

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 820
 Appropriations

(Delegates Hubbard and Proctor)

Correctional Officers' Retirement System - Membership - Parole and Probation

This bill allows current agents and field supervisors I of the Division of Parole and Probation (DPP) in the Department of Public Safety and Correctional Services to transfer from either the Employees' Retirement System (ERS) or the Employees' Pension System (EPS) to the Correctional Officers' Retirement System (CORS). Future agents and supervisors I will be members of CORS as a condition of their employment.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: State pension liabilities increase by \$44.7 million and normal costs increase by \$1.4 million. Amortizing that amount over 25 years yields increased State pension costs beginning in FY 2010 of \$3.0 million (all funds), increasing annually according to actuarial assumptions.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	1.8	1.9	2.0	2.1
SF Expenditure	0	.6	.6	.7	.7
FF Expenditure	0	.6	.6	.7	.7
Net Effect	\$0	(\$3.0)	(\$3.2)	(\$3.3)	(\$3.5)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Agents and field supervisors I employed by DPP on June 30, 2007 may choose to transfer to CORS before December 31, 2007. All prior service credit earned in the Employees' Retirement System (ERS) and the Employees' Pension System (EPS) would transfer with them. All prior employee and employer contributions made on the agents' behalf to ERS/EPS would be transferred to CORS, plus 4% interest. (However, because CORS is a subsystem of ERS, no actual transfer of assets will occur.) If eligible agents and field supervisors do not transfer by the designated date, they are not eligible to join CORS. Agents and field supervisors I hired by DPP after June 30, 2007 are members of CORS as a condition of employment.

Individuals who transfer from EPS to CORS under this bill would be exempt from making up the difference between the lower EPS employee contribution rates in effect before July 1, 2008 and the 5% employee contribution in CORS for their prior service.

Agents and field supervisors I in DPP with 20 years of eligibility service would be eligible for a normal service retirement from CORS.

Current Law: Eligibility for CORS membership is limited to correctional officers in the first six job classifications, security attendants at the Clifton T. Perkins Hospital Center, correctional dietary, maintenance, and supply officers, and certain local detention center officers. DPP agents and field supervisors participate in either ERS or EPS. **Exhibit 1** shows the key provisions of all three plans. As the exhibit shows, Chapter 110 of 2006 phased in a higher EPS employee contribution rate, from 2% in fiscal 2006 to 5% in fiscal 2009 and beyond. Once that increase is fully phased in, the key differences between EPS and CORS will be that CORS members can retire at a younger age and/or with fewer years of service and receive an unlimited cost-of-living adjustment (COLA). The unlimited COLA could be a meaningful benefit, although the Consumer Price Index has exceeded 3% annual growth just four times since 1990. CORS also provides surviving family members with more generous death benefits than ERS/EPS if the member dies or is killed in the line of duty. Compared to ERS/EPS, the CORS retirement benefit multiplier offers a marginally higher benefit for each year of creditable service since 1998; for service credit earned before 1998, the CORS multiplier is significantly higher than the EPS multiplier.

Exhibit 1
Pension Plan Provisions

	<u>ERS</u>	<u>EPS</u>	<u>CORS</u>
Normal Retirement Age	60	62 ¹	55 ¹
Years of Service for Normal Retirement	30	30	20 ²
Employee Contribution	5% (capped COLA) 7% (unlimited COLA)	None prior to 1998 2% (1998-2006) 3% in 2007 4% in 2008 5% in 2009 and beyond	5%
Benefit Multiplier	1.8% of AFC	1.8% of AFC (after 1998) 1.2% of AFC (before 1998)	1.82% of AFC
COLA	5% cap or unlimited	3% cap	Unlimited

1. Retiree must have at least five years of service.
2. The last five years must be in any combination of CORS-eligible positions.

