

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

**FISCAL AND POLICY NOTE**

House Bill 453 (Delegates Donoghue and Conway)  
 Appropriations

**Correctional Officers' Retirement System - Service Retirement Allowance**

This bill enhances pension benefits for senior members of the Correctional Officers' Retirement System (CORS). The benefit multiplier remains at 1.8% for junior officers in CORS, but increases to 2.5% for lieutenants, captains, and majors.

The bill takes effect July 1, 2007.

**Fiscal Summary**

**State Effect:** To the extent that assumptions about CORS' members' career tracks reflect actual experience, the State's accrued pension liabilities could increase by \$25.6 million and annual normal costs could increase by \$86,000. Amortizing the liabilities over 25 years and adding the higher normal costs would result in State pension contributions increasing by \$1.7 million beginning in FY 2009 (all funds). Out-year increases reflect actuarial assumptions. Special fund expenditures increase by \$500,000 in FY 2008 only for modifications to the Retirement Agency's database.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	998,400	1,090,200	1,187,400	1,291,200
SF Expenditure	500,000	332,800	363,400	395,800	430,400
FF Expenditure	0	332,800	363,400	395,800	430,400
Net Effect	(\$500,000)	(\$1,664,000)	(\$1,817,000)	(\$1,979,000)	(\$2,152,000)

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

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

Years of Creditable Service as Correctional Officers I & II and Sergeants	x	Average Final Compensation (AFC)	x	1.8%
Plus				
Years of Creditable Service as Lieutenants, Captains, and Majors	x	AFC	x	2.5%

**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 5 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 at age 60.

**Background:** According to the actuary for the State Retirement and Pension System, there were 7,170 active CORS members as of June 30, 2006. Their average salary was \$42,127 and their average service was 10.4 years.

The Division of Correction reports the following distribution of correctional officers by rank:

Correctional Officer I	974
Correctional Officer II	3,251
Sergeant	747
Lieutenant	399
Captain	166
Major	53

Because they are not classified by rank, the bill does not apply to 232 maximum security attendants, approximately 300 security attendants at Perkins Hospital Center, 650

correctional dietary, maintenance, and supply officers, and, beginning July 1, 2007, certain local detention center officers.

The Department of Legislative Services (DLS) notes that there is a discrepancy in the membership data provided by the Division of Correction and the State Retirement and Pension System actuary that DLS has not been able to resolve. Neither the State Retirement Agency (SRA) nor the Division of Correction can explain the discrepancy. The General Assembly's actuary conducted the analysis using the same actuarial valuation data used by SRA's actuary; results of the analysis could vary depending on the reason for the enrollment discrepancy.

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 reemployed as correctional officers since Chapter 392 became effective on July 1, 2006.

**State Fiscal Effect:** SRA does not include personnel classifications or ranks in its current database, which provides the basis for actuarial analyses of the fiscal impact of proposed legislation. This information is not provided by the State's Central Payroll Office or by other participating employers. Therefore, a precise actuarial analysis of this bill's fiscal effect is not possible. Although the Division of Correction provided a breakdown of current members by rank, the General Assembly's actuary has no means to identify the ranks of each member in the database to establish the breakdown of actual years of service earned by rank. Moreover, there is no way to determine at what point in a member's career an individual might attain the rank of lieutenant or higher, and therefore earn the higher benefit. To conduct the analysis, DLS and the actuary developed the following assumptions about the ranks and career tracks of CORS members:

- the bill applies only prospectively to future service credit and does not apply to prior service credit earned by senior correctional officers;
- over the course of their careers, 30% of correctional officers attain the rank of lieutenant or higher;
- correctional officers who attain at least the rank of lieutenant are not demoted at any time thereafter;
- on average, correctional officers who attain the rank of lieutenant take 15 years to reach that rank; and
- based on current turnover rates among CORS members, 350 new members join CORS each year.

Based on these assumptions, the General Assembly's actuary estimates that State accrued pension liabilities could increase by \$25.6 million, and the annual normal cost would increase by \$86,000. Amortizing the accrued liabilities over 25 years and adding the higher normal cost results in State pension contributions increasing by \$1.7 million in fiscal 2009. In future years, pension contributions increase according to actuarial assumptions. Those costs are expected to be split 60% general funds, 20% special funds, and 20% federal funds.

SRA advises that implementation of this bill may not be possible if Central Payroll cannot include personnel classifications and ranks in the data it provides to the agency on a monthly basis. The current State payroll system does not include such information, and the costs of modifying the system could be significant. Moreover, SRA would have to modify its Legacy Pension System to receive the modified personnel data and also to add a new benefit tier for senior correctional officers. The legacy system is more than 30 years old, and major reprogramming tasks require substantial investments of personnel. Based on information provided by the agency, DLS estimates that the cost of reprogramming the legacy system could be as high as \$500,000. Since the agency is in the process of replacing the legacy system with a more modern system (the Maryland Pension Administration System, or MPAS), there could be additional costs and project delays involved in transferring data from the legacy system to MPAS. Those costs cannot be estimated until MPAS is operational in fall 2008.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** National Council on Compensation Insurance, Maryland State Retirement Agency, Department of Legislative Services

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Analysis by: Michael C. Rubenstein

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