

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 988 (Senators Edwards and Serafini)
Budget and Taxation

Correctional Officers' Retirement System - Membership

This bill makes specified employees of the Department of Public Safety and Correctional Services (DPSCS) members of the Correctional Officers' Retirement System (CORS) as a condition of their employment. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: Negligible increase in State pension liabilities and no discernible increase in State pension liabilities, as discussed below. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to employees of DPSCS in the following positions:

- correctional maintenance officer supervisor or manager; or
- correctional maintenance services officer, supervisor, or manager.

An individual who is in one of the specified positions on or before June 30, 2018, is eligible to retire from CORS if vested in CORS, with a combined total of at least 20 years of *eligibility* credit in CORS and either the Employees' Pension System (EPS) or Employees' Retirement System (ERS). Any such individual who retires under this provision is entitled to a normal service retirement benefit based on *creditable* service in CORS. By October 1, 2018, the State Retirement Agency must notify individuals affected by the bill

of their *right* to transfer *creditable* service from EPS or ERS to CORS (there is *no requirement* in the bill to transfer creditable service).

Current Law/Background: Eligibility for CORS membership is limited to (1) correctional officers in the first six job classifications; (2) security attendants at the Clifton T. Perkins Hospital Center; (3) correctional dietary, maintenance, supply, and laundry officers; (4) designated employees of Maryland Correctional Enterprises; (5) certain local detention center officers; (6) specified correctional officers serving as security chiefs, facility administrators, assistant wardens, or wardens; (7) correctional case management specialists, supervisors, or managers; (8) parole and probation agents, supervisors, or regional administrators; and (9) specified counselors, social workers, psychologists, and recreation officers within DPSCS.

Although the bill applies to members of both ERS and EPS, this analysis assumes that all current individuals affected by the bill participate only in EPS (ERS was closed to new members in 1980); **Exhibit 1** shows the key provisions for CORS and EPS. As the exhibit shows, Chapter 110 of 2006 phased in a higher EPS employee contribution rate, from 2.0% in fiscal 2006 to 5.0% in fiscal 2009. Chapter 397 of 2011 made additional changes, raising the member contribution rate to 7.0% and reducing the benefit multiplier to 1.5% for members hired after June 30, 2011. Prior to July 1, 1998, EPS was noncontributory for most members.

Chapter 397 also raised the vesting requirement from 5 to 10 years for all members of the State Retirement and Pension System (SRPS) hired on or after July 1, 2011. However, Chapters 608 and 609 of 2012 allow a member of any SRPS system who was a member on June 30, 2011, and who transfers into another SRPS system on or after July 1, 2011, without a break in employment (of more than 30 days) to be subject to the same requirements for the new system that were in effect on June 30, 2011. For the purposes of this bill, individuals who were members of EPS before July 1, 2011, and who transfer to CORS under the bill, require only 5 years (instead of 10) to vest in CORS. Individuals who joined EPS on or after July 1, 2011, and transfer under the bill still need 10 years to vest in CORS.

“Eligibility service” means service credit that is recognized for determining eligibility for a retirement benefit. In general, a member of EPS receives one year of eligibility service credit for completing at least 500 hours of employment in a fiscal year. “Creditable service” is service credit that is recognized for computing a retirement benefit. In general, it equals eligibility service credit plus credit for unused sick leave.

Title 37 of the State Personnel and Pensions Article governs transfers from EPS to another contributory pension system (like CORS). Under Title 37, a “new system” means the system into which the member is transferring service credit, and “previous system” means the system from which the individual is transferring. Members transferring creditable

service from EPS to another contributory system must pay the member contribution rates in effect for the period of service covered by the transferred service credit, plus interest. They are also refunded any accumulated contributions in the previous system that are in excess of the member contributions required by the new system. Under Title 37, an individual who retires from a new system within five years of transferring to that system receives benefits for the transferred credit that would have been payable under the previous system. Only after five years can benefits be paid for the transferred credit in accordance with the benefit formula in the new system.

**Exhibit 1
Pension Plan Provisions**

	Employees' Pension System		
	<u>Hired Before July 1, 2011</u>	<u>Hired After June 30, 2011</u>	<u>CORS</u>
Normal Retirement Age	62 ¹	65 ²	55 ³
Years of Service for Normal Retirement	30	Age and service add to 90	20
Employee Contribution	None prior to 1998 2.0% (1998-2006) 3.0% in 2007 4.0% in 2008 5.0% (2009-2011) 7.0% after June 30, 2011	7.0%	5.0%
Benefit Multiplier	1.8% (after 1998) 1.2% (before 1998)	1.5%	1.82% of AFC

AFC: average final compensation

CORS: Correctional Officers' Retirement System

¹Retiree must have at least 5 years of service.

