HB 1012

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1012 (Prince George's County Delegation)
Appropriations

Prince George's County Deputy Sheriffs - Transfer of Service Credit PG 320-08

This bill allows Prince George's County deputy sheriffs who participate in the Employees' Pension System (EPS) as a participating governmental unit to transfer to the Prince George's County Sheriff's Comprehensive Pension Plan (CPP). The transfer of service credit is governed by State law addressing transfers of credit between State and local pension plans, with one exception: individuals who choose to transfer will receive one year of service credit in the Prince George's County plan for each year of service earned in EPS.

The bill takes effect July 1, 2008 and terminates December 31, 2008.

Fiscal Summary

State Effect: None. The bill affects only Prince George's County.

Local Effect: According to the Prince George's County actuary, unfunded accrued pension liabilities for the county increase by $4.4 million and normal costs increase by $169,600. Amortizing the liabilities over 30 years, as the county requires, and adding the increased normal costs results in the county's pension contribution increasing by $372,000 in FY 2010. That increase is assumed to grow annually according to actuarial assumptions.

Small Business Effect: None.

Analysis

Current Law: Employees of local governments that participate in EPS as participating governmental units (PGUs) are members of EPS as a condition of their employment.

Title 37 of the State Personnel and Pensions Article governs transfers between State and local pension plans. Under Title 37, individuals may not transfer from one system to another unless the employer contributions made on the individual's behalf in the prior system are transferred to the new system. The individual then receives one year of service credit in the new system for each year of credit earned in the prior system. However, individuals who transfer to a State or local retirement system for a police or fire department may be subject to an actuarial adjustment of their transferred credit to reflect the earlier retirement ages typical of most law enforcement pension plans. Title 37 also specifies that an individual who retires within five years of transferring into a State or local plan must receive the same benefits that would have been paid under the prior plan for the transferred credit.

Background: Prince George's County participates as a PGU in the noncontributory portion of EPS. Under the noncontributory plan, there is no employee contribution for the portion of a member's compensation that is below the Social Security wage base; an employee contributes 5% of compensation that exceeds the wage base. For 2008, the wage base is $102,000.

Exhibit 1 summarizes the benefits provided by the noncontributory EPS plan and CPP. As the exhibit shows, CPP allows members to retire earlier and provides a much more generous benefit, but also requires a substantially higher employee contribution.

Prince George's County advises that 15 current deputy sheriffs would be affected by this bill. Their average age is 48 years, their average service is 22.9 years, and their average compensation is $86,100. Only one of the members earns compensation above the Social Security Wage Base and therefore makes an employee contribution under EPS.

Exhibit 1
Pension Plan Provisions

	CPP	Noncontributory EPS
Normal Retirement Age	55[1]	62[1]
Years of Service for Normal Retirement	20[2]	30
Employee Contribution	10%	0% (up to SSWB) 5% (above SSWB)
Benefit Multiplier	3.0% (years 1-20) 2.5% (years 21-30)	1.2%

SSWB: Social Security Wage Base

[1]Retiree must have at least five years of service.
[2]Members stop earning credit after 30 years of service.

Source: *Maryland Annotated Code*, State Personnel and Pensions Article; Segal Co., Prince George's County

Local Fiscal Effect: Based on an actuarial analysis conducted by the Prince George's County actuary, the transfer results in the county's unfunded accrued pension liabilities increasing by $4.4 million and normal costs increasing by $169,600. Amortizing the increased liabilities over 30 years, as the county requires, and adding the increased normal costs, results in the county's pension contributions increasing by an estimated $372,000 beginning in fiscal 2010.

Increased costs for the county stem from the fact that the transferred service credit allowed under this bill is underfunded. The earlier retirement eligibility for CPP makes each year of service earned under EPS more valuable under CPP from an actuarial standpoint, but no actuarial adjustment is made to reflect the difference. Also, the employer contributions paid under EPS that transfer to CPP are considerably lower than those currently paid by the county for CPP members. Finally, while CPP members pay 10% of their compensation toward their benefit, the 15 members who transfer their credit will earn the same credit without having made any contribution for it while they were in the noncontributory EPS.

The DLS actuary does not have access to plan experience and actuarial tables for CPP, so it cannot independently verify the results provided by the county's actuary. However, based on its rough estimate of the present value of future benefits and employee contributions for the 15 members affected by the bill, the DLS actuary concludes that the estimates provided by the county's actuary are reasonable.

To the extent that some of the affected members retire in less than five years, county costs could be lower. As noted above, individuals who transfer to CPP and retire in less than five years may not be eligible for the higher benefits provided by CPP.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Mercer Human Resources Consulting, Prince George's County, Maryland State Retirement Agency, Department of Legislative Services

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