

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 264
 Appropriations

(Delegate G. Clagett, *et al.*)

Military Service Credit - Eligibility

This bill allows a member or vested former member of the State Police Retirement System (SPRS), Law Enforcement Officers’ Pension System (LEOPS), or Correctional Officers’ Retirement System (CORS) to earn military service credit even if that member or former member has received service credit for the same military service under another retirement system that is paying, or will pay, benefits to the member or former member.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: State pension liabilities increase by \$8.0 million, resulting in increased State pension contributions of \$518,000 in FY 2011 and increasing thereafter according to actuarial assumptions. These costs 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	310,800	367,800	433,200	498,000
SF Expenditure	0	103,600	122,600	144,400	166,000
FF Expenditure	0	103,600	122,600	144,400	166,000
Net Effect	\$0	(\$518,000)	(\$613,000)	(\$722,000)	(\$830,000)

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

Local Effect: Pension liabilities for participating governmental units (PGUs) increase by \$543,000, resulting in increased employer contributions of \$32,000 in FY 2011. Those contributions increase annually based on actuarial assumptions and are shared by several participating PGUs.

Small Business Effect: None.

Analysis

Current Law: Upon attaining 10 years of creditable service, a member or vested former member who served in the military prior to membership in any of the State Retirement and Pension System (SRPS) plans (except the Legislative Pension Plan) may claim one month of military service credit for each month of active duty military service, up to five years of credit. In addition, a member or vested former member of SRPS may receive up to five years of military service credit for service that interrupts his or her employment. In total, a member cannot receive more than five years military service credit.

However, a member or former member who claims military service credit under another retirement system from which benefits have been or will be paid is not entitled to military service credit from SRPS for military service that preceded membership in SRPS. This prohibition does not apply to military service credit awarded under the Social Security Act, the National Railroad Retirement Act, a disability payment from a pension or retirement system, or Title 3 or Title 10 of the U.S. Code (National Guard and Reserve pensions).

SRPS members and former members who serve in the Maryland National Guard but are not called to national duty are entitled to receive four months of service credit for every year served in the guard, up to a maximum of three years of service credit.

Background: In addition to the three plans affected by this bill, SRPS includes the following retirement and pension plans for State employees, teachers, and approximately 120 PGUs:

- Employees' Retirement and Pension Systems (ERS/EPS) for State and PGU employees;
- Teachers' Retirement and Pension Systems (TRS/TPS) for all teachers and some other local education employees;
- Judges' Retirement System; and
- Legislative Pension Plan.

Prior to July 1, 2006, only active SRPS members with at least 10 years of creditable service were eligible to receive one month of military service credit for each month of military service performed prior to State service, up to five years. Chapter 277 of 2006 allows vested former members who did not claim their military service credit prior to leaving State service to claim the military credit, provided they have the required 10 years of creditable service. The State Retirement Agency (SRA) reports that fewer

than 100 vested former members have claimed military credit since the enactment of Chapter 277; the Department of Legislative Services (DLS) does not believe that more vested former members will qualify for military service credit under the bill.

State Expenditures: Under the bill, any member of the three public safety plans within SRPS who has served in the military is eligible to receive up to five years of service credit after 10 years of creditable State service, even if the member has received or will receive credit for the same military service under another pension system. The bill most affects eligible members who are receiving full military pensions following 20 years of military service, and therefore become eligible for the maximum five years of military service credit. For example, a member with 20 years of active military duty who is eligible to receive a federal military pension, or is receiving a military pension, could then work for the State for 10 years and claim up to five years of military credit toward his or her State pension.

The number of active members who may be affected by this proposal cannot be precisely calculated at this time because neither SRA nor the Department of Veterans Affairs tracks which members have served in the military or are eligible for other pension payments. SRA only becomes aware of a member's military service if the member requests military service credit.

For several previous bills affecting a similar population, the Comptroller's Office has been able to cross-match State and federal tax records to determine that approximately 560 current State employees are receiving a military pension, including members of ERS/EPF, CORS, LEOPS, and SPRS. Those same analyses found that one-third of State employees identified in this manner were receiving Reserve or National Guard pensions and would not be affected by the bill. Therefore, DLS assumes that two-thirds of the identified members (373) are receiving active duty military pensions. DLS further assumes that two-thirds of those employees (249) are members of the three public safety plans for State employees and that these members claim the full five years of military credit allowed by State law.

The actuary further estimates that 100 members currently have 10 years of service and are eligible to claim their 5 years of service immediately, and 15 additional members are assumed to reach 10 years of service each year after that. However, the actuary assumes that the system's actuary will estimate the impact of future claims on accrued liabilities and reflect the actuarial loss in the June 30, 2009 valuation. Therefore, the bill's full impact is reflected in the fiscal 2011 contribution rates.

Based on these assumptions, the General Assembly's actuary estimates that State accrued pension liabilities increase by \$8.0 million. Amortizing these liabilities over 25 years results in increased State pension contributions of \$518,000 beginning in fiscal 2011 and

increasing each year thereafter based on actuarial assumptions. To the extent that the additional service credit earned under this bill prompts members to retire earlier than they planned, there may be additional costs, but they are presumed to be small and have not been quantified.

Local Expenditures: Among the State plans affected by this bill, LEOPS and CORS are both open to PGUs, but only LEOPS actually has PGU participation. As of June 30, 2008, 817 local law enforcement officers were members of LEOPS. Neither SRA nor DLS has information on the number of those members receiving active duty military pensions. They are not included in the Comptroller's analysis of tax records because they are not State employees. For the purpose of this analysis, the actuary assumes that 2.4% of PGU members of LEOPS are eligible for additional service credit under the bill. This is the same percentage of State public safety employees who are presumed to qualify.

Based on these assumptions, the actuary estimates that PGU pension liabilities increase by \$543,000. Amortizing those liabilities over 25 years results in PGU employer contributions increasing by \$32,000 in fiscal 2011. As those costs are spread among several PGUs that participate in LEOPS, the fiscal impact on any single PGU is negligible.

Additional Information

Prior Introductions: HB 522 of 2008 is listed as a prior introduction, but it was substantively different from this bill.

Cross File: None.

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

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ncs/rhh

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