

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE
Revised

House Bill 554
 Appropriations

(Delegate Haynes, *et al.*)

Budget and Taxation

State Retirement and Pension System - Membership and System Study

This bill requires individuals employed as correctional laundry officers or Maryland Correctional Enterprises officers, officer trainees, plant supervisors, plant managers, or regional managers to participate in the Correctional Officers' Retirement System (CORS) as a condition of their employment. Individuals currently employed in those positions must transfer to CORS, and participation in CORS will be a condition of employment for all future employees in those positions. The bill also expands the scope of the actuarial study commissioned every five years by the Joint Committee on Pensions to include a review of life expectancy of members of the various State pension plans.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: State pension liabilities increase by \$3.6 million and normal costs increase by \$151,000, resulting in a \$243,000 increase in State pension contributions in FY 2010. These costs are assumed to be split 60% general funds, 20% special funds, and 20% federal funds. Future year increases reflect actuarial assumptions. Expanding the scope of the mandated actuarial study should not materially affect its cost.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	145,800	156,000	166,200	177,000
SF Expenditure	0	48,600	52,000	55,400	59,000
FF Expenditure	0	48,600	52,000	55,400	59,000
Net Effect	\$0	(\$243,000)	(\$260,000)	(\$277,000)	(\$295,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: All prior service credit earned by correctional laundry officers or affected employees of Maryland Correctional Enterprises (MCE) in either the Employees' Retirement System (ERS) or Employees' Pension System (EPS) transfers to CORS. In addition, the State Retirement and Pension System must transfer employee and employer contributions made on behalf of correctional laundry officers and affected MCE employees who are currently members of either ERS or EPS, plus 4% interest.

Correctional laundry officers and affected MCE employees who are current members of EPS are 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, 2007 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.

As CORS members, the affected employees are entitled to a normal service retirement after 20 years of service or at age 55, provided they are employed in a combination of CORS-eligible positions during the 5 years immediately preceding retirement.

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 governmental units are also eligible to participate, but no local governments have joined CORS to date.

Correctional laundry officers and MCE employees 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% in FY 1998-2006 3% in FY 2007 4% in FY 2008 5% in FY 2009 and beyond	5%
Benefit Multiplier	1.8% of AFC	1.2% of AFC (before 1998) 1.8% of AFC (after 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 a 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 contributions made on his or her behalf must be transferred to the new system. 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 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

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correctional laundry officers and MCE employees from that requirement. The Department of Legislative Services (DLS) notes that CORS assets are subsumed within ERS assets, so a “transfer” of assets would not actually occur.

Chapter 110 of 2006 requires the Joint Committee on Pensions to commission an actuarial consultant every five years to conduct a study of the several systems and compare their funding status, composition, and benefits to comparable plans in other states.

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

MCE, formerly State Use Industries, is the prison industry arm of the Maryland Division of Correction. It provides structured employment and training activities for offenders to improve employability upon release, reduce prison idleness, and produce quality, saleable goods and services. Its employees consist largely of skilled tradesmen and plant managers in the fields of auto repair, carpentry, textiles, graphic design, and other trades who train and supervise inmate workers. It is a fully self-supporting agency.

In fiscal 2006, MCE recorded sales of \$42.8 million and employed 1,608 inmates in 31 plants and service centers located in 9 State prisons.

State Fiscal Effect: The State Retirement Agency (SRA) reports that there are 10 correctional laundry officers who would have to transfer to CORS under this bill. Their average salary is \$51,065, their average age is 51 years, and their average service is 17.4 years. SRA also reports that there are 98 MCE employees who would have to transfer to CORS. Their average salary is \$48,050, their average age is almost 52 years, and their average service is 11 years.

DLS assumes that all affected employees are members of EPS, and that all of them would fulfill the requirement that the last five years of service before retirement be in their current positions. DLS also assumes that, given current member turnover rates within CORS, five new employees would join CORS each year.

Using these assumptions, the General Assembly’s actuary estimates that the State’s accrued pension liabilities would increase by \$3.6 million and normal costs increase by \$151,000. Amortizing those liabilities over 25 years and adding the normal costs would increase State pension contributions by \$243,000 in fiscal 2010. Although all of the affected employees work for 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 costs would be spread across

all State agencies. Personnel costs are assumed to be split 60% general funds, 20% special funds, and 20% federal funds. Pension contributions increase each year according to actuarial assumptions.

The expanded scope of the mandated actuarial study should not materially affect the cost of the study.

Additional Information

Prior Introductions: SB 574 of 2007, an identical bill, received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: SB 480 (Senator DeGrange, *et al.*) – Budget and Taxation.

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

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