

Department of Legislative Services

Maryland General Assembly

2012 Session

FISCAL AND POLICY NOTE

House Bill 371 Appropriations

State Retirement and Pension System - Transfer of Service Credit

This bill allows an individual who meets criteria specified in the bill to transfer service credit from the Contributory Law Enforcement Officers' Modified Pension Benefit (commonly known as LEOPS) to the Employees' Pension System (EPS). An individual eligible to transfer service credit under the bill is not required to pay the member contribution rate in effect for EPS for the years of service being transferred during which EPS was a contributory system and the annual compounded interest of 5%.

The bill takes effect July 1, 2012, and terminates December 31, 2012.

Fiscal Summary

State Effect: State pension liabilities increase by \$108,000 and State pension contributions increase by \$7,000 in FY 2014. Those costs increase annually according to actuarial assumptions and are not considered to have a discernible effect on State pension contribution rates.

Local Effect: None.

Small Business Effect: None

Analysis

Bill Summary: The bill applies to an individual who:

- on or after July 1, 1983, was employed in a law enforcement position by the Maryland Transportation Authority (MDTA) and was a member of LEOPS;

- on or after September 1999, ceased employment with MDTA with more than 16 years of service credit in LEOPS; and
- on or after December 1, 1999, began employment in a nonlaw enforcement position at MDTA and was a member of EPS and, at the time, was ineligible under State law to transfer LEOPS service credit to EPS.

In order to transfer service credit under the bill, the individual must file the appropriate forms with the State Retirement and Pension System (SRPS).

Current Law: In most cases, individuals may transfer service credit between State retirement and pension systems if they change positions that require them to enroll in a new system. In order to transfer credit, the individual must be transferring to a system (1) that is funded on an actuarial basis; and (2) without a break in service of 30 days or more, as established by the State Retirement Agency (SRA). In addition, the application to transfer service credit must be filed with SRPS within one year of joining a new system, subject to an appeal process authorized in statute.

Title 37 of the State Personnel and Pensions Article governs transfers of service credit among systems. Under Title 37, an individual transferring service credit from LEOPS to EPS must pay the member contribution rate in effect for EPS for the years of service being transferred, plus annual compounded interest of 5%. However, the member is also entitled to a refund of member contributions from LEOPS.

From January 1, 1980, when it was established, until June 30, 1998, EPS was noncontributory for most members; from 1998 to 2006, the member contribution rate was 2% of earnable compensation. For each year of service credit earned prior to 1998, a member earns a retirement allowance equal to 1.2% of average final compensation (AFC). For each year of service credit earned after 1998, a member earns a retirement allowance equal to 1.8% of AFC. Prior to 2000, LEOPS required member contributions only for compensation above the Social Security wage base.

If an individual retires within five years of transferring into a new system, the benefits payable with respect to the transferred service credit may not be greater than the benefits that would have been payable by the previous system for the service credit that is transferred.

Background: SRA is aware of one individual who meets the criteria established by the bill. The individual has 16 years and 2 months of creditable service in LEOPS from her prior employment, during which she did not make any member contributions (and therefore would not be entitled to any refund). When she left LEOPS, she had a two-month break in service before joining EPS and therefore was not eligible to transfer her service credit because it exceeded the 30-day limit. Under Title 37, she would have

to pay the 2% member contribution plus interest to EPS for the portion of her LEOPS membership that came after June 30, 1998 (when EPS became contributory). In her case, that would be from July 1, 1998, through September 30, 1999, or 15 months. SRA estimates that her payment would be \$1,700. However, this bill exempts her from Title 37 requirements, so she does not have to make the payment to EPS.

State Fiscal Effect: SRA advises that the affected individual wishes to combine her years of LEOPS service credit with her EPS credit (12 years, 7 months as of July 1, 2012). This would enable her to retire with a 30-year normal service EPS retirement in September 2012 at the age of 50 with a monthly benefit of \$1,995. Absent the bill, she would only be eligible for her vested LEOPS benefits if she retired from or otherwise ceased membership in EPS, which is estimated to be \$1,018 based on her service credit in LEOPS. She would have to continue to work until September 2017 to claim both an early retirement benefit from EPS, which Legislative Services estimates would be \$1,071 after accounting for the early retirement adjustment and her vested LEOPS benefit.

To calculate the fiscal effect of the bill, the General Assembly's consulting actuary assumed that, absent the bill, the individual would continue employment until 2017 when, upon reaching age 55, she would qualify for early retirement under EPS and also claim her vested LEOPS benefit. Based on compensation data provided by SRA, the actuary compared the total value of an EPS benefit with the combined 30 years of service in 2012 with the combined value of the separate EPS and LEOPS benefits for which the individual would be eligible in 2017. The analysis takes into consideration the fact that the member would not make any additional member contributions due to the exemption from Title 37.

Based on this analysis, the actuary has determined that State pension liabilities increase by \$108,000. Amortizing those increased liabilities over 25 years results in State pension contributions increasing by \$7,000 in fiscal 2014. Those costs grow annually according to actuarial assumptions.

Additional Information

Prior Introductions: SB 844 of 2011, a similar bill, received a hearing from the Senate Budget and Taxation Committee, but no further action was taken on the bill.

Cross File: SB 367 (Senator Stone) - Budget and Taxation.

Information Source(s): Maryland Transportation Authority, Maryland State Retirement Agency, Cheiron, Department of Legislative Services

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