

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

**FISCAL AND POLICY NOTE**

House Bill 402 (Delegate Donoghue, *et al.*)  
 Appropriations

**Correctional Officers' Retirement System - Membership - Correctional Case Managers**

This bill requires individuals employed as correctional case managers to participate in the Correctional Officers' Retirement System (CORS) as a condition of their employment.

The bill takes effect July 1, 2007.

**Fiscal Summary**

**State Effect:** Total State pension liabilities could increase by \$16.4 million, resulting in increased pension contributions of \$1.06 million beginning in FY 2009 and 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	638,400	672,000	708,600	736,800
SF Expenditure	0	212,800	224,000	236,200	245,600
FF Expenditure	0	212,800	224,000	236,200	245,600
Net Effect	\$0	(\$1,064,000)	(\$1,120,000)	(\$1,181,000)	(\$1,228,000)

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Bill Summary:** The State Retirement and Pension System must transfer employer and employee contributions made on behalf of correctional case managers who are currently members of either the Employees' Retirement System (ERS) or the Employees' Pension System (EPS) to CORS, plus 4% interest. Correctional case managers who are current members of EPS would be 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.

**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 case managers 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 difference between EPS and CORS will be that CORS members can retire at a younger age and/or with fewer years of service. 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.

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**Exhibit 1**  
**Pension Plan Provisions**

	<u>ERS</u>	<u>EPS</u>	<u>CORS</u>
Normal Retirement Age	60	62 <sup>1</sup>	55 <sup>1</sup>
Years of Service for Normal Retirement	30	30	20 <sup>2</sup>
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

1. Retiree must have at least five years of service.
2. The last five years must be as a correctional officer.

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

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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, which the bill requires. 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 before fiscal 2007 and the 5% employee contribution for CORS for each year of service credit they transfer to CORS, back to July 1, 2000. The bill exempts EPS members 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.

**State Fiscal Effect:** The Department of Public Safety and Correctional Services reports that there are 305 employees currently serving as correctional case managers, with an average age of 49. Their average salary is \$49,256 and they have an average of 15 years of service. Since ERS was closed to new members 26 years ago, all 305 case managers

are assumed to be members of EPS. Fifteen new members are assumed to join the group each year.

Based on that profile, DLS' actuary estimates that total State pension liabilities would increase by \$16.4 million, resulting in an increase in State pension contributions of \$1.06 million beginning in fiscal 2009, and increasing thereafter according to actuarial assumptions. Expenditures are assumed to be 60% general funds, 20% special funds, and 20% federal funds.

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### **Additional Information**

**Prior Introductions:** None

**Cross File:** None.

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

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bfl/jr

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