

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 727

(Senator DeGrange, *et al.*)

Budget and Taxation

Military Service Credit - Eligibility

This bill allows a member of the State Retirement and Pension System (SRPS) to earn military service credit even if that member has received service credit for the same military service under another retirement system that is paying, or will pay, benefits to the member.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: State pension liabilities could increase by \$77.2 million, resulting in increased State pension contributions of \$4.7 million in FY 2008 and increasing annually based on actuarial assumptions.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
GF/SF/FF Exp.	0	4,700,000	4,900,000	5,100,000	5,300,000
Net Effect	\$0	(\$4,700,000)	(\$4,900,000)	(\$5,100,000)	(\$5,300,000)

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

Local Effect: Pension liabilities for participating governmental units (PGUs) could increase by \$7.7 million, resulting in increased employer contributions of \$500,000 in FY 2008 that increase annually based on actuarial assumptions.

Small Business Effect: None.

Analysis

Current Law: A member of SRPS may receive up to five years of military service credit for service that interrupts his or her employment. In addition, a member who served in the military prior to being employed with the State or PGU may claim up to 5 years of military service credit after attaining 10 years of creditable service. However, a member who receives military service credit under another retirement system is not entitled to military service credit from SRPS for military service that preceded membership in SRPS. This prohibition does not apply to military service credit awarded under Social Security, the National Railroad Retirement Act, a disability payment from a pension or retirement system, or Title 3 or Title 10 of the U.S. Code.

SRPS members who have served in the Maryland National Guard receive four months of service credit for every year served in the Guard, up to a maximum of three years of service credit.

State Expenditures: Under this bill, any SRPS member who has served in the military would be eligible to receive up to five years of service credit, even if the member has received credit for the same military service under another pension system. For example, a member who has been in active military duty for 20 years and is eligible to receive a federal military pension could then work for the State and claim up to 5 years of military credit toward his or her State pension.

The number of active members who would be affected by this proposal cannot be precisely estimated at this time because the State Retirement Agency does not track which members have served in the military or are eligible for other pension payments. The agency only becomes aware of a member's military service if the member requests military service credit upon retiring. The Department of Veterans Affairs reports that 330 current State employees are receiving a military pension. This represents 0.5% of active State employees in SRPS. There are currently about 188,000 active members in SRPS, and it is assumed that, for most SRPS plans, 0.5% of members are receiving military pensions. However, because of the higher percentage of military veterans in law enforcement positions, it is assumed that 2% of members in the Law Enforcement Officers' Pension System, the State Police Retirement System, and the Local Fire and Police System are receiving military pensions. Under these assumptions, it is estimated that 861 State members would be affected by this bill, and 86 (or 10%) additional members would be affected each year.

This bill will most affect SRPS members who are receiving full military pensions following 20 years of military service, and therefore are eligible for the maximum 5 years of military service credit. Other military veterans who are not receiving military pensions

are less likely to be vested in another pension system before coming to work for the State, and therefore to have claimed military service credit within another pension system. However, in the event that a small number may have claimed military service credit in another pension system, this analysis assumes that the average number of years of military service credit claimed would be four years, not the maximum of five years.

Based on these assumptions, the State's actuary informally estimates that State pension liabilities would increase by \$77.2 million. Amortizing these liabilities over 25 years would result in increased State pension contributions of \$4.7 million beginning in fiscal 2008 and increasing each year thereafter based on actuarial assumptions.

Local Expenditures: Applying the above assumptions to SRPS members employed by PGUs, the actuary informally estimates that total PGU pension liabilities would increase by \$7.7 million. This results in increased employer contributions of \$500,000 combined for PGUs in fiscal 2008, and increasing thereafter according to actuarial assumptions.

Additional Information

Prior Introductions: HB 961 of 2005 is listed as a prior introduction, but it was substantively different.

Cross File: HB 738 (Delegate G. Clagett, *et al.*) – Appropriations.

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

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