²Retiree must have at least 10 years of service.

³Retiree must have 5 years of service if hired before July 1, 2011; otherwise, retiree must have 10 years of service if hired on or after July 1, 2011.

Source: Maryland Annotated Code, State Personnel and Pensions Article

Under the terms of Title 37, therefore, EPS members transferring creditable service to CORS have to pay the difference between the contribution rate paid to EPS, if any, and the 5.0% CORS contribution rate, plus interest, for any service credit earned prior to SB 988/ Page 3

fiscal 2009, when the EPS member contribution rate was less than the 5.0% CORS contribution. For service credit earned prior to 1998, they likely must pay the full CORS contribution of 5.0% (plus interest) since EPS was noncontributory for most members. However, they will also receive credit for the higher member contributions (7.0%) paid in EPS since June 30, 2011, because those contributions are also transferred to CORS and credited to their account. Any net deficiency in their member contributions results in an actuarial reduction to their benefit at the time of retirement. The Department of Legislative Services notes that there is no actual transfer of assets between plans because CORS and EPS/ERS are considered a single plan for the purpose of valuing their assets and liabilities.

Normal retirement age for most CORS members is age 55 if they have vested; they can also retire with 20 years of service regardless of age.

Chapter 340 of 2006 included 647 correctional dietary, maintenance, and supply workers in CORS. Chapters 408 and 409 of 2008 added correctional laundry workers and designated employees of Maryland Correctional Enterprises. Chapters 218 and 219 of 2016 added correctional case management specialists, supervisors, and managers. Chapters 688 and 689 of 2017 added parole and probation agents, supervisors, and regional administrators. Chapter 690 of 2017 added specified counselors, social workers, psychologists, and recreation officers within DPSCS.

DPSCS advises that the bill affects three employees in the specified job categories.

State Expenditures: As noted above, EPS/ERS and CORS are considered a single plan for actuarial reasons, so the employer contribution rates for each plan are the same. Also, current EPS members transferring creditable service to CORS have to make up any difference in member contributions. Therefore, any difference in member contributions has no effect on plan assets.

On the liability side, several competing factors affect the fiscal effect of the bill. On the one hand, some service credit in EPS accrued at a lower benefit level than CORS, whether at the 1.2% level, prior to 1998, or the 1.5% level, for those hired on or after July 1, 2011. Under the bill, that service credit may be paid at the 1.818% CORS level if the affected individuals elect to transfer creditable service from EPS to CORS. This factor increases State pension liabilities because accrued credit is being paid at a higher level.

A countervailing factor is the requirement in current law that individuals remain in CORS for at least 5 years before retiring in order to earn the CORS benefits and the bill's requirement that they vest in CORS (either 5 or 10 years) before they retire with a CORS benefit. This may cause some individuals to remain employed longer than they otherwise would or not to transfer creditable service to CORS. Delayed retirements reduce State pension liabilities because payments are made for fewer years.

Based on the information provided by DPSCS, two of the three individuals affected by the bill are over the age of 60 and already eligible to retire from EPS based either on their age or years of service. The third individual is within seven years of retirement. Under normal circumstances, the actuary would assume that at least two, and potentially all three, of the individuals would elect not to transfer service credit to CORS because they are already eligible to retire or close to being eligible. If they elected to transfer service credit to CORS, they would have to work an additional five years in order to claim the higher CORS benefit.

Under the assumption that the bill would not be introduced if the three affected individuals did not intend to transfer their service credit to CORS and work the additional five years, the actuary instead evaluated the effect of their transferring their credit. The analysis shows that the bill substantially improves their benefits (if they transfer the service credit). However, because it potentially affects only three individuals, it has a negligible effect on State pension liabilities and no discernible effect on State pension contributions. The Department of Legislative Services notes that the bill may have no effect at all if none of the three members either elect to transfer their service credit or complete the five years of service in CORS.

Two of the three affected individuals have at least 20 years of service credit but are not eligible to retire immediately from CORS. The bill specifies that, prior to retiring from CORS, they must be vested in CORS; as they would be new members, they must acquire five years of service credit prior to retiring with a CORS benefit.

Additional Information

Prior Introductions: None.

Cross File: HB 1182 (Delegate Beitzel) - Appropriations.

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

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mm/rhh

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