

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 840
 Appropriations

(Delegate Haynes, *et al.*)

Correctional Officers' Retirement System - Membership

This bill requires individuals employed as correctional laundry officers or Maryland Correctional Enterprises officers, officer trainees, plant supervisors, plant managers, or regional managers to participate in the Correctional Officers' Retirement System (CORS) as a condition of their employment. It applies to individuals currently employed in those positions as well as future employees in those positions.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: State pension liabilities increase by \$4.0 million, resulting in a \$264,000 increase in State pension contributions in FY 2009. Future year increases reflect actuarial assumptions.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	158,400	172,800	187,800	195,300
SF Expenditure	0	52,800	57,600	62,600	65,100
FF Expenditure	0	52,800	57,600	62,600	65,100
Net Effect	\$0	(\$264,000)	(\$288,000)	(\$313,000)	(\$325,500)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: All prior service credit earned by correctional laundry officers or affected employees of Maryland Correctional Enterprises (MCE) in either the Employees' Retirement System (ERS) or Employees' Pension System (EPS) transfers to CORS. In addition, the State Retirement and Pension System must transfer employee and employer contributions made on behalf of correctional laundry officers and affected MCE employees who are currently members of either ERS or EPS, plus 4% interest.

Correctional laundry officers and affected MCE employees who are current members of EPS are exempt from statutory provisions requiring them to pay the difference between the lower EPS contribution rate and the higher CORS contribution rate for the prior service credit that transfers to CORS. However, members of ERS on June 30, 2007 who currently contribute 7% of their compensation would receive a refund of the difference between the higher ERS contribution and the CORS contribution, including 5% interest. In accordance with federal law, that refund could not be paid until a member terminates employment or retires.

As CORS members, the affected employees are entitled to a normal service retirement after 20 years of service or at age 55, provided they are employed as correctional laundry officers or in one of the affected MCE positions during the five years immediately preceding retirement.

Current Law: Only correctional officers in the first six job classifications, security attendants at the Clifton T. Perkins Hospital Center, correctional dietary, maintenance, and supply officers, and certain local detention center officers participate in CORS. Correctional laundry officers and MCE employees participate in either ERS or EPS. **Exhibit 1** shows the key provisions of all three plans. As the exhibit shows, Chapter 110 of 2006 phased in a higher EPS employee contribution rate, from 2% in fiscal 2006 to 5% in fiscal 2009 and beyond. Once that increase is fully phased in, the key differences between EPS and CORS will be that CORS members can retire at a younger age and/or with fewer years of service and receive an unlimited cost-of-living adjustment (COLA). The unlimited COLA could be a meaningful benefit, although the Consumer Price Index has exceeded 3% annual growth just four times since 1990. CORS also provides surviving family members with more generous death benefits than ERS/EPS if the member dies or is killed in the line of duty. All three plans provide a benefit equal to 1.8% of average final compensation (AFC) for each year of creditable service.

Exhibit 1
Pension Plan Provisions

	<u>ERS</u>	<u>EPS</u>	<u>CORS</u>
Normal Retirement Age	60	62 ¹	55 ¹
Years of Service for Normal Retirement	30	30	20 ²
Employee Contribution	5% (capped COLA) 7% (unlimited COLA)	2% in FY 1998-2006 3% in FY 2007 4% in FY 2008 5% in FY 2009 and beyond	5%
Benefit Multiplier	1.8% of AFC	1.8% of AFC	1.8% of AFC
COLA	5% cap or unlimited	3% cap	unlimited

1. Retiree must have at least five years of service.
2. The last five years must be as a correctional officer or security attendant at Perkins Hospital.

Source: *Maryland Annotated Code*, State Personnel and Pensions Article

When a member of EPS transfers service credit to another contributory system (such as CORS), the accumulated employer contributions made on his or her behalf must be transferred to the new system. However, State law also requires an individual who seeks to transfer service credit under these circumstances to deposit an amount equal to the difference between the employee contributions made to EPS and those required by CORS, including interest. In this case, EPS members transferring to CORS would have to pay the difference between their 2% employee contribution under EPS from fiscal 1998 through 2006 and the 5% employee contribution for CORS for each year of service credit they transfer to CORS. The bill exempts correctional laundry officers and MCE employees from that requirement. The Department of Legislative Services (DLS) notes that CORS assets are subsumed within ERS assets, so a “transfer” of assets would not actually occur.

Background: Chapter 340 of 2006 included 647 correctional dietary, maintenance, and supply workers in CORS.

Maryland Correctional Enterprises, formerly State Use Industries, is the prison industry arm of the Maryland Division of Correction. It provides structured employment and training activities for offenders to improve employability upon release, reduce prison idleness, produce quality, saleable goods and services. It is a fully self-supporting agency.

In fiscal 2006, MCE recorded sales of \$42.8 million and employed 1,608 inmates in 31 plants and service centers located in 9 State prisons.

State Fiscal Effect: The State Retirement Agency (SRA) reports that there are 11 correctional laundry officers who would have to transfer to CORS under this bill. Their average salary is \$47,645 and they have an average of 14.5 years of service. SRA also reports that there are 94 MCE employees who would have to transfer to CORS. Their average salary is \$46,711 and they have an average of 11.7 years of service.

DLS assumes that all affected employees are members of EPS, and that all of them would fulfill the requirement that the last five years of service before retirement be in their current positions. DLS also assumes that, given current member turnover rates within CORS, five new employees would join CORS each year.

Using these assumptions, the General Assembly's actuary estimates that the State's accrued pension liabilities would increase by \$4.0 million, and that amortizing those liabilities over 25 years would increase State pension contributions by \$264,000 in fiscal 2009. Those increased costs are assumed to be split 60% general funds, 20% special funds, and 20% federal funds. Pension contributions increase each year according to actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: SB 574 (Senator DeGrange, *et al.*) – Budget and Taxation.

Information Source(s): Mercer Human Resources Consulting, Maryland State Retirement Agency, Department of Public Safety and Correctional Services, Department of Legislative Services

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