

**Department of Legislative Services**  
Maryland General Assembly  
2011 Session

**FISCAL AND POLICY NOTE**

House Bill 515  
Appropriations

(Delegate Kach)

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**State Retirement and Pension System - Military Service Credit - Reservists**

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This bill expands eligibility for members of the State Retirement and Pension System (SRPS) who are members of a reserve component of the U.S. armed forces to earn military service credit currently available only to members of the Maryland National Guard.

The bill takes effect July 1, 2011.

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**Fiscal Summary**

**State Effect:** The number of SRPS members who are members of a reserve unit cannot be determined. Therefore, the Department of Legislative Services (DLS) cannot provide a reliable estimate of the bill's total cost. Based on an actuarial analysis, for every 10 SRPS members who claim one year of military service credit in FY 2012, State pension liabilities increase by approximately \$82,500, and State pension contributions increase by approximately \$5,500 beginning in FY 2014. Those costs increase annually according to actuarial assumptions.

**Local Effect:** To the extent that employees of local governments that are participating governmental units (PGUs) in SRPS claim military service credit for service in a reserve unit, pension liabilities for PGUs also increase. The amount by which PGUs' employer contributions increase cannot be reliably estimated, but using a similar methodology as described above, PGUs' costs increase by \$36,900 beginning in FY 2014.

**Small Business Effect:** None.

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## Analysis

**Current Law:** In general, 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 – including active duty performed as a member of a reserve unit – 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.

In addition, an SRPS member whose employment is interrupted by active military service – including active duty performed as a member of a reserve unit – receives service credit for the time spent on active duty as long as the member returns to State service. A member does not need to accrue 10 years of service before claiming this credit, but the credit is included in the 5-year limitation on total military service credit earned.

An active SRPS member who is also a member of the Maryland National Guard is entitled to two additional forms of military service credit not currently available to a member of a reserve unit. First, besides service credit awarded for active service that interrupts employment, a member of the Maryland National Guard whose employment is interrupted by a call to active service or by inactive duty training earns four months of military service credit for each year of active duty or inactive training, up to a maximum of three years of credit. Thus, a National Guard member can earn up to 16 months of credit in a given year. Second, an SRPS member with at least 10 years of service credit (as noted above) earns 4 months of service credit for each full year of service in the Maryland National Guard, up to 36 months of service credit, even if the member is not called to active duty. All Maryland National Guard service credit is included in the five-year limitation on total military service credit. Service credit is not available for service in the national guards of other states.

SRPS 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.

**State Expenditures:** The number of State employees who are in the reserves cannot be reliably estimated at this time because neither the Military Department, the Department of Budget and Management (DBM), nor the Maryland State Retirement Agency tracks that information. The only data available from DBM, which administers the State personnel system, is the number of State employees requesting military administrative leave. In 2003, the first year of the conflict in Iraq, 143 State employees requested military leave. The number dropped to 54 the following year and has gradually declined since then, with only 17 State employees requesting military leave in fiscal 2010. Neither these figures nor State personnel data indicate how many individuals are members of the reserves, and no information is available on the number of teachers in the State who are members of the reserves.

In the absence of reliable data on the number of SRPS members who are members of reserve units, DLS cannot provide a complete analysis of the fiscal effect of allowing them to claim military service credit from the system. Instead, the General Assembly's actuary analyzed the fiscal effect for a hypothetical group of 10 members who claim one year of military service credit under this bill. The actuary advises that, although the analysis was conducted during the 2010 legislative session for a prior introduction of this bill, the results still apply for this bill.

The analysis assumes that public safety officers and judges are four times more likely to be eligible for military service credit than regular State employees or teachers and uses average member demographics from each State plan. Under the assumption that additional military service credit is claimed in fiscal 2012 after the bill's effective date, the additional liability is not reflected until the June 30, 2012 actuarial valuation, which determines State pension costs for fiscal 2014. Any military service credit claimed in future years would generally be more expensive than credit claimed in 2012, and it is not reflected in this analysis.

Based on the actuary's analysis, the hypothetical group of 10 SRPS members claiming one year of military service credit in fiscal 2012 under the bill increase State pension liabilities by \$82,500. Amortizing those liabilities over 25 years yields a first-year increase in State pension costs of \$5,500 beginning in fiscal 2014. To the extent that the members who actually claim military service credit under the bill deviate from the average plan demographics, the actual cost may be higher or lower.

**Local Expenditures:** Using the same assumptions described above, pension liabilities for local governmental units that participate in SRPS would increase by \$600,000. Amortizing that liability over 25 years results in a first-year cost of \$36,900 in fiscal 2014, which increases annually according to actuarial assumptions.

## **Additional Information**

**Prior Introductions:** HB 807 of 2010 received an unfavorable report from the House Appropriations Committee.

**Cross File:** None.

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

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