

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

**FISCAL AND POLICY NOTE**

House Bill 468  
 Appropriations

(Delegate James)

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**State Police Retirement System - Retirees and Beneficiaries of Retirees - Benefits**

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This bill increases retirement benefits paid by the State Police Retirement System (SPRS) to normal service retirees who retired on or before June 30, 1999 with at least 270 months (22.5 years) of service credit at the time of retirement, and their beneficiaries. Retirees receiving annual benefit payments of less than \$40,000 receive an enhancement equal to the lesser of \$1,500 or the difference between \$40,000 and their annual benefit. Beneficiaries receiving annual benefit payments of less than \$20,000 receive an enhancement equal to the lesser of \$750 or the difference between \$20,000 and their annual benefit.

The bill takes effect July 1, 2007.

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**Fiscal Summary**

**State Effect:** State accrued pension liabilities increase by \$11.1 million based on informal calculations by the General Assembly's actuary. Amortization of that amount results in a first-year increase in State pension contributions of \$709,000 in FY 2009, increasing thereafter according to actuarial assumptions. Actual costs could be slightly less to the extent that some retirees included in the analysis do not meet the 270 month threshold.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	425,400	442,200	459,600	478,000
SF Expenditure	0	141,800	147,400	153,200	159,400
FF Expenditure	0	141,800	147,400	153,200	159,400
Net Effect	\$0	(\$709,000)	(\$737,000)	(\$766,000)	(\$796,800)

*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

**Current Law:** SPRS members contribute 8% of their annual compensation and are eligible for normal service retirement after 22 years or upon reaching age 50. Retirement is mandatory at age 60. Normal service retirees earn 2.55% of their average final compensation for each year of service, but their retirement allowance cannot exceed 71.4% of their average final compensation at the time of retirement. State Police officers do not participate in Social Security.

Chapter 123 of 1999 provided benefit enhancements to SPRS retirees who retired on or before July 1, 1999, or their beneficiaries. The enhancement applied equally to normal service retirees, ordinary disability retirees, special disability retirees, and all beneficiaries. The enhancement provided annual lump sum payments as follows:

- \$1,200 for retirees who had been retired not more than 5 years;
- \$1,500 for retirees who had been retired more than 5 years but less than 10 years;
- \$1,800 for retirees who had been retired more than 10 years but less than 15 years; and
- \$2,100 for retirees who had been retired more than 15 years.

These lump sum payments were subject to annual inflators based on the Consumer Price Index. For instance, a \$1,200 enhancement in 1999 increased to \$1,447 in 2006.

**State Expenditures:** Based on a review of its records, the State Retirement Agency (SRA) has determined that, at most, the bill will affect 605 State Police retirees and 25 beneficiaries. The retirees have an average annual benefit of \$31,837 and an average age of 65.4. SRA could not confirm in time for this analysis that all of these retirees had at least 270 months of service at retirement, but that threshold is just 6 months higher than is required for normal service retirement. Therefore, the Department of Legislative Services assumes that all 605 retirees meet the 270 month threshold; the total cost could be slightly less to the extent that some of the retirees do not meet that threshold.

Assuming that the amount of the enhanced payment is subject to annual cost-of-living increases, the General Assembly's actuary estimates that the State's accrued pension

liabilities increase by \$11.1 million. Amortizing that amount over 25 years results in an increase in State pension contributions of \$709,000 in fiscal 2009. Those payments increase annually according to actuarial assumptions. They are assumed to be split 60% general funds, 20% special funds, and 20% federal funds.

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### **Additional Information**

**Prior Introductions:** HB 806 of 2006, a similar bill, passed both the House and Senate, but differences between the two amended versions were not resolved.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 15, 2007  
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