HB 103

Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader - Revised

House Bill 103 (Delegates Reilly and Cassilly)
Appropriations

Law Enforcement Officers' Pension System - Benefits

This bill increases the normal service retirement benefit multiplier for members of the pension plan in the Law Enforcement Officers' Pension System (LEOPS), from 2.0% to 2.5%, for creditable service earned after June 30, 2019. The bill also raises the cap on LEOPS normal service retirement benefit payments from 65% of average final compensation (AFC) to 70% of AFC. **The bill takes effect July 1, 2019**.

Fiscal Summary

State Effect: State pension liabilities increase by $27.11 million, and the normal cost increases by $1.73 million in FY 2021. As a result, State pension contributions increase by $3.93 million in FY 2021. State retiree health liabilities increase by $29.5 million, resulting in State expenditures for retiree health coverage increasing by $198,000 in FY 2021. These costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds and increase annually according to actuarial assumptions. No effect on revenues.

(in dollars)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	2,476,800	2,672,300	2,826,600	2,993,700
SF Expenditure	0	825,600	890,800	942,200	997,900
FF Expenditure	0	825,600	890,800	942,200	997,900
Net Effect	$0	($4,128,000)	($4,453,800)	($4,710,900)	($4,989,400)

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

Local Effect: Local pension contributions increase by approximately $2.39 million in FY 2021 for the estimated 22 participating governmental units (PGUs) that participate in LEOPS and increase annually according to actuarial assumptions. No effect on local revenues.

Small Business Effect: None.

Analysis

Current Law: LEOPS was established on July 1, 1990, with participation a condition of employment for specified public safety officers. It consists of two components:

- a retirement plan that was closed to new members on January 1, 2005; and
- a pension plan applicable to members hired on or after that date. The bill applies only to the pension plan.

Members of LEOPS subject to the pension plan earn 2.0% of their AFC for each year of creditable service. Vested members qualify for a normal service retirement benefit at age 50 or with at least 25 years of creditable service. However, the normal service allowance is capped at 65% of AFC, meaning that members stop accruing benefits after 32.5 years of service (2% x 32.5 = 65%). Chapter 784 of 2018 increased the cap on LEOPS normal service retirement from 60% to 65% of AFC.

Membership in LEOPS is a condition of employment for State law enforcement employees in 22 specified groups. The most recent group added was employees of the Warrant Apprehension Unit of the Division of Parole and Probation within the Department of Public Safety and Correctional Services (Chapter 268 of 2015). In addition, members include specified law enforcement officers employed by PGUs that elect to participate in LEOPS.

Background: As of June 30, 2018, there were 2,617 active members in LEOPS, of whom 1,590 were employed by the State and 1,027 were employed by the approximately 22 PGUs that have elected to participate in LEOPS. The State Retirement Agency advises that there are no active members of LEOPS subject to the retirement plan, so the bill only affects current active LEOPS members.

State Expenditures: The bill both provides a benefit enhancement to members of LEOPS and enables them to reach their maximum retirement benefit with fewer years of service (28 years, compared with 32.5 years under current law). As a result, this analysis includes adjustments to the withdrawal and retirement rate assumptions used to calculate the actuarial value of the benefits provided. Specifically, the assumptions are adjusted to reflect the likelihood that some LEOPS members retire sooner than they would under current law because the bill allows them to reach their benefit cap at an earlier age.

With these adjustments, the General Assembly's consulting actuary estimates that State pension liabilities increase by $27.11 million, and the employer normal cost increases by approximately $1.73 million, which each reflect the higher benefit multiplier for service credit earned after June 30, 2019, and the new actuarial assumptions. That increase will first be recognized with the June 30, 2019 actuarial valuation, which determines contribution rates for fiscal 2021. The system uses a 25-year closed amortization schedule as of July 1, 2013.

Amortizing the liabilities over the remaining years of the closed amortization period and adding the full increase in the normal cost result in State pension contributions increasing by $3.93 million in fiscal 2021. Costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds and increase annually according to actuarial assumptions.

In addition, the Department of Budget and Management advises that, because the bill likely results in LEOPS members retiring earlier than they otherwise would, it increases the State's liability for retiree health coverage by $29.5 million. As a result, State expenditures for retiree health coverage increase by $198,000 in fiscal 2021, increasing thereafter by an estimated 8% annually, reflecting the rising cost of health care. These costs are also assumed to be allocated 60% general funds, 20% special funds, and 20% federal funds.

Local Expenditures: The actuary calculates that local pension liabilities increase by a combined total of approximately $17.05 million for the estimated 22 PGUs that participate in LEOPS, and their employer normal cost increases by a combined $1.05 million. Amortizing the increased liabilities and adding the full normal cost increase result in PGU pension contributions increasing by approximately $2.39 million in fiscal 2021 and annually thereafter according to actuarial assumptions. The costs are borne on a pro rata basis by the 22 PGUs in LEOPS.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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