

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 381
 Budget and Taxation

(Senator DeGrange, *et al.*)

Military Service Credit - Eligibility

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

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: State pension liabilities would increase by \$35.5 million, resulting in increased State pension contributions of \$2.18 million in FY 2010, increasing thereafter according to actuarial assumptions. The delay in State cost stems from the bill's effective date and timing of the annual actuarial audits.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	0	2,184,000	2,419,000	2,669,000
Net Effect	\$0	\$0	(\$2,184,000)	(\$2,419,000)	(\$2,669,000)

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

Local Effect: Pension liabilities for participating governmental units (PGU) could increase by \$4.8 million, resulting in increased employer contributions of \$298,000 in FY 2010 that increase annually based on actuarial assumptions.

Small Business Effect: None.

Analysis

Current Law: Upon attaining 10 years of creditable service, a member or vested former member who served in the military prior to membership in SRPS may claim one month of military service credit for each month of military service, up to 5 years of credit. In addition, a member or vested former member of SRPS may receive up to five years of military service credit for service that interrupts his or her employment. In any event, a member cannot receive more than five years military service credit. However, a member or former member who claims military service credit under another retirement system from which benefits have been or will be paid 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 (National Guard and Reserve pensions).

SRPS members and former members who serve in the Maryland National Guard but are not called to national duty are entitled to receive four months of service credit for every year served in the guard, up to a maximum of three years of service credit.

Background: SRPS includes multiple retirement and pension plans for State employees, teachers, and 112 PGUs. These are:

- the combined Employees' Retirement and Pension Systems (ERS/EPS) for State and PGU employees;
- the combined Teachers' Retirement and Pension Systems (TRS/TPS) for all teachers;
- State Police Retirement System (SPRS);
- Correctional Officers' Retirement System (CORS);
- Law Enforcement Officers' Pension System (LEOPS), which includes some local law enforcement groups;
- Judges' Retirement System;
- Legislative Pension Plan; and
- Local Fire and Police System.

Prior to July 1, 2006, only active SRPS members with at least 10 years of creditable service were eligible to receive one month of military service credit for each year of military service performed prior to State service, up to 5 years. Chapter 277 of 2006 allows vested former members who did not claim their military service credit prior to

leaving State service to claim the military credit, provided they have the required 10 years of creditable service. The State Retirement Agency (SRA) reports that only about 15 vested former members have claimed military credit since the enactment of Chapter 277.

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. 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 five years of military service credit. For example, a member with 20 years of active military duty who is eligible to receive a federal military pension, or is receiving a military pension, could then work for the State and claim up to five 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 calculated at this time because neither SRA nor the Department of Veterans Affairs tracks which members have served in the military or are eligible for other pension payments. SRA only becomes aware of a member's military service if the member requests military service credit. By cross-matching State and federal tax records, the Comptroller's Office was able to determine that 557 current State employees are receiving a military pension, including members of ERS/EPS, CORS, LEOPS, and SPRS. Analysis for a previous version of this bill found that one-third of State employees identified in this manner were receiving Reserve or National Guard pensions and would not be affected by this bill. Therefore, the Department of Legislative Services (DLS) assumes that two-thirds of the identified members (373) are receiving active duty military pensions and would benefit from this bill. This represents about 0.5% of active State employees in SRPS. DLS also assumes that these members claim the full five years of military credit allowed by State law.

Aside from active State employees, there are currently almost 105,000 active members of TRS/TPS who are not in the State's central payroll system because their salaries are paid by their employers (typically local school districts). A similar analysis could not be performed for members of TRS/TPS because of the sheer number of different employers involved whose payroll records would have to be cross-matched with federal tax records. Therefore, DLS assumes that 0.5% of members of TRS/TPS are also receiving a regular duty military service pension. Under these assumptions, DLS estimates that a total of 898 SRPS members would be affected by this bill, and 30 additional members would be affected each year.

Based on these assumptions, the General Assembly's actuary informally estimates that State accrued pension liabilities would increase by \$35.5 million. Amortizing these liabilities over 25 years would result in increased State pension contributions of \$2.18 million beginning in fiscal 2010 and increasing each year thereafter based on actuarial assumptions. Additional credit claimed after July 1, 2007 would not be reflected until the June 30, 2008 actuarial valuation. Thus, State contributions would not be affected until fiscal 2010. Liabilities increase by \$39,532 for each affected member, and State expenditures increase by \$2,432.

Local Expenditures: Applying the above assumptions to the 25,000 SRPS members employed by PGUs, the actuary informally estimates that total PGU pension liabilities would increase by \$4.8 million. This results in increased employer contributions of \$298,000 combined for PGUs in fiscal 2010, and increasing by 4% annually thereafter.

Additional Information

Prior Introductions: HB 738 of 2006 received an unfavorable report from the House Appropriations Committee. SB 727 of 2006, an identical bill, was heard by the Senate Budget and Taxation Committee, but the committee took no further action.

Cross File: HB 218 (Delegate G. Clagett, *et al.*) – Appropriations.

Information Source(s): Mercer Human Resources Consulting, Department of Veterans Affairs, Comptroller's Office, Maryland State Retirement Agency, Department of Legislative Services

Fiscal Note History: First Reader - March 4, 2007
ncs/jr

Analysis by: Michael C. Rubenstein

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