HB 1383

Department of Legislative Services

Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 1383 (Delegate McDermott)
Appropriations

Law Enforcement Officers' Pension System - Deferred Retirement Option Program - Expanded Eligibility

This bill allows a member of the Law Enforcement Officers' Pension System (LEOPS) to participate in the Deferred Retirement Option Program (DROP) for two years if the member has at least 29 years of service and less than 34 years of service. An individual with at least 30 years of service credit at the time of enrollment in DROP does not accrue additional creditable service for time spent in DROP.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: State pension liabilities increase by an estimated $61,000, and the normal cost increases by an estimated $72,000 in FY 2014. Amortizing the liabilities over 25 years and adding the normal cost results in State pension contributions increasing by $80,000 in FY 2016. Those costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds, and they grow according to actuarial assumptions. No effect on revenues.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	0	48,000	49,200	51,000
SF Expenditure	0	0	16,000	16,400	17,000
FF Expenditure	0	0	16,000	16,400	17,000
Net Effect	$0	$0	($80,000)	($82,000)	($85,000)

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

Local Effect: Participating governmental unit liabilities may increase minimally.

Small Business Effect: None.

Analysis

Current Law/Background: LEOPS was established in 1990 for the benefit of public safety employees in selected State agencies and local governments. With limited exceptions, membership in LEOPS is a condition of employment for the following employees:

- Department of Natural Resources police and rangers;
- Field Enforcement Bureau law enforcement officers;
- Maryland Transportation Authority police officers;
- Baltimore City deputy sheriffs;
- University System of Maryland police officers;
- Morgan State University police officers;
- State Fire Marshal and deputy State fire marshals;
- law enforcement officers and firefighters of an electing governmental unit;
- Baltimore/Washington International Thurgood Marshall Airport Fire and Rescue Department officers;
- Department of General Services police officers;
- Department of Health and Mental Hygiene police officers;
- Motor Vehicle Administration police officers;
- Department of Labor, Licensing, and Regulation police officers;
- Martin State Airport firefighters and law enforcement officers;
- Division of Rehabilitation Services police officers of the Maryland State Department of Education;
- Salisbury Fire Department firefighters and paramedics;
- State Emergency Medical System aviators for the Department of State Police;
- Maryland Transit Administration police officers;
- the Baltimore City Sheriff, provided the sheriff does not elect to join the Employees Pension System;
- members of the Internal Investigative Unit within the Department of Public Safety and Correctional Services; and
- Baltimore City Community College police officers.

The LEOPS employee contribution is 7% of earnable compensation. A LEOPS member is eligible for a normal service retirement at age 50 or with 25 years of service. A LEOPS retiree receives 2.0% of average final compensation (AFC) for each year of service; however, the normal service retirement allowance cannot exceed 60% of AFC (*i.e.*, the allowance payable for 30 years of credit).

A LEOPS member with between 25 and 30 years of creditable service qualifies to participate in DROP, which allows the member to officially retire while continuing to work and earn a salary. A member may participate in DROP for up to five years, or the difference between the member's years of creditable service and 30 years, whichever is less.

During participation in DROP, a LEOPS member earns the same retirement benefits that the member would have received upon retirement, including cost-of-living adjustments. Those benefits are deposited into a DROP account and earn 4% interest, compounded annually. During participation in DROP, a member does not earn service credit in LEOPS and does not make employee contributions to LEOPS. Also, compensation earned while participating in DROP is not used in determining AFC for the purpose of calculating normal retirement benefits. Upon ending DROP participation, the member receives the balance in the DROP account as a lump-sum payment and is paid the normal service retirement allowance going forward.

As of June 30, 2012, there were 2,410 active members of LEOPS, with an average of 10.8 years of service. The State Retirement Agency reports that there are currently 166 LEOPS members in DROP.

State Fiscal Effect: The bill's fiscal effect stems from the fact that a certain number of LEOPS members are likely to "retire" sooner than they otherwise would because of the expanded DROP eligibility. An earlier-than-expected retirement increases system liabilities because it requires the system to pay benefits for a longer period of time. The bill affects only members with at least 29 years of service who have not already entered DROP. Under current law, a LEOPS member with 29 years of service is eligible to join DROP for no more than one year (the difference between 29 and 30 years of service). Under the bill, however, that individual can join DROP for up to two years. Although the calculation of pension benefits does not change (*i.e.*, the member is still subject to the 60% cap on benefits as a percentage of AFC), the expanded eligibility may encourage the member to retire sooner.

Consider a LEOPS member with 30 years of credit. Under current law, the individual is not eligible for DROP and, therefore, must continue working to earn a full salary. However, under the bill, the individual can enter DROP for two years, accruing DROP benefits (subject to the 60% year cap) while still earning a full salary. Since entry into

DROP is equivalent to retiring, the member has a financial incentive to "retire" sooner (by entering DROP) and still earn a full salary.

The General Assembly's consulting actuary advises that 10 LEOPS members currently have between 30 and 34 years of service credit. Based on current actuarial assumptions, 50% of those individuals enter DROP under the bill. As the bill takes effect July 1, 2013, any entries into DROP under the bill occur after that date and are first reflected in the June 30, 2014 actuarial valuation, which determines State pension contributions for fiscal 2016. As a result, State pension liabilities increase by $61,000, and the estimated normal cost increases by $72,000. Amortizing the liabilities over 25 years and adding the full normal cost increases State pension contributions in fiscal 2016 by $80,000. Those costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds. They grow each year according to actuarial liabilities. To the extent that participation in DROP under the bill differs from the 50% assumption, the projections adjust accordingly.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mlm/rhh

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