

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

**FISCAL AND POLICY NOTE**

Senate Bill 652 (Senator Edwards)  
 Budget and Taxation

**Correctional Officers' Retirement System - Benefits**

This bill enhances pension benefits for all members of the Correctional Officers Retirement System (CORS), and provides a 50% annuity benefit for surviving spouses and/or dependent children of deceased CORS retirees. The benefit multiplier for CORS members increases from 1.8% to 2.2% for service credit earned after July 1, 2007. Employee contributions remain unchanged.

The bill takes effect July 1, 2007.

**Fiscal Summary**

**State Effect:** State accrued pension liabilities increase by \$156.7 million, of which \$71.0 million is due to the benefit enhancement and the remaining \$85.7 million stems from the new survivor benefit structure. Amortizing the accrued liability over 25 years, combined with the increase in normal costs, results in State pension contributions increasing by \$11.2 million in FY 2009, increasing thereafter according to actuarial assumptions. Special fund expenditures by the State Retirement Agency increase by at least \$250,000 in FY 2008 to reprogram the agency's legacy computer system.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	6,747,000	7,351,200	7,992,600	8,312,300
SF Expenditure	250,000	2,249,000	2,450,400	2,664,200	2,770,800
FF Expenditure	0	2,249,000	2,450,400	2,664,200	2,770,800
Net Effect	(\$250,000)	(\$11,245,000)	(\$12,252,000)	(\$13,321,000)	(\$13,853,900)

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

**Local Effect:** None.

**Small Business Effect:** None.

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### Analysis

**Bill Summary:** CORS members earn a retirement benefit allowance according to the following formula:

$$\begin{array}{c} \boxed{\text{Years of Creditable}} \\ \boxed{\text{Service Before July 1, 2007}} \end{array} \times \begin{array}{c} \boxed{\text{Average Final}} \\ \boxed{\text{Compensation (AFC)}} \end{array} \times \boxed{1.8\%}$$

Plus

$$\boxed{\text{Years of Creditable}} \\ \boxed{\text{Service After July 1, 2007}} \times \boxed{\text{AFC}} \times \boxed{2.2\%}$$

A CORS retiree who receives a service retirement or disability benefit and who has a spouse or dependent children receives a full retirement benefit without being subject to an actuarial reduction in order to provide a survivor benefit after the retiree's death. Following the retiree's death, the retiree's surviving spouse is entitled to an annuity benefit equal to 50% of the retiree's allowance. If the spouse is also deceased, the survivor annuity benefit is divided equally among the retiree's surviving minor children in a manner that provides for payments to continue until each child dies or becomes 18 years old.

**Current Law:** CORS members earn a retirement benefit equal to 1.8% of AFC multiplied by their years of creditable service.

CORS' membership consists of correctional officers in the first six job classifications, security attendants at the Clifton T. Perkins Hospital Center, correctional dietary, maintenance, and supply officers, and, beginning July 1, 2007, certain local detention center officers. Correctional officers are eligible for a normal service retirement after 20 years of service, provided that the last five years of service were as a correctional officer or security attendant at the Perkins Hospital. Regardless of their years of service, correctional officers are eligible for a normal service retirement at age 55, while security attendants at Perkins Hospital are eligible for retirement at age 60.

Upon a CORS member's retirement, the State Retirement and Pension System establishes a retirement reserve that includes the amount needed, with interest, to pay the member's normal retirement allowance, as determined by the formula given above. The member

may elect to receive a normal (full) retirement allowance or to designate a beneficiary and select from among the following six payment options upon the retiree's death:

1. the beneficiary receives a lump-sum payment of the remaining funds in the retiree's retirement reserve account if the retiree was paid less than the actuarial present value of the retirement allowance calculated at his or her retirement;
2. the beneficiary receives 100% of the retiree's monthly benefit until death;
3. the beneficiary receives 50% of the retiree's monthly benefit until death;
4. the beneficiary receives a lump-sum cash payout to the beneficiary of the remaining funds in the retiree's retirement reserve account if the retiree was paid less than the amount of his or her employee contributions, with interest;
5. the beneficiary receives 100% of the retiree's monthly benefit until death, but if the beneficiary predeceases the retiree, the retiree begins receiving the full monthly retirement allowance; or
6. the beneficiary receives 50% of the retiree's monthly benefit until death, but if the beneficiary predeceases the retiree, the retiree begins receiving the full monthly retirement allowance.

If the retiree selects one of the six survivor benefit options, his or her monthly retirement allowance is reduced by an actuarially determined factor to provide the potential survivor benefit.

**Background:** As of June 30, 2006, there were 7,170 active CORS members. Their average salary was \$42,127 and their average service was 10.4 years.

The fiscal 2007 budget provided a 9.8% increase in compensation for correctional officers. Also, Chapter 392 of 2006 exempted CORS retirees from a retirement benefit reduction if they were reemployed as correctional officers on a contractual basis for less than four years. The Department of Public Safety and Correctional Services reported to the Joint Committee on Pensions that no CORS retirees have been re-employed as correctional officers since Chapter 392 became effective on July 1, 2006.

Normal service and disability retirees of the State Police Retirement System and the Law Enforcement Officers' Pension System are exempt from the actuarial reduction for survivor retirement allowances, and their surviving spouses and minor children also receive a 50% survivor allowance.

**Exhibit 1** shows the current and enhanced replacement ratios for different CORS members based on when they first joined CORS. Replacement ratios measure the

proportion of AFC that a member can expect to receive in pension payments during the first year of retirement, not including Social Security or private savings.

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**Exhibit 1**  
**CORS Replacement Ratios\***

<u>Year Hired</u>	<u>Current</u>	<u>Enhanced Benefit</u>
1987	36%	36%
1997	36%	40%
2007	36%	44%

\*Assumes normal service retirement with 20 years of service credit.

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**State Expenditures:** The bill provides a 22.2% benefit increase for CORS members, and provides a more generous normal and survivor retirement allowance for CORS retirees with spouses or dependent children.

The Department of Legislative Services (DLS) assumes that the new 50% survivor benefit applies only to current active employees and not to current retirees. DLS also assumes that, based on current turnover rates in CORS, 350 new members join CORS each year. Under these assumptions, the General Assembly's actuary estimates that State pension liabilities increase by \$156.7 million, of which \$71.0 million stems from the benefit enhancement and the remaining \$85.7 million stems from the 50% survivor annuity benefit. As a result, State pension contributions increase by \$11.2 million in fiscal 2009, of which \$5.2 million is due to the benefit enhancement and the remaining \$6.0 million stems from the new survivor benefit structure. Annual pension contributions increase thereafter according to actuarial assumptions. These increases are expected to be split 60% general funds, 20% special funds, and 20% federal funds.

The State Retirement Agency advises that this bill will require it to reprogram its legacy computer system to reflect the new benefit rates. The creation of a new benefit tier, such as the one established by this bill, is especially taxing on the agency's outdated legacy system. It estimates that the total cost could be as high as \$500,000, and that it could take up to a year to reprogram the system. Based on previous agency estimates of the cost of reprogramming its legacy computer system, DLS believes the cost will be approximately \$250,000. The agency notes that additional costs could be incurred during the process of transferring the data from the current legacy system to the new Maryland Pension Administration System (MPAS), which is expected to be operational by October 2008.

Those costs cannot be reliably estimated, but could be significant. DLS notes that agency costs for implementing this bill would be dramatically reduced if implementation were delayed until MPAS is fully functional. The primary purpose of MPAS is to create a more agile computer system capable of adapting to benefit changes faster and more accurately than the current system.

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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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