SB 31

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 31 (Senator Peters)
Budget and Taxation

State Retirement and Pension System - Military Service Credit - Eligibility

This bill reduces from 10 to 6 the number of years of creditable service that a member or vested former member of the State Retirement and Pension System (SRPS) needs to claim credit for military service that preceded membership in SRPS.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: Total State pension liabilities increase by an estimated $3.8 million. Amortizing those liabilities over 25 years yields a first-year cost of $255,000 beginning in FY 2012. Those costs grow annually according to actuarial assumptions and are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	0	153,000	179,400	207,000
SF Expenditure	0	0	51,000	59,800	69,000
FF Expenditure	0	0	51,000	59,800	69,000
Net Effect	$0	$0	($255,000)	($299,000)	($345,000)

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

Local Effect: Total pension liabilities for participating governmental units (PGUs) increase by $630,000, with a first-year amortized cost of $42,000 in FY 2012. That cost is expected to grow annually according to actuarial assumptions.

Small Business Effect: None.

Analysis

Current Law: Any member or vested former member of SRPS who accrues 10 years of creditable service may receive one month of additional service credit for each month of active military duty performed prior to membership in SRPS, up to a maximum of 5 years. That credit is granted at no cost to the member or former member. Regardless of when a member or former member applies for military service credit, the credit granted is applied to their retirement allowance at the accrual rate in effect at the time of retirement.

However, members or vested former members who claim credit for the same military service from another retirement system may not receive military service credit from SRPS, unless they claimed credit for that military service under:

- the Social Security Act;
- the National Railroad Retirement Act;
- Title 3 or Title 10 of the U.S. Code (National Guard and Reserve pensions); or
- a disability benefit from any pension or retirement system.

Background: Prior to July 1, 2006, only active SRPS members with at least 10 years of creditable service were eligible to receive one month of service credit for each month of military service performed prior to State service, up to 5 years. Moreover, military service credit given to members was applied to their retirement allowance at the accrual rate in effect at the time they claimed the credit. Many eligible members, on the advice of SRPS counselors, claimed the credit as soon as they were eligible (*i.e.*, upon attaining 10 years of creditable service) so they would not forget to claim it at the time of their retirement or departure from State service, which would likely occur many years later. However, members who claimed their credit prior to the 1998 or 2006 benefit enhancements received a lower accrual rate for their military service credit than if they had waited to claim the credit at the time of their retirement.

Chapter 277 of 2006 allows vested former members who have not claimed their military service credit prior to leaving State service to claim military service credit, provided they had the required 10 years of creditable service. The State Retirement Agency (SRA) reports that fewer than 100 vested former members have claimed military service credit since the enactment of Chapter 277. The law also requires, beginning October 1, 2006, that military service credit granted to members and vested former members be applied to their retirement allowance at the accrual rate in effect at the time of their retirement. Because of the 2006 benefit enhancement, this provision of Chapter 277 caused State pension liabilities to increase by $21.6 million and State pension contributions to increase by $1.3 million beginning in fiscal 2008.

State Fiscal Effect: SRA has no way of knowing whether a member is eligible for military service credit for service that preceded membership in SRPS until the member files a request for the credit upon reaching 10 years of service. Therefore, there is no definitive way to determine how many SRPS members with fewer than 10 years of service are eligible for military service credit. SRA reports that 4,058 active and vested former members have claimed military service credit, which represents approximately 4% of active and former vested members who have at least 10 years of service (the percentage varies by plan). According to SRA, eligible members claim an average of two years of service credit for military service that preceded SRPS membership.

The bill's fiscal impact stems from the additional service credit that will be claimed by two groups of individuals:

- *Current or future members with prior military service who leave SRPS with at least 6 but fewer than 10 years of service credit.* These individuals will now be eligible to claim up to 5 years of service credit for which they otherwise would not have been eligible because they terminate service before 10 years. Based on current actuarial assumptions regarding member turnover, the General Assembly's consulting actuary estimates that approximately 30 members each year will fall into this category and claim an average of two years of military service credit.

- *Former vested members with prior military service who left State service with at least 6 but fewer than 10 years of service credit.* Based on the proportion of current and former members who have claimed military service credit, the actuary assumes that 430 former vested members will claim an average of two years of military service credit.

Given the bill's July 1, 2009 effective date, members and former members affected by the bill will not be eligible to claim their credit until after that date. Thus, their additional credit will be reflected in the July 1, 2010 actuarial valuation, which determines pension contribution rates for fiscal 2012.

Based on these assumptions, the actuary estimates that State pension liabilities will increase by $3,815,000. Amortizing those liabilities over 25 years yields a first-year cost of $255,000 in fiscal 2012. That cost grows annually according to actuarial assumptions and is assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds.

Additional liabilities may be incurred to the extent that members who are newly eligible for military service credit and who are near retirement age choose to retire sooner than they had planned after claiming their credit. Also, current members who become eligible for military service credit but who would have stayed for at least 10 years to claim it anyway may decide to claim their credit earlier than they would have. The cost of their military credit will therefore be reflected in the system's valuation a few years earlier. These costs are expected to be minimal and have not been quantified.

Local Fiscal Effect: For employees of PGUs, the actuary estimates that local pension liabilities increase by $630,000. Amortizing that liability over 25 years yields a first-year cost of $42,000 spread across 115 PGUs. Those costs increase annually according to actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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