HB 1063

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1063 (Delegate Jones, *et al.*)
Appropriations

Correctional Officers' Retirement System - Service Retirement Allowance

This bill enhances pension benefits for all members of the Correctional Officers Retirement System (CORS). The benefit multiplier increases from 1.82% to 2.4% for all service credit, and employee contributions increase from 5% to 6% of compensation.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: State accrued pension liabilities increase by $224.7 million, and the normal cost increases by $10.8 million. Amortizing the accrued liability over 25 years, combined with the increase in normal costs, results in State pension contributions increasing by $25.3 million in FY 2010, increasing thereafter according to actuarial assumptions. Personnel costs are assumed to be split 60% general funds, 20% special funds, and 20% federal funds.

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	15.2	15.7	16.2	16.8
SF Expenditure	0	5.1	5.2	5.4	5.6
FF Expenditure	0	5.1	5.2	5.4	5.6
Net Effect	$0	($25.3)	($26.1)	($27.1)	($28.0)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: CORS members earn a retirement benefit equal to 1.82% of average final compensation multiplied by their years of creditable service. Average final compensation is calculated for the last three years of employment prior to retirement. They contribute 5% of their earnable compensation each year.

CORS membership consists of correctional officers in the first six job classifications, security attendants at the Clifton T. Perkins Hospital Center, and correctional dietary, maintenance, and supply officers. Local detention center officers whose employers join the CORS municipal pool are eligible to join CORS, but no local employers have joined to date. Correctional officers are eligible for a normal service retirement after 20 years of service, provided that the last five years of service are served in any combination of eligible 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 for retirement at age 60.

Background: As of June 30, 2007, there were 7,355 active CORS members. Their average salary was $43,306 and their average service was 10.0 years.

The fiscal 2007 budget provided a 9.8% increase in compensation for correctional officers, which will factor into calculations of average final compensation at the time of retirement. Also, Chapter 392 of 2006 exempted CORS retirees from a retirement benefit reduction if they were reemployed as correctional officers on a contractual basis for less than four years. The Department of Public Safety and Correctional Services reports that no CORS retirees have been reemployed as correctional officers since Chapter 392 became effective on July 1, 2006.

State Expenditures: The bill provides a 32% benefit increase for CORS members and increases their contribution rate by 20%.

The General Assembly's actuary estimates that the CORS benefit enhancement would increase the State's accrued pension liabilities by $224.7 million and normal costs by $10.8 million. Amortizing the accrued liability over 25 years, combined with the increase in normal costs, results in State pension contributions increasing by $25.3 million in fiscal 2010. Annual pension contributions increase thereafter according to actuarial assumptions. Although correctional officers are all employed by the Department of Public Safety and Correctional Services, for the purpose of actuarial valuations, CORS is subsumed within the combined employees' systems. Therefore, the increased liabilities and State contributions would be spread across all State agencies.

Personnel costs are assumed to be split 60% general funds, 20% special funds, and 20% federal funds.

The State Retirement Agency advises that this bill will require it to reprogram its legacy computer system to reflect the new benefit rates. Legislative Services notes that the legacy system is scheduled to be replaced by a more modern and agile computer system in July 2008, when this bill takes effect. The new Maryland Pension Administration System (MPAS) was designed specifically to reflect changes in pension benefits such as the one proposed by this bill easily and more accurately. Moreover, the benefit change required by this bill is fairly straightforward. It simply changes a single benefit multiplier without creating a new benefit tier. Therefore, DLS does not believe that the bill will require additional expenditures to update either the legacy computer system or MPAS.

Additional Information

Prior Introductions: None.

Cross File: SB 541 (Senator McFadden, *et al.*) – Budget and Taxation.

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

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