

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1346

(Chair, Appropriations Committee) (By Request –
Departmental – Baltimore City Community College)

Appropriations

Budget and Taxation

**Law Enforcement Officers' Pension System - Baltimore City Community College
- Police Officers**

This departmental bill includes police officers employed by the Baltimore City Community College (BCCC) in the Law Enforcement Officers' Pension System (LEOPS) as a condition of their employment. Members of the BCCC police force as of June 30, 2007 may elect to join LEOPS by December 31, 2007 or remain in the Employees' Pension System (EPS). The bill does not apply to a BCCC police officer who transferred from the Employees' Retirement System to EPS on or after December 1, 1996.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: State accrued pension liabilities increase by \$188,000, and annual normal costs increase by \$58,000 beginning in FY 2008. Amortizing the liabilities over 25 years and adding in the normal cost increase results in BCCC higher education expenditures increasing by \$72,000 in FY 2009. Those amounts increase annually according to actuarial assumptions. Total payments by BCCC could be slightly less if the State Retirement Agency (SRA) requires members of the BCCC police force to make retroactive employee contributions.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
Higher Ed Exp.	58,000	72,000	75,000	78,000	81,000
Net Effect	(\$58,000)	(\$72,000)	(\$75,000)	(\$78,000)	(\$81,000)

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

Local Effect: None. BCCC is a State-funded institution.

Small Business Effect: BCCC has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law/Background: Chapter 417 of 2006 granted BCCC security personnel the powers of police officers, subject to their obtaining the necessary training and certification under State law.

Currently, BCCC police officers are members of EPS. **Exhibit 1** shows the key provisions of EPS and LEOPS. Once the 5% EPS contribution rate is phased in by fiscal 2009, LEOPS members will pay a lower contribution than EPS members and earn a larger benefit. LEOPS also offers members a Deferred Retirement Option Program, 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. Of greatest significance, however, is that the employer contribution paid by the State is substantially higher for LEOPS than for EPS. The employee systems’ employer contribution rate is 8.86% of pay, compared with 41.74% for LEOPS.

Exhibit 1 Pension Plan Provisions

	<u>LEOPS</u>	<u>EPS</u>
Normal Retirement Age	50	62 ¹
Years of Service for Normal Retirement	25 ²	30
Employee Contribution	4%	5% (as of FY 2009) ³
FY 2008 Employer Contribution	41.74%	8.86%
Benefit Multiplier	2.0% of AFC	1.8% of AFC
COLA	CPI-U, up to 3%	CPI-U, up to 3%

¹Retiree must have at least five years of service.

²LEOPS members stop earning creditable service after 30 years.

³Increase from 2% in fiscal 2006 phased in over three years according to Chapter 110 of 2006.

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.

State Expenditures: The BCCC security force currently consists of 10 officers, of whom 1 is already retired from LEOPS and is not affected by this bill. The average age of the affected employees is 46 and the average salary is \$41,386. All are members of EPS.

Assuming that all nine eligible police officers transfer from EPS to LEOPS, State pension liabilities increase by \$188,000 and pension normal costs increase by \$58,000 beginning in fiscal 2008, accounting for the higher LEOPS employer contribution. Amortizing the liabilities and adding in the total normal cost increase results in fiscal 2009 higher education expenditures by BCCC increasing by an estimated \$72,000. However, total BCCC payments could be less, depending on SRA's interpretation of the legislation, as noted below.

The bill makes no provision for transferring the officers' prior service credit from EPS to LEOPS. However, under State law, they are allowed to transfer their prior service credit

to LEOPS if, within one year of their entry into LEOPS, they notify SRA and deposit into LEOPS:

- their total accumulated employee contributions from EPS for the time they were members of that system; and
- the cumulative difference between the 2% or 3% contribution required by EPS and the 4% contribution for LEOPS for all prior service earned since June 30, 2000.

SRA notes that historically it has interpreted this provision to apply to individuals who transfer to LEOPS from another contributory plan, but not to groups of individuals who transfer. The Department of Legislative Services (DLS) believes this provision does apply in this case because the bill permits each current member to choose whether to transfer to LEOPS. If SRA requires the BCCC employees to pay the retroactive employee contributions, those contributions will cover a portion of the amortized liabilities that arise from the transfer, thereby reducing the required payments by BCCC. The precise amount of the reduced payments cannot be determined, but total BCCC payments in fiscal 2009 would be between \$58,000 (the normal cost portion) and \$72,000 (normal cost plus amortized liabilities). If SRA does not require the retroactive employee payments, BCCC will pay the full \$72,000 in fiscal 2009.

Additional Comments: BCCC reports that it currently has five vacant positions in its police force, and is seeking three new positions in fiscal 2008 through the State budget process. None of those eight positions will be filled until fiscal 2008 (after the bill's effective date), so they are not included in this analysis. If the new positions are approved and all eight positions are filled, they will be members of LEOPS as a condition of their employment. The difference between the fiscal 2008 employer contributions for EPS and LEOPS for those eight positions would be approximately \$109,000.

Additional Information

Prior Introductions: HB 1669 of 2006 (Chapter 417 of 2006) included the provisions of this bill but they were not included in the enrolled bill.

Cross File: None.

Information Source(s): Mercer Human Resources Consulting, State Retirement Agency, Baltimore City Community College, Department of Legislative Services

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ncs/jr

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