HB 1524

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1524 (Delegate Proctor)
Appropriations

Law Enforcement Officers' Pension System - Benefit Enhancement

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This bill creates a new benefit tier for members of the Law Enforcement Officers' Pension System (LEOPS) employed by the State and by participating governmental units (PGUs) who opt to participate in the Alternate Contributory LEOPS plan established by this bill. For these members, the employee contribution rate increases from 4% to 6%, and the benefit multiplier increases from 2.0% to 2.5% for service credit earned after July 1, 2008.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: State pension liabilities increase by an estimated $12.8 million and normal costs decrease by an estimated $159,000. Amortizing the liabilities over 25 years and subtracting the change in normal costs results in State pension contributions increasing by an estimated $688,000 in FY 2010. Those costs are assumed to grow annually according to actuarial assumptions and 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	412,800	427,200	442,200	457,800
SF Expenditure	0	137,600	142,400	147,400	152,600
FF Expenditure	0	137,600	142,400	147,400	152,600
Net Effect	$0	($688,000)	($712,000)	($737,000)	($763,000)

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

Local Effect: Local unfunded pension liabilities increase by $5.7 million and normal costs decrease by $62,000. Amortizing the increased unfunded liabilities over 31 years and subtracting the change in normal costs results in the combined employer contributions for participating PGUs increasing by $277,000 in FY 2010. Those costs would be spread across the 15 participating PGUs and are assumed to grow annually according to actuarial assumptions.

Small Business Effect: None.

Analysis

Bill Summary: The new benefit tier is not available to LEOPS members who transferred from the Employees' Retirement System and did not elect to participate in the pension plan, or who are employed by a former PGU that has withdrawn from LEOPS.

State employees receive the enhanced benefit automatically. Employees of a PGU are eligible for the enhancement only if the PGU elects to participate in the Alternate Contributory LEOPS beginning on July 1, 2008, but no later than June 30, 2009. An employee of a PGU that elects to participate after July 1, 2008 may elect to purchase eligibility credit retroactively from July 1, 2008 to the effective date of the PGU's election. If the employee makes the payment before June 30, 2009, he or she must only pay the 6% contribution rate; if the payment is made after that date, the employee must also pay accrued interest of 5% annually. If the employee fails to make the payment, the State Retirement Agency may reduce the employee's retirement benefit by an actuarially equivalent amount.

Current Law: LEOPS was established on July 1,1990, with participation a condition of employment for public safety employees in multiple State agencies and PGUs that elect to participate (participation is optional for law enforcement officers hired prior to their unit's participation date.) It consists of two components – a retirement plan (modeled after the Employees' Retirement System) and a pension plan (modeled after the Employees' Pension System). Retirement plan provisions are applicable to those officers who transferred into the Law Enforcement Officers' Pension System from the Employees' Retirement System (ERS). Pension plan provisions are applicable to all other members (who currently constitute the vast majority of LEOPS' membership).

LEOPS members are eligible to retire with 25 years of service or at age 50. Former ERS members pay member contributions of 7% (for an unlimited COLA) or 5% (for a capped COLA) and earn benefits equal to 2.3% of average final salary for each of the first 30 years of service and 1.0% for each year thereafter. Pension plan participants pay 4%

member contributions and earn a benefit equal to 2.0% of average final salary for each year of service, up to a maximum of 30 years. For pension plan participants, a normal service retirement allowance may not exceed 60% of a member's average final compensation.

Background: The State Retirement Agency advises that, as of June 30, 2007, there are 1,477 active LEOPS members employed by the State and 740 active LEOPS members employed by 15 PGUs. Of the 15 PGUs, 4 are counties and 11 are municipalities. LEOPS members have an average age of 39.9, average service of 11.2 years, and an average salary of $55,036.

State Expenditures: DLS's actuary estimates that State pension liabilities increase by $12.8 million and normal costs decrease by $159,000. Amortizing the liabilities over 25 years and subtracting the change in normal costs results in State pension contributions increasing by an estimated $688,000 in fiscal 2010. Those costs are assumed to grow annually according to actuarial assumptions and to be split 60% general funds, 20% special funds, and 20% federal funds.

Local Expenditures: Assuming that all 15 PGUs that currently participate in LEOPS opt to join the Alternate Contributory LEOPS established by this bill, the DLS consulting actuary estimates that total local unfunded pension liabilities increase by $5.7 million and normal costs decrease by $62,000. Unlike State pension liabilities, which are amortized over 25 years, the DLS actuary advises that municipal LEOPS liabilities calculated at the June 30, 2008 valuation will be amortized over 31 years. Amortizing the increased unfunded liabilities over 31 years and subtracting the change in normal costs results in the combined employer contributions for participating PGUs increasing by $277,000 in fiscal 2010. Those costs would be spread across the 15 participating PGUs and are assumed to grow annually according to actuarial assumptions.

Additional Comments: DLS notes that members employed by the State and by participating PGUs who join LEOPS on or after July 1, 2008 will, under the proposed enhancement, reach their maximum allowed benefit after 26 years of service. This could lead some individuals to retire earlier than they would under the current plan, which could add to the cost of the proposed enhancement.

Additional Information

Prior Introductions: None.

Cross File: SB 929 (Senator DeGrange) – Rules.

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

Fiscal Note History: First Reader - March 14, 2008
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