

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 636

(Senator Hershey)

Budget and Taxation

Appropriations

Correctional Officers' Retirement System - Queen Anne's County

This bill makes Queen Anne's County detention center officers members of the Correctional Officers' Retirement System (CORS) as a condition of employment, subject to Queen Anne's County beginning participation in CORS. Past eligibility and creditable service with Queen Anne's County transfers to CORS for the affected officers, and they are not subject to specified credit transfer provisions in current law. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: None. The bill affects only Queen Anne's County.

Local Effect: Assuming Queen Anne's County elects to participate in CORS, its pension liabilities increase by \$1.9 million, resulting in an annual withdrawal liability payment of \$154,273 through calendar 2043. No effect on local revenues.

Small Business Effect: None.

Analysis

Current Law: In general, when a participating governmental unit (PGU) withdraws or transfers from a State pension plan, assets and liabilities credited to the withdrawing members are calculated in a manner specified by statute. If there is a net withdrawal liability, the withdrawing PGU must make regular payments to the State Retirement and Pension System (SRPS) until the liability is paid off. In the case of transfers to another plan, the assets and liabilities from the original plan are transferred to the members' "new" plan, but they are still subject to the same withdrawal asset/liability calculation.

Title 37 of the State Personnel and Pensions Article governs transfers from the Employees' Pension System (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 difference in 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.

Background: Queen Anne's County is currently a PGU in EPS, but seeks to transfer its 41 detention center officers from EPS to CORS. **Exhibit 1** shows the benefit structures for both plans.

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

As Exhibit 1 shows, the member contribution rate for EPS was less than the CORS rate of 5% prior to fiscal 2009. Thus, under Title 37, an employee of Queen Anne's County detention center would have to pay the difference in contribution rates for any prior service credit in EPS before fiscal 2009, with interest. However, the bill exempts them from that requirement.

Local Expenditures: As transferring members are not required to pay the difference in member contribution rates, Queen Anne's County assumes any additional liability from the lack of payment. Assuming Queen Anne's County elects to participate in CORS and based on the withdrawal liability calculation by the SRPS actuary, Queen Anne's County pension liabilities increase by \$1.9 million, resulting in an annual withdrawal liability payment of \$154,273 through calendar 2043.

Additional Information

Prior Introductions: None.

Cross File: HB 1056 (Queen Anne's County Delegation) - Appropriations.

Information Source(s): Queen Anne's County; State Retirement Agency; Department of Legislative Services

Fiscal Note History: First Reader - February 27, 2019
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