

**Department of Legislative Services
Maryland General Assembly
2007 Session**

FISCAL AND POLICY NOTE

House Bill 170
Appropriations

(Delegate Aumann, *et al.*)

State Retirement and Pension System - Military Service Credit - Eligibility

This bill reduces, from 10 to 5, the number of years of creditable service that a member or vested former member of the State Retirement and Pension System (SRPS) needs to receive military service credit.

The bill is effective July 1, 2007.

Fiscal Summary

State Effect: State pension liabilities increase by \$6.4 million, resulting in increased State pension contributions of \$397,500 beginning in FY 2009, increasing thereafter according to actuarial assumptions.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	238,500	248,000	258,000	268,300
SF Expenditure	0	79,500	82,700	86,000	89,400
FF Expenditure	0	79,500	82,700	86,000	89,400
Net Effect	\$0	(\$397,500)	(\$413,400)	(\$430,000)	(\$447,100)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Any member or vested former member of the State Pension and Retirement System who accrues 10 years of creditable service may receive one year of additional service credit for each year of active military duty performed prior to State service, up to a maximum of five years.

However, members or vested former members who claim credit for the same military service from another retirement system may not receive military service credit from SRPS, unless they claimed credit for that military service under:

- Social Security; or
- the National Railroad Retirement Act; or
- Title 3 or Title 10 of the U.S. Code (National Guard and Reserve pensions).

Members or vested former members who received military service credit for disability benefits from any pension or retirement system may also claim military service credit from SRPS.

Background: Prior to July 1, 2006, only active SRPS members with at least 10 years of creditable service were eligible to receive 1 year of service credit for each year of military service performed prior to State service, up to 5 years. Moreover, military service credit given to members was applied to their retirement allowance at the accrual rate in effect at the time they claimed the credit. Many eligible members, on the advice of SRPS counselors, claimed the credit as soon as they were eligible (*i.e.*, upon attaining 10 years of creditable service) so they would not forget to claim it at the time of their retirement or departure from State service, which would likely occur many years later. However, members who claimed their credit prior to the 1998 or 2006 benefit enhancements received a lower accrual rate for their military service credit than if they had waited to claim that credit at the time of their retirement.

Chapter 277 of 2006 allows vested former members who have not claimed their military service credit prior to leaving State service to claim military service credit, provided they had the required 10 years of creditable service. The State Retirement Agency (SRA) reports that only about 15 vested former members have claimed military service credit since the enactment of Chapter 277. The law also requires, beginning October 1, 2006, that military service credit granted to members and vested former members be applied to their retirement allowance at the accrual rate in effect at the time of their retirement. Because of the 2006 benefit enhancement, this provision of Chapter 277 caused State pension liabilities to increase by \$21.6 million and State pension contributions to increase by \$1.3 million beginning in fiscal 2008.

State Fiscal Effect: SRA reports that 42,000 active SRPS members have between 5 and 10 years of experience. It also reports that 4,504 active and deferred vested members have claimed military service credit. Of those, 3,994 are active members and 510 are deferred vested members.

The Department of Legislative Services' actuary estimates that total State pension liabilities will increase by approximately \$6.4 million as a result of this bill. Amortizing that liability over 25 years, as required by State law, yields an increase in State pension contributions of \$397,500 in fiscal 2009. These contributions are assumed to be 60% general funds, 20% special funds, and 20% federal funds. They are also assumed to grow by 4% each year. These figures are based on the following assumptions, which were derived by extrapolating from recent SRPS experience:

- of the 42,000 active members with between 5 and 10 years of service, between 80% and 90% will reach 10 years of service credit (depending on their plan), and therefore not be affected by this bill;
- of the remaining members with between 5 and 10 years of experience, 5% will claim military service credit, reflecting the proportion of those with more than 10 years of service credit who have claimed the credit;
- approximately 65% of members who claim military service credit are in either the Employees' Pension System or the Teachers' Pension System; approximately 27% are in either the Teachers' Retirement System or the Employees' Retirement System; 4% are in the Law Enforcement Officers' Pension System; and 2% are in the State Police Retirement System;
- members will claim an average of 2 years of service credit; and
- each year, about 60 members will reach 5 years of service, claim the military credit, and leave State service with less than 10 years of service.

Additional Information

Prior Introductions: HB 349 of 2006 received an unfavorable report from the House Appropriations Committee.

Cross File: None.

Information Source(s): Mercer Human Resources Consulting, Military Department, Maryland State Retirement Agency, Department of Legislative Services

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