

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 432
 Appropriations

(Delegate James)

Budget and Taxation

**Law Enforcement Officers' Pension System - Department of Public Safety and
 Correctional Services Internal Investigative Unit Investigators**

This bill allows officers of the Internal Investigative Unit (IIU) within the Department of Public Safety and Correctional Services (DPSCS) to transfer from either the Employees' Pension System (EPS) or the Correctional Officers' Retirement System (CORS) to the Law Enforcement Officers' Pension System (LEOPS).

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: General fund expenditures increase by \$116,000 in FY 2009 for DPSCS, accounting for the 41.74% employer contribution for LEOPS (compared with 8.86% for CORS and EPS). Out-year expenditures reflect actuarial assumptions.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	116,000	120,000	125,000	130,000
Net Effect	\$0	(\$116,000)	(\$120,000)	(\$125,000)	(\$130,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: An officer who is employed in IIU as of June 30, 2007 and who has been granted the powers of a police officer has the option of becoming a member of LEOPS by December 31, 2007. If the officer chooses to transfer to LEOPS, all service credit earned in CORS or EPS transfers to LEOPS. The State Retirement and Pension System must transfer all employer contributions made on his or her behalf to CORS, plus 4% interest, to LEOPS. Also, any individual choosing to transfer to LEOPS must pay the LEOPS 4% employee contribution, plus 5% interest compounded annually, for transferred service credit retroactive to July 1, 2000.

Current Law: CORS, EPS, and LEOPS require different employee and employer contributions and provide different benefit levels to their members. **Exhibit 1** shows the key provisions of the three plans. Once the higher EPS contribution rates are phased in by fiscal 2009, CORS and EPS members pay a higher contribution than LEOPS members, and earn a smaller initial benefit. CORS members have the potential to earn larger cost-of-living adjustments (COLAs) in retirement if the Consumer Price Index exceeds 3%, which has happened just four times since 1990. LEOPS also offers members a Deferred Retirement Option Program (DROP), which allows members with between 25 and 30 years of service to technically “retire” while continuing to work, with their pension benefit accruing in an interest bearing account for payment as a lump sum upon termination of employment. CORS does not offer a DROP plan. All three plans provide a benefit equal to 1.8% of average final compensation (AFC) for each year of creditable service.

Of greatest significance, however, is that the employer contribution paid by the State is substantially higher for LEOPS than for CORS and EPS. While CORS is a separate statutory system, for actuarial purposes it is treated as part of the combined employees’ retirement and pension systems. The employees’ systems employer contribution rate is 8.86% of pay. This rate, however, is not sufficient to fund CORS pension obligations, resulting in annual additional unfunded liabilities to the combined systems.

Exhibit 1
Pension Plan Provisions

	<u>LEOPS</u>	<u>CORS</u>	<u>EPS</u>
Normal Retirement Age	50	55 ¹	62 ¹
Years of Service for Normal Retirement	25 ³	20 ²	30
Employee Contribution	4%	5%	5% (effective FY 2009)
FY 2008 Employer Contribution	41.74%	8.86%	8.86%
Benefit Multiplier	2.0% of AFC	1.8% of AFC	1.8% of AFC
COLA	3% cap	unlimited	3% cap

¹Retiree must have at least five years of service.

²The last five years must be as a correctional officer or security attendant at Perkins Hospital.

³LEOPS members stop earning creditable service after 30 years.

Source: *Maryland Annotated Code*, State Personnel and Pensions Article; Segal Co.

Membership in LEOPS includes the following public safety employees:

- Department of Natural Resources police and rangers;
- Field Enforcement Bureau law enforcement officers;
- Maryland Transportation Authority police officers;
- Baltimore City Deputy Sheriffs;
- University of Maryland police officers;
- Morgan State University police officers;
- State Fire Marshal and Deputy State Fire Marshals;
- law enforcement officers of an electing governmental unit;
- Baltimore Washington International Airport Fire and Rescue Department officers;
- Department of General Services police officers;
- Department of Health and Mental Hygiene police officers;
- Motor Vehicle Administration police officers;
- Department of Labor, Licensing, and Regulation police officers;
- Martin State Airport firefighters;

- Division of Rehabilitation Services police officers of the Maryland State Department of Education;
- Salisbury Fire Department firefighters and paramedics;
- State Emergency Medical System aviators for the Department of State Police;
- Maryland Transit Administration police officers; and
- the Baltimore City Sheriff, provided he or she does not elect to join EPS.

Background: DPSCS formed an investigative unit in 1985. Initially it consisted of members of the Maryland State Police and correctional officers from the Division of Correction. The correctional officers attended entrance level police academies and were certified as police officers. The unit conducted criminal and misconduct investigations.

When the Maryland State Police became an independent agency, the unit continued to operate with a staff of just corrections officers who participated in CORS. In 1999, the Maryland General Assembly created IIU. In 2003, IIU positions were reclassified, which resulted in increased grade and pay for all members, but left IIU members ineligible for CORS, although they continue to participate in CORS, serving in an acting capacity in their new classifications. According to the unit, the Department of Budget and Management has indicated that the position reclassifications will not be complete until the officers withdraw from CORS.

The State Retirement Agency (SRA) advises that IIU employees who elect to transfer to LEOPS will not actually be required to pay the retroactive employee contributions to July 1, 2000, as specified in the bill. As members of CORS, they have been paying the 5% employee contribution under that system. SRA will transfer the accumulated employee contributions made under CORS from July 1, 2000 to the present, with interest, to LEOPS on the employees' behalf. Any excess employee contribution above the 4% LEOPS contribution will be set aside as a separate annuity to be paid to the employees when they are eligible for retirement. However EPS members who transfer to LEOPS may be required to pay the difference between the 2% employee contribution they paid before fiscal 2007 and the higher LEOPS contribution.

State Expenditures: SRA reports that there are 16 officers in IIU, of whom one is a retiree of the State Police Retirement System and cannot earn a second State retirement benefit. Three officers are in EPS, and the remainder are in CORS. As noted in Exhibit 1, the employer contribution rate for members of the Employees' Contributory Pension System is 8.86% in fiscal 2008, while the employer contribution rate for LEOPS is 41.74% in fiscal 2008. The difference in this "normal cost" portion of pension payments is 32.9 percentage points. Fiscal 2008 expenditures reflect the payment of the LEOPS employer contribution rates by DPSCS for the 15 members of IIU. These members have an average salary of \$54,695.

Total accrued pension liabilities are actually reduced by \$76,000 with the transfer from CORS to LEOPS, even as State pension contributions increase. CORS pension funding is incorporated into the general employees' systems rate; the "normal rate" of the employees' contribution rate does not reflect CORS' higher benefit provisions (the shorter length of service and unlimited COLA) because CORS' members' higher liabilities are spread out over the entire ERS/EPS membership. This anomaly results in annual unfunded liabilities to the employees' system funding levels. Employee transfers from CORS to LEOPS remove a portion of that anomaly from CORS and the liability will be properly funded in LEOPS because the employer contribution rate is tied to the actuarial liabilities of the system. This corrective action accounts for the reduced liabilities. However, the increased "normal cost" payments for LEOPS results in the increased State contribution.

Additional Information

Prior Introductions: SB 95 of 2006 was heard by the Senate Budget and Taxation Committee, but no further action was taken on the bill. HB 664 of 2004 received an unfavorable report by the House Appropriations Committee.

Cross File: None.

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

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ncs/jr

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