Source: Maryland Annotated Code, State Personnel and Pensions Article

When a member of EPS transfers service credit to another contributory system (such as CORS), the accumulated employer and employee contributions made on his or her behalf must be transferred to the new system, which the bill requires. State law also requires an individual who transfers service credit under these circumstances to deposit in CORS an amount equal to the difference between the employee contributions made to EPS and those required by CORS, including interest. In this case, EPS members transferring to CORS would have to pay the full CORS contribution rate, plus interest, for any service credit earned prior to 1998, when EPS was noncontributory. They would also have to pay the difference between the EPS employee contribution from fiscal 1998 through 2008 and the 5% employee contribution for CORS for each year of service credit earned during those years. The bill exempts EPS members who transfer under this bill from that requirement. However, it does allow members of ERS who have been paying the higher employee contribution of 7% to receive a refund of the difference between their 7% contribution and the 5% CORS contribution.

To be eligible for a normal service retirement, CORS members must have 20 years of eligibility service, with the last five years of credit earned in any combination of CORS-eligible positions. This bill has no such requirement for DPP agents and field supervisors. Therefore, an individual could be a member of EPS or another State pension system for 20 years, get a job with DPP, and be eligible immediately for a normal service retirement with 20 years of service.

Background: The issue of benefit levels for parole and probation agents was studied by the Joint Committee on Pensions during the 2001 and 2002 interims. A study by the Department of Legislative Services (DLS) in 2001 found that of the 29 states and localities surveyed, 17 included their agents in their general employees' systems, as Maryland currently does. The other jurisdictions included their agents in their public safety pension systems or operated specialized systems for the agents.

Chapter 340 of 2006 included 647 correctional dietary, maintenance, and supply workers in CORS.

State Expenditures: The bill would affect 718 individuals within DPP, of whom 622 are agents and 96 are field supervisors I. The average salary for agents is \$51,126, and the average salary for field supervisors is \$60,622.

The transfer to CORS of prior service credits earned by current DPP agents in EPS increases State pension liabilities for two reasons. First, DPP members will earn CORS service credit for their prior EPS service without paying the difference between the EPS employee contribution and the 5% CORS employee contribution. Prior to 1998, EPS was noncontributory for most members, so individuals transferring from EPS to CORS would normally have to pay the full 5% CORS contribution rate, plus interest, for any service credit earned prior to 1998. Since 1998, when EPS became contributory, they would have to pay the difference between the EPS contribution and the 5% CORS contribution, plus interest. Second, because CORS is a subsystem of ERS, the employer contribution is the same as for ERS/EPS despite the fact that CORS benefits are more generous than those available to other State employees in those plans. By transferring into a retirement system that is in essence under-funded, the DPP agents add to the State's pension liabilities.

DLS assumes that all the affected agents are members of EPS, and, given current turnover rates within CORS, that 35 new members enter the system each year. In addition, DLS assumes that all eligible current employees within DPP would transfer to CORS. Using these assumptions, the legislature's actuary estimates that State pension liabilities would increase by \$44.7 million and normal costs would increase by \$1.4 million. Amortizing the increased liabilities over 25 years and adding in the higher

normal costs results in State pension contributions increasing by \$3.0 million in fiscal 2010, with subsequent annual payments increasing according to actuarial assumptions. Although the parole and probation agents are all employed by the Department of Public Safety and Correctional Services, for the purposes of actuarial valuations, CORS is subsumed within the combined employees' systems. Therefore, the increased liabilities and costs will be spread across all State agencies. Personnel costs are assumed to be split 60% general funds, 20% special funds, and 20% federal funds.

The actuary also notes that DPP field supervisors have an average of 24 years of service, which makes many of them eligible for immediate retirement from CORS (but not from EPS). If many of them retire, the agency could face immediate staffing shortages. Moreover, the State's liability for retiree health care could increase.

Additional Information

Prior Introductions: SB 493 of 2007, an identical bill, received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: SB 656 (Senator Kasemeyer) – Budget and Taxation.

Information Source(s): Mercer Human Resources Consulting, State Retirement Agency, Department of Public Safety and Correctional Services, Department of Legislative Services

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