

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1133
Appropriations

(Delegate P. Young, *et al.*)

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, or Correctional Officers' Retirement System 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, 2019.**

Fiscal Summary

State Effect: State pension liabilities and contributions increase minimally, potentially by about \$1.0 million and \$75,000 respectively. Employer contributions are assumed to be allocated 60% general funds, 20% special funds, and 20% federal and other funds. To the extent that law enforcement officers are more likely than the general population to have retired from the U.S. Armed Forces, the fiscal effect may be slightly greater. No effect on revenues.

Local Effect: Negligible increase in local participating governmental units' (PGUs) pension liabilities, and no discernible effect on local employer contributions due to the small number of affected members in the PGU pool. No effect on local revenues.

Small Business Effect: None.

Analysis

Current Law: In general, any member or vested former member of 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 (SRA).

However, SRPS members or vested former 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 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, 2018

	<u>Active</u> <u>Members</u>	<u>Deferred</u> <u>Vested</u>
State Police	1,347	99
Law Enforcement	1,590	305
Correctional Officers	7,179	N/A

Source: State Retirement Agency

State Expenditures: SRA, the Military Department, and the Personnel Unit within the Department of Budget and Management do not have reliable data on the number of State employees with prior military service, nor data on the number who have retired from the military and are receiving a military pension. Therefore, a reliable estimate of the number of SRPS members who would be eligible to claim military service credit under the bill cannot be determined.

However, using a variety of data sources, *and for illustrative purposes only*, the Department of Legislative Services estimates that about 21 current active members of the three affected plans may be eligible for additional military service credit under the bill. As shown in **Exhibit 2**, the General Assembly’s consulting actuary identified almost 700 active members in the three affected plans who fit the profile of individuals who could be eligible to claim additional service credit. These individuals are generally at least age 50 and, therefore, could have served 20 years in the military and earned 10 years of service credit in SRPS, making them eligible for the military service credit. The U.S. Department of Defense advises that approximately 55,000 military retirees live in Maryland, which is 3% of the State’s population age 50 or older. Assuming the same percentage of SRPS members identified by the actuary in that age group are military retirees, approximately 21 SRPS members may be eligible for five additional years of military service credit. To the extent that individuals in law enforcement roles may be more likely to have served in the military, the number of affected individuals may be greater.

Exhibit 2
State Retirement and Pension System Members
Potentially Eligible for Military Service Credit,
as of June 30, 2018

	<u>Active Members</u>
State Police	6
Correctional Officers	572
Law Enforcement	117
Total	695

Source: Bolton; State Retirement Agency

This analysis can only determine the increase in pension liabilities and employer contributions if a “typical” member of each of the major SRPS 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 3** shows the costs for one member of each plan claiming the service credit allowed

by the bill; these costs would increase annually according to actuarial assumptions. *For illustrative purposes only*, if the estimated 21 members earn the additional military service at a weighted average liability of about \$47,100 and a weighted annual cost of \$3,600, total State pension liabilities increase by about \$990,000 and employer contributions (all funds) increase by approximately \$75,600 in fiscal 2021.

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 address the fiscal effects from earlier retirements.

Exhibit 3
Fiscal 2021 Effect for Each Member Who Claims Credit Under the Bill

	<u>Liability Increase</u>	<u>FY 2021 Contribution Increase</u>
State Police	121,700	9,400
Correctional Officers	41,500	3,200
Law Enforcement	70,700	5,500

Source: Bolton

Additional Information

Prior Introductions: HB 1165 of 2018, a substantively similar bill, received a hearing in the House Appropriations Committee, but no further action was taken on the bill.

Cross File: SB 503 (Senator Peters, *et al.*) - Budget and Taxation.

Information Source(s): Bolton; State Retirement Agency; Department of Legislative Services

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Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510