SB 866

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 866 (Senator Kasemeyer)
Budget and Taxation Appropriations

State Retirement and Pension System - Military Service - Members and Former Members

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This bill allows members and former members of the State Retirement and Pension System (SRPS) to receive military service credit once they attain 10 years of creditable service. It also requires that military service credit granted to members and former members be applied to their retirement allowance at the accrual rate in effect at the time of their retirement.

The bill takes effect July 1, 2006, except that the provision requiring that military service credit be applied at the accrual rate in effect at the time of retirement takes effect October 1, 2006.

Fiscal Summary

State Effect: Due in part to pension enhancement legislation passed during the 2006 session, State pension liabilities increase by $21.6 million. State pension contributions increase by $1.3 million in FY 2008 (all funds) and increase thereafter according to actuarial assumptions. One-time special fund expenditures of $50,000 in FY 2007 by the State Retirement Agency cover the cost of reprogramming the legacy computer system.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	.9	.9	.9	1.0
SF Expenditure	0	.2	.2	.2	.3
FF Expenditure	0	.2	.2	.2	.3
Net Effect	($.0)	($1.3)	($1.4)	($1.4)	($1.5)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Upon attaining 10 years of creditable service, all SRPS members (except legislators) may receive up to 5 years of military service credit toward their creditable service for any military duty that occurred prior to membership in SRPS. That additional creditable service is then applied to the calculation of the member's retirement benefit. Members may receive those credits any time after earning 10 years of service, but before retirement. Members may not claim military service credits in SRPS if they have received credit for the same military service in another pension system. Former members and retirees are not eligible to receive military service credit.

Military service credit is credited at the accrual rate (benefit multiplier) in effect when it is received. For members of the Employees' and Teachers' Pension Systems (EPS/TPS), military credits received before July 1, 1998 are calculated using the 1.2% multiplier; military credits received on or after July 1, 1998 are calculated using the 1.4% multiplier.

State Expenditures: Chapter 110 of 2006 raised the pension benefit multiplier for members of TPS/EPS from 1.4% to 1.8%, effective July 1, 2006. Therefore, any TPS/EPS member who has claimed military service credit in the State Retirement and Pension System and who retires after October 1, 2006 will have that credit recalculated using the higher 1.8% multiplier. The State Retirement Agency (SRA) reports that there are 1,343 current and former vested members of TPS/EPS who claimed a total of 43,715 months of military service credit before 1998 that would have been calculated using the 1.2% multiplier. In addition, SRA reports there are 1,375 current and former vested members of TPS/EPS who claimed a total of 45,576 months of military service credit after 1998 that would have been calculated at the 1.4% rate. All of that credit will now be recalculated at the new 1.8% rate for any member who retires after October 1, 2006.

Because it is not aware of a member's past military service until the member applies for military service credit, SRA cannot estimate how many former members qualified for military service credit but never applied for it before leaving State service. Those individuals would now be eligible to apply for military service credit under this bill. SRA advises members who are eligible for military service credit to apply for it when they are first eligible (after 10 years of service) to ensure that they receive the credit before they die or leave the system. The number of current and former vested members who claimed military service credit before 1998 is only about 0.5% of the total number of current and former members. The Department of Legislative Services (DLS) believes, therefore, that the number of former members who would be eligible to apply for military service credit is negligible because, under the advice given by SRA, most of those former members would have applied for the military credit before leaving State service. Military service credit granted to the small number of former members expected to apply should not have a noticeable effect on the actuary's estimate of the bill's effect on State pension liabilities.

The State's actuary estimates that recalculating military service credits received by current and former members before 1998 at the higher 1.8% multiplier would increase total State pension liabilities by $15.7 million. This results in increased State pension contributions of $963,000 in fiscal 2008, with annual increases based on actuarial assumptions. The State's actuary also estimates that recalculating military service credits received by current and former members after 1998 at the higher 1.8% multiplier would increase State pension liabilities by an additional $5.9 million. This results in increased State pension contributions of $363,000 in fiscal 2008, with annual increases based on actuarial assumptions. Therefore, the total increase in liability is $21.6 million, and the total first-year cost is $1.33 million in fiscal 2008.

General funds pay for all pension contributions for TPS members, but only 60% of pension contributions for EPS members, with 20% coming from each of special and federal funds. According to SRA, EPS members accounted for approximately 85% of the military service credits affected by this bill, while TPS members accounted for 15%. Estimates of the bill's fiscal impact by fund reflect this split.

SRA advises that this bill would require it to reprogram its legacy computer system to recalculate military service credits within EPS and TPS at the higher rates. It estimates the cost of reprogramming the system at between $70,000 and $140,000, and further advises that reprogramming may not be completed in time for the bill's July 1, 2006 start date. Based on previous requests, DLS believes the reprogramming can be performed for $50,000.

Additional Comments: As was the case with Chapter 110, all future pension reforms that raise the benefit accrual rate would cause military service credits for current and former members to be recalculated at the higher rate, adding to the cost of any reforms.

Additional Information

Prior Introductions: None.

Cross File: HB 777 (Delegate James) – Appropriations.

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

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