and Employees' Pension System (EPS) would be transferred to CORS, as would their prior service credit. If they do not do so, they are not eligible to join CORS. Agents hired by DPP after June 30, 2006 are members of CORS as a condition of employment.

For members who transfer from ERS/EPS to CORS, the State Retirement and Pension System must transfer all prior employee and employer contributions made on their behalf, plus interest, from ERS/EPS to CORS. However, because CORS is a subsystem of ERS, no actual transfer of assets will occur. Also, all prior service credit earned by DPP agents in ERS/EPS would also be transferred to CORS. DPP agents are then eligible to retire after 20 years of eligible service.

Current Law: DPP agents are currently members of either ERS or EPS. The CORS benefit structure is similar, but not identical, to that of ERS but substantially different from EPS. CORS members are eligible to retire after 20 years of service compared with 30 years in ERS/EPS. CORS members contribute 5% of their annual compensation, earn 1.8% of their average final compensation for each year of service, and receive an unlimited annual cost-of-living adjustment (COLA) based on the Consumer Price Index for urban areas. By comparison, EPS members contribute 2% of their annual compensation, earn 1.4% of their average final compensation for each year of service, and their COLA is capped at 3% annually.

Background: The issue of benefit levels for parole and probation agents was studied by the Joint Committee on Pensions during the 2001 and 2002 interims. A study by the Department of Legislative Services (DLS) in 2001 found that of the 29 states and localities surveyed, 17 included their agents in their general employees' systems, as Maryland currently does. The other jurisdictions included their agents in their public safety pension systems or operated specialized systems for the agents.

State Expenditures: There are currently 790 filled positions in the agent classification series reported by DPSCS, of which 669 carry the title "agent." The remaining positions are supervisory or managerial. Although the bill does not specify a definition of "agent," this analysis assumes that all 790 positions are affected, their average salary is \$49,240.

The transfer to CORS of prior service credits earned by current DPP agents in EPS increases State pension liabilities for two reasons. First, DPP members will earn CORS service credit for their prior EPS service without paying the difference between the 2%

EPS employee contribution they have been paying and the 5% CORS employee contribution. Second, because CORS is a subsystem of ERS, the employer contribution in fiscal 2007 is only 6.83% despite the fact that CORS benefits are substantially more generous than those available to most other State employees. By transferring into a retirement system that is in essence under-funded, the DPP agents add to the State's pension liabilities.

Assuming that 90% of the affected agents are members of EPS (with the rest in ERS), the State's actuary estimates that the State's pension liabilities would increase by \$38.7 million. State pension contributions would increase by \$1.39 million in fiscal 2008, with subsequent annual payments increasing according to actuarial assumptions. Sixty percent of those costs are assumed to come from general funds, with 20% coming from each of special and federal funds.

Additional Information

Prior Introductions: SB 637 of 2005 passed the full Senate but received an unfavorable report by the Appropriations Committee in the House of Delegates.

Cross File: SB 637 (Senator Jimeno, *et al.*) – Budget and Taxation.

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

Fiscal Note History: First Reader - March 20, 2006
ncs/jr

Analysis by: Michael C. Rubenstein

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