

**Department of Legislative Services**  
**Maryland General Assembly**  
**2008 Session**

**FISCAL AND POLICY NOTE**

House Bill 383  
 Appropriations

(Delegate Donoghue)

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**Correctional Officers' Retirement System - Service Retirement Allowance**

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This bill enhances pension benefits for senior members of the Correctional Officers' Retirement System (CORS) and reduces pension benefits for junior officers. The benefit multiplier is reduced from 1.82% to 1.80% for junior officers in CORS, but increases to 2.5% for lieutenants, captains, and majors.

The bill takes effect July 1, 2008.

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**Fiscal Summary**

**State Effect:** To the extent that assumptions about CORS' members' career tracks reflect actual experience, the State's accrued pension liabilities could increase by \$24.1 million and annual normal costs could increase by \$843,000. Amortizing the liabilities over 25 years and adding the higher normal costs would result in State pension contributions increasing by \$2.4 million beginning in FY 2010 (all funds). Out-year increases reflect actuarial assumptions.

| (in dollars)   | FY 2009 | FY 2010       | FY 2011       | FY 2012       | FY 2013       |
|----------------|---------|---------------|---------------|---------------|---------------|
| Revenues       | \$0     | \$0           | \$0           | \$0           | \$0           |
| GF Expenditure | 0       | 1,455,600     | 1,506,600     | 1,559,400     | 1,614,000     |
| SF Expenditure | 0       | 485,200       | 502,200       | 519,800       | 538,000       |
| FF Expenditure | 0       | 485,200       | 502,200       | 519,800       | 538,000       |
| Net Effect     | \$0     | (\$2,426,000) | (\$2,511,000) | (\$2,599,000) | (\$2,690,000) |

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

**Local Effect:** None. No local governments have elected to place their detention center officers in CORS.

**Small Business Effect:** None.

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### Analysis

**Bill Summary:** CORS members earn a retirement benefit allowance according to the following formula:

|   |   |                                     |   |      |
|---|---|-------------------------------------|---|------|
| Years of Creditable<br>Service as Correctional<br>Officers I & II and Sergeants | x | Average Final<br>Compensation (AFC) | x | 1.8% |
| Plus  |   |                                     |   |      |
| Years of Creditable<br>Service as Lieutenants,<br>Captains, and Majors          | x | AFC                                 | x | 2.5% |

**Current Law:** CORS members earn a retirement benefit equal to 1/55 (1.82%) of AFC multiplied by their years of creditable service.

CORS' membership consists of 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. Correctional officers are eligible for a normal service retirement after 20 years of service, provided that for the last 5 years of service, the member was employed in one or a combination of the above employment positions. Regardless of their years of service, correctional officers are eligible for a normal service retirement at age 55, while security attendants at Perkins Hospital are eligible at age 60.

**Background:** According to the actuary for the State Retirement and Pension System, there were 7,355 active CORS members as of June 30, 2007. Their average salary was \$43,306 and their average service was 10 years.

The Division of Correction reports the following distribution of correctional officers by rank:

|                         |       |
|-------------------------|-------|
| Correctional Officer I  | 808   |
| Correctional Officer II | 3,374 |
| Sergeant                | 734   |
| Lieutenant              | 404   |
| Captain                 | 159   |
| Major                   | 53    |

Because they are not classified by rank, at least 1,800 active CORS members will not benefit from this bill, including security attendants at Perkins Hospital Center, and correctional dietary, maintenance, and supply officers.

**State Fiscal Effect:** The State's Central Payroll Office does not provide the State Retirement Agency (SRA) with personnel records when it sends employment information for the purpose of calculating service credit, so the SRA database does not include personnel classifications, ranks, or location of employment in its current database. Since that database provides the basis for actuarial analyses of the fiscal impact of proposed legislation, a precise actuarial analysis of this bill's fiscal effect is not possible. Although the Division of Correction provided a breakdown of current members by rank, the General Assembly's actuary has no means to identify which individuals in the database should be excluded from the analysis because they work at Perkins Hospital or serve as maintenance, dietary, or supply officers. Also, the database does not identify the ranks of each member in the database to establish the breakdown of actual years of service earned by rank. Finally, there is no way to determine at what point in a member's career an individual might attain the rank of lieutenant or higher, and therefore earn the higher benefit. To conduct the analysis, DLS and the actuary developed the following assumptions about the ranks and career tracks of CORS members:

- for active members, the bill applies retroactively to all service credit earned prior to the bill's effective date;
- over the course of their careers, 30% of correctional officers attain the rank of lieutenant or higher;
- correctional officers who attain at least the rank of lieutenant are not demoted at any time thereafter;
- on average, correctional officers who attain the rank of lieutenant take 15 years to reach that rank.

Based on these assumptions, the General Assembly's actuary estimates that State accrued pension liabilities could increase by \$24.1 million and the annual normal cost would increase by \$843,000. Amortizing the accrued liabilities over 25 years and adding the higher normal cost results in State pension contributions increasing by \$2.4 million in

fiscal 2010. In future years, pension contributions increase according to actuarial assumptions. Those costs are expected to be split 60% general funds, 20% special funds, and 20% federal funds.

Legislative Services notes that the first-year cost increase of \$2.4 million is considerably higher than the first-year cost estimate of \$1.7 million for HB 453 of 2007, an identical bill. The main cause of the increase is a change in the actuarial method used by the system's actuary, which was first applied for the June 30, 2007 actuarial valuation. The previous method applied a single normal cost rate to the full membership of the employees' combined systems. Therefore, any increase in the normal cost for correctional officers, who represent a small portion of total employee membership, would have been applied to the normal cost rate for the larger group, which would have increased only minimally as a result. Under the new method, the full increase in normal cost is taken into account.

SRA advises that implementation of this bill may not be possible if Central Payroll cannot include personnel classifications and ranks in the data it provides to the agency on a monthly basis. The current State payroll system does not include such information, and the costs of modifying the system could be significant.

SRA advises that this bill would require substantial reprogramming of its legacy computer system, at a cost of \$500,000. However, DLS notes that the agency is in the process of upgrading to a more modern, agile computer system, which is scheduled to go online at the same time that this bill becomes effective. Therefore, DLS does not anticipate any additional legacy system reprogramming costs for the agency. However, there could be additional costs associated with transferring data from the legacy system to the new system, which cannot be estimated at this time.

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### **Additional Information**

**Prior Introductions:** HB 453 of 2007 received an unfavorable report from the House Committee on Appropriations.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 3, 2008  
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