

Department of Legislative Services  
 Maryland General Assembly  
 2009 Session

FISCAL AND POLICY NOTE

House Bill 223 (Delegate Costa)  
 Appropriations

State or Local Retirement or Pension Systems - Military Service Credit

This bill raises from five to six the maximum number of years of service credit that a member or vested former member of the State Retirement and Pension System (SRPS) may claim for military service that occurred prior to membership in SRPS. It also requires local retirement or pension systems to allow their members to earn at least six years of military service credit for prior military service, subject to local criteria.

The bill takes effect July 1, 2009.

Fiscal Summary

**State Effect:** State pension liabilities increase by an estimated \$5.2 million, resulting in a first-year cost of \$348,000 in FY 2011. Those costs are expected to grow annually according to actuarial assumptions and are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds. No effect on revenues.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	208,800	232,800	258,000	285,000
SF Expenditure	0	69,600	77,600	86,000	95,000
FF Expenditure	0	69,600	77,600	86,000	95,000
Net Effect	\$0	(\$348,000)	(\$388,000)	(\$430,000)	(\$475,000)

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 \$713,000. That results in a first-year cost of \$48,000 in FY 2011, which increases annually according to actuarial assumptions and is shared by about 115 PGUs. Pension liabilities and employer contributions for local retirement and pension plans also increase. The magnitude of that increase cannot be determined, but may be significant in some jurisdictions. **This bill imposes a mandate on a unit of local government.**

**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 five 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.

Local retirement and pension systems establish their own rules for awarding military service credit to their members. Baltimore and Howard counties, for instance, advise that their plans allow members to earn up to four years of military service credit.

**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 five years. Moreover, military service credit claimed by 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 at a later date. 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 that credit at the time of their retirement.

Chapter 277 of 2006 allows vested former members who did not claim their military service credit prior to leaving State service to claim that service credit, provided they have the required 10 years of creditable service. It also changed the credit to be applied at the accrual rate at the time of retirement. The State Retirement Agency (SRA) reports

that fewer than 100 vested former members have claimed military service credit since the enactment of Chapter 277.

Three plans within SRPS are currently open to local governments to participate as PGUs. These are the Employees' Pension System (EPS), the Correctional Officers' Retirement System (CORS), and the Law Enforcement Officers' Pension System (LEOPS). Currently, there are approximately 115 PGUs in SRPS, including 21 county governments that cover all or some of their employees, small municipalities, local boards of education (for employees not eligible for the State teachers' plans), and other local governmental entities.

**State Fiscal Effect:** SRA advises that there are 597 members and former members with five years of military service credit. For this analysis, the General Assembly's consulting actuary assumes that all of them are entitled to one additional year. The actuary also assumes that, based on current rates, 45 members will reach 10 years of service each year in the future and claim six rather than five years of credit.

Based on these assumptions, the actuary estimates that State pension liabilities increase by \$5.2 million. Amortizing those liabilities over 25 years yields a first-year cost of \$348,000 in fiscal 2011, which is assumed to grow annually according to actuarial assumptions. Those costs are expected to be allocated 60% general funds, 20% special funds, and 20% federal funds.

**Local Fiscal Effect:** Based on the same assumptions used above, total pension liabilities for PGUs are estimated to increase by \$713,000. Amortizing those liabilities over 25 years results in a first-year cost of \$48,000 in fiscal 2011. That cost is projected to increase annually according to actuarial assumptions and to be divided among all participating PGUs. Therefore, the net effect on any given PGU is expected to be negligible.

Although the bill entitles members of local retirement and pension systems to earn at least six years of military service credit, Legislative Services assumes that most local plans will not allow members to earn more than six years of military service credit.

Legislative Services cannot determine precisely the total membership in local retirement and pension systems in the State. However, in calendar 2007 there were a total of 251,726 local government employees. These figures include teachers and other educators covered by the Teachers' Retirement or Teachers' Pension Systems, in addition to some municipal and county government entities that participate in SRPS.

Given the large number of teachers and county employees covered by State plans, Legislative Services assumes that 30% of all local government employees are covered by

local retirement and pension plans. Legislative Services further assumes that 4% of those employees have prior military service, which is consistent with State experience, so that approximately 3,000 local government employees are eligible for six years of military service credit under this bill. The additional service credits provided by the bill increase benefits owed to members and may prompt some members to retire earlier than they otherwise would. Both of these factors increase local pension liabilities and employer contribution rates. Given that retirement and pension benefits vary among local plans, Legislative Services cannot provide a reliable estimate of the total effect on liabilities or contributions, but the effect may be significant in some jurisdictions.

---

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Anne Arundel, Baltimore, Garrett, Howard, and Montgomery counties; Department of Budget and Management; Military Department; Maryland State Retirement Agency; Mercer Human Resources Consulting; Department of Legislative Services

**Fiscal Note History:** First Reader - February 8, 2009  
mcp/rhh

---

Analysis by: Michael C. Rubenstein

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510