

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1027
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 (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, 2020.**

Fiscal Summary

State Effect: State pension liabilities and contributions increase minimally in FY 2022, potentially by about \$1.2 million and \$91,200, 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 the State Retirement and Pension System (SRPS) who accrues 10 years of service as a member of any State plan may receive 1 year of additional service credit for each year of active military duty

performed prior to membership in SRPS, up to a maximum of 5 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;
- 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, 2019

	<u>Active</u> <u>Members</u>	<u>Deferred</u> <u>Vested</u>
State Police	1,364	89
Law Enforcement	1,615	188
Correctional Officers	7,640	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 24 current active members of the three affected plans may be eligible for military service credit under the bill. As shown in **Exhibit 2**, the General Assembly’s consulting actuary identified almost 811 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 24 SRPS members may be eligible for 5 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, 2019

	<u>Active Members</u>
State Police	7
Correctional Officers	694
Law Enforcement	110
Total	811

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 5 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 5 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 24 members earn the military service credit at a weighted average liability of about \$48,000 and a weighted annual cost of \$3,800 per member, total State pension liabilities increase by about \$1.2 million and employer contributions (all funds) increase by approximately \$91,200 in fiscal 2022.

Exhibit 3
Fiscal 2022 Effect for Each Member Who Claims Credit Under the Bill

	<u>Liability Increase</u>	<u>FY 2022 Contribution Increase</u>
State Police	\$129,200	\$10,300
Correctional Officers	43,000	3,400
Law Enforcement	74,900	6,000

Source: Bolton

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.

Additional Comments: SRA notes that, under the bill, a military retiree who, after 10 years of service in the State, transfers from either SPRS, CORS, or LEOPS to one of the other eligible plans could earn a total of 10 years of military service credit (5 years from each of two plans).

Additional Information

Prior Introductions: SB 503 2019 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken on the bill. Its cross file, HB 1133, received a hearing in the House Appropriations Committee but no further action was taken on the bill. 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.

Designed Cross File: SB 487 (Senator Serafini, *et al.*) - Budget and Taxation.

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

Fiscal Note History: First Reader - February 26, 2020
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