# Department of Legislative Services

Maryland General Assembly
2007 Session

## FISCAL AND POLICY NOTE
**Revised**

Senate Bill 320 (Senator Stone)
Budget and Taxation Appropriations

### Law Enforcement Officers' Pension System - Membership - Martin State Airport Law Enforcement Officers

This bill includes law enforcement officers for the Martin State Airport employed by the Military Department in the Law Enforcement Officers' Pension System (LEOPS).

The bill takes effect July 1, 2007

## Fiscal Summary

**State Effect:** Total State pension accrued liabilities increase by $228,000, resulting in an increase in State federal fund pension contributions by the Military Department of $57,000 in FY 2009. These costs may be partially offset by a retroactive increase in employee contributions, lowering the State contribution to $55,500 in FY 2009. Future year costs reflect 4% growth in pension contributions.

| (in dollars) | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 |
|---|---|---|---|---|---|
| Revenues | $0 | $0 | $0 | $0 | $0 |
| FF Expenditure | 0 | 57,000 | 59,300 | 61,700 | 64,100 |
| Net Effect | $0 | ($57,000) | ($59,300) | ($61,700) | ($64,100) |

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** Martin State Airport law enforcement officers who are employed by the Military Department on June 30, 2007 may elect membership in LEOPS on or before December 31, 2007. All new law enforcement officers at Martin State Airport would be required to join LEOPS as a condition of employment. Members of the Employees' Retirement System (ERS) who transfer to the Employees' Pension System (EPS) on or after April 1, 1998 are not allowed to transfer to LEOPS.

**Current Law:** The law enforcement officers covered under the bill are currently members of EPS. EPS allows for a normal service retirement after 30 years of State service, or at age 62 with at least 5 years of State service. It provides a benefit equal to 1.8% of average final compensation (AFC) for each year of service after July 1, 1998, and 1.2% of AFC for each year of service prior to that date. Members pay a 3% employee contribution in fiscal 2007, a 4% contribution in fiscal 2008, and a 5% contribution in fiscal 2009 and beyond. The plan provides a 3% compound cost-of-living adjustment.

LEOPS provides for a normal service retirement at age 50 or with 25 years of experience regardless of age. A mandatory 4% employee contribution applies. The plan provides a benefit equal to 2% of AFC for each year of service up to a maximum of 30 years (or 60% of AFC). LEOPS members are eligible for a Deferred Retirement Option Program, which allows them to technically "retire" while continuing to work without accumulating additional years of service credit. During that period, their accrued pension benefits accumulate in an account with 6% interest compounded monthly and are paid out in a lump sum when they terminate employment.

**Background:** Chapter 396 of 2001 allowed firefighters at Martin State Airport employed by the Military Department to transfer from ERS/EPS to LEOPS, but did not include the law enforcement officers.

**State Fiscal Effect:** The State Retirement Agency reports that this bill affects eight law enforcement officers whose compensation is paid with federal funds. Currently, all eight officers are members of EPS. Assuming all eight transfer to LEOPS, State pension accrued liabilities increase by $228,000, and the annual normal cost increases by $43,000. Amortizing the accrued liability over 25 years and adding in the increased normal cost results in an increased State pension contribution of $57,000 in fiscal 2009. That amount is assumed to grow by 4% annually.

State contributions may be partially offset by retroactive increases in the employees' contributions, subject to the interpretation of existing statute. Whenever members of EPS transfer to LEOPS, accumulated employer contributions made on their behalf, plus interest, are transferred from EPS to LEOPS. State law also requires that when individual members of EPS transfer to LEOPS, they must make up the difference between the EPS employee contribution rate (2% before July 1, 2006) and the 4% LEOPS employee contribution for each year since June 30, 2000, plus compound interest of 5% annually. The State Retirement Agency does not believe that provision applies to this transfer because this bill transfers an entire group, not individuals. However, the bill specifically gives each current member of EPS within the designated group the option of selecting whether to transfer to LEOPS or remain in EPS. Therefore, the Department of Legislative Services interprets that provision to apply in this case, and believes that members who transfer to LEOPS will have to pay the difference in employee contributions, back to June 30, 2000. In that case, State liabilities would be about $204,000, a $24,000 decrease from the estimate given above. The State contribution would be about $55,500.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** HB 152 (Delegate Weir, *et al.*) – Appropriations.

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

**Fiscal Note History:** First Reader - February 5, 2007
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Analysis by: Michael C. Rubenstein

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