HB 43

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

House Bill 43 (Delegate Aumann)
Appropriations

State Retirement and Pension System - Military Service Credit - Eligibility

This bill reduces from 10 to 7 the number of years of creditable service that a member or vested former member of the State Retirement and Pension System (SRPS) needs in order to claim credit for military service that preceded membership in SRPS.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: Total State pension liabilities increase by approximately $4,183,000 due to more individuals being eligible to claim an average of two years of military service credit. Amortizing that liability over 25 years yields a first-year cost of $280,000 in FY 2013. That cost grows annually according to actuarial assumptions and is assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds. No effect on revenues.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	0	168,000	191,400	214,800
SF Expenditure	0	0	56,000	63,800	71,600
FF Expenditure	0	0	56,000	63,800	71,600
Net Effect	$0	$0	($280,000)	($319,000)	($358,000)

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

Local Effect: Local pension liabilities increase by $639,000 for participating governmental units (PGUs) in SRPS. Amortizing that liability over 25 years yields a first-year cost of $43,000 in FY 2013 spread across more than 100 PGUs. Those costs increase 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 1 year of additional service credit for each year 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; or
- Title 3 or Title 10 of the U.S. Code (National Guard and Reserve pensions).

Members or vested former members who received military service credit for disability benefits from any pension or retirement system may also claim military service credit from SRPS.

Background: Prior to July 1, 2006, only active SRPS members with at least 10 years of creditable service were eligible to receive 1 year of service credit for each year of military service performed prior to State service, up to 5 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. The State Retirement Agency (SRA) reports that fewer than 100 vested former members have claimed military service credit since the enactment of Chapter 277.

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 3.7% 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 2 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 7 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 29 members each year will fall into this category and claim an average of 2 years of military service credit.

- *Former vested members with prior military service who left State service with at least 7 but fewer than 10 years of service credit.* SRA estimates that among former members, approximately 11,000 have at least 7 but fewer than 10 years of service. Based on the proportion of current and former members who have claimed military service credit, the actuary assumes that 407 former vested members will claim an average of 2 years of military service credit.

Given the bill's July 1, 2010 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 June 30, 2011 actuarial valuation, which determines pension contribution rates for fiscal 2013.

Based on these assumptions, the actuary estimates that State pension liabilities will increase by $4,183,000. Amortizing those liabilities over 25 years yields a first-year cost of $280,000 in fiscal 2013. That cost grows annually according to actuarial assumptions and is assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds. The actuarial analysis reveals that slightly more than two-thirds of the liability is attributable to inactive members who left State service with a vested benefit. Roughly 10% of the additional liability is attributable to members of the State's three law enforcement plans, with the remaining liability found among civilian State employees and teachers.

The cost of this bill is considerably higher compared with the cost of an identical bill introduced in 2009 (HB 191) primarily due to a coding error in the data analyzed by the actuary for the prior bill. For HB 191, data received from the system's prior actuary included a group of terminated members who were coded as nonvested and therefore not eligible for a benefit. For the analysis conducted on this bill using data received from the system's new actuary, it was determined that a number of those individuals were vested, and a high proportion of them had between 7 and 10 years of service credit.

Additional liabilities could 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.

SRA can handle any reprogramming costs with existing resources.

Local Fiscal Effect: For employees of PGUs, the actuary estimates that local pension liabilities increase by $639,000. Amortizing that liability over 25 years yields a first-year cost of $43,000 in fiscal 2013 spread across more than 100 PGUs. Those costs increase annually according to actuarial assumptions.

Additional Information

Prior Introductions: HB 191 of 2009 received a hearing from the House Appropriations Committee, but no further action was taken. SB 31 of 2009, a similar bill, received a hearing from the Senate Budget and Taxation Committee, but no further action was taken. HB 175 of 2008 passed the House but was never heard in the Senate. Its cross file, SB 425, passed the Senate but was never heard in the House. HB 170 of 2007, a similar bill, was heard in the Appropriations Committee, but no further action was taken. HB 349 of 2006, another similar bill, received an unfavorable report from the Appropriations Committee.

Cross File: None.

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

Fiscal Note History: First Reader - January 25, 2010
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