

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 1442 (Delegate Donoghue)
 Appropriations

Correctional Officers' Retirement System - Membership - Correctional Case Managers

This bill requires individuals employed as correctional case managers to participate in the Correctional Officers' Retirement System (CORS) as a condition of their employment.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: Total State pension liabilities could increase by \$19.3 million and normal costs by \$521,000, resulting in increased State pension contributions of \$1.3 million beginning in FY 2010. Those costs increase annually according to actuarial assumptions, and are assumed to be split 60% general funds, 20% special funds, and 20% federal funds.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	766,200	808,800	853,200	898,200
SF Expenditure	0	255,400	269,600	284,400	299,400
FF Expenditure	0	255,400	269,600	284,400	299,400
Net Effect	\$0	(\$1,277,000)	(\$1,348,000)	(\$1,422,000)	(\$1,497,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The State Retirement and Pension System must transfer employer and employee contributions made on behalf of correctional case managers who are currently members of either the Employees' Retirement System (ERS) or the Employees' Pension System (EPS) to CORS, plus 4% interest. Correctional case managers who are current members of EPS would be exempt from statutory provisions requiring them to pay the difference between the lower EPS contribution rate and the higher CORS contribution rate for the prior service credit that transfers to CORS. However, members of ERS on June 30, 2008 who currently contribute 7% of their compensation would receive a refund of the difference between the higher ERS contribution and the CORS contribution, including 5% interest. In accordance with federal law, that refund could not be paid until a member terminates employment or retires.

Current Law: Only correctional officers in the first six job classifications, security attendants at the Clifton T. Perkins Hospital Center, and correctional dietary, maintenance, and supply officers participate in CORS. Local detention center officers whose employers join CORS as participating government units are also eligible to participate in CORS, but no local governments have joined the CORS municipal pool to date.

Correctional case managers 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

¹Retiree must have at least five years of service.

²The 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.

State Fiscal Effect: The Department of Public Safety and Correctional Services reports that there are 312 employees currently serving as correctional case managers, with an average age of 45. Their average salary is \$53,547 and they have an average of 15.3 years of service. Since ERS was closed to new members 27 years ago, all 312 case managers are assumed to be members of EPS. Fifteen new members are assumed to join the group each year.

Based on that profile, DLS' actuary estimates that total State pension liabilities would increase by \$19.3 million and normal costs would increase by \$521,000. Amortizing the liabilities over 25 years and adding the higher normal costs yields an increase in State pension contributions of \$1.3 million beginning in fiscal 2010. Those costs are assumed to increase annually according to actuarial assumptions. Although the correctional case managers 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 State costs would be spread across all State agencies. Personnel costs are assumed to be 60% general funds, 20% special funds, and 20% federal funds.

Additional Information

Prior Introductions: HB 402 of 2007, an identical bill, received an unfavorable report from the House Committee on Appropriations.

Cross File: None.

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

Fiscal Note History: First Reader - March 7, 2008
mcp/jr

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