

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 378

(Senator DeGrange, *et al.*)

Budget and Taxation

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 receives service credit for the same military service under another retirement system. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: State pension liabilities increase by between \$212,500 and \$578,500 for every five members who claim military service credit under the bill. As a result, State pension contributions increase by between \$16,000 and \$43,000 in FY 2020 for every five members who claim military service under the bill. Out-year costs increase according to actuarial assumptions and more individuals qualifying for and claiming service credit under the bill. The number of members who are likely to claim such service credit cannot be determined, but up to 600 members may be eligible as of the bill's effective date. No effect on revenues.

Local Effect: Local participating governmental units (PGUs) pension liabilities and employer contributions increase by approximately the same amounts as shown for the State for every five members who claim service credit under the bill. The number of members who are likely to claim such service credit cannot be determined but is likely small. No effect on local revenues.

Small Business Effect: None.

Analysis

Current Law: In general, any member or vested former member of the State Retirement and Pension System (SRPS) who accrues 10 years of service as a member of any State plan may receive one year of additional service credit for each year of active military duty performed prior to membership in SRPS, up to a maximum of five years. That credit is granted at no cost to the member or former member and is applied using the accrual rate in effect when the member or former member submits an application for the credit to the State Retirement Agency.

However, SRPS members or vested 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 from:

- Social Security;
- the National Railroad Retirement Act; or
- National Guard or military reserves pensions (Title 3 or Title 10 of the U.S. Code).

This generally means that any SRPS member who is receiving a military pension after completing 20 years of *active* military service cannot claim the military service credit from SRPS.

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 for State and PGU employees;
- Teachers' Retirement and Pension Systems for all teachers, some higher education faculty, and other local education employees;
- Judges' Retirement System; and
- Legislative Pension Plan.

The number of active and vested former members in each affected plan is shown in **Exhibit 1**.

Exhibit 1
Active and Deferred Vested Members, as of June 30, 2017

	<u>Active</u> <u>Members</u>	<u>Deferred</u> <u>Vested</u>
State Police	1,371	90
Law Enforcement	1,564	190
Correctional Officers	7,084	N/A

Source: State Retirement Agency

State Expenditures: Neither the State Retirement Agency nor the Military Department tracks whether State employees have retired from the military and are receiving a military pension. Therefore, the number of members of SPRS, LEOPS, and CORS who would be eligible to claim military service credit under the bill cannot be determined.

Based on their age and service credit history, the General Assembly's actuary identified almost 600 members of the three affected plans that may qualify for the service credit, but it is not known how many of them receive military pensions and, therefore, would actually be able to claim the service credit. Of the total, only seven members of SPRS are believed to be eligible based on this analysis. It is generally assumed that only a small percentage would be able to actually claim the service credit (although the percentage of law enforcement officers with a military background is likely higher than for the general population).

Therefore, this analysis can only determine the increase in pension liabilities and employer contribution if a "typical" member of each of the three plans claimed an additional five years of service credit. Since the bill applies only to individuals with a 20-year pension, it is assumed that they all claim the maximum five years of credit allowed by the State. **Exhibit 2** shows the costs for every five members of each plan who claim the service credit allowed by the bill. Any fiscal effect from the bill is first recognized in fiscal 2020.

Exhibit 2
Fiscal 2020 Effect for Every Five Members Who Claim Credit Under the Bill

	<u>Liability Increase</u>	<u>Contribution Increase</u>
State Police	\$578,500	\$43,000
Law Enforcement	372,500	28,000
Correctional Officers	212,500	16,000

Source: Bolton Partners, Inc.

As the military service credit allowed by the bill counts toward both eligibility and creditable service, some affected members may retire earlier than they otherwise would because of the additional eligibility service credit they receive. Early retirements can increase pension liabilities because benefits are paid over a longer period of time; however, this analysis does not include any fiscal effects from earlier retirements.

Additional Comments: The bill may be interpreted to allow an individual with prior military service to claim military service credit for the same period of service from each of the three plans affected by the bill (SPRS, LEOPS, and CORS), assuming the individual is employed under more than one plan. An individual who is employed for at least 10 years in any of the three affected plans, and who is employed under more than one of those plans, may be able to claim up to 5 years of military service from *each* of the plans. This scenario, though possible, is unlikely, and the bill's actual intent with regard to this provision is also not clear. Therefore, this analysis does not reflect any potential fiscal effect from this scenario, although it could significantly increase the cost resulting from the bill.

Additional Information

Prior Introductions: Multiple bills related to the award of military service credit for military service claimed in other retirement systems were introduced and heard in both houses from 2007 to 2009. No further action was taken on any of the bills.

Cross File: None.

Information Source(s): Bolton Partners, Inc.; State Retirement Agency; Department of Legislative Services

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