Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 748 (Delegate Reilly, *et al.*)
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, 2022. 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, 2022**.

Fiscal Summary

State Effect: State pension liabilities increase by $43.7 million, and the normal cost increases by $3.2 million. As a result, State pension contributions increase by $6.98 million in FY 2024. These costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds and increase annually according to actuarial assumptions. No effect on revenues.

(in dollars)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	4,188,000	4,302,000	4,380,000	4,416,000
SF Expenditure	0	1,396,000	1,434,000	1,460,000	1,472,000
FF/Other Expenditure	0	1,396,000	1,434,000	1,460,000	1,472,000
Net Effect	$0	($6,980,000)	($7,170,000)	($7,300,000)	($7,360,000)

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

Local Effect: Local pension contributions increase by approximately $3.97 million in FY 2024. These are distributed proportionally (based on payroll) among 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). Chapters 397 and 398 of 2021 added the Executive Director of the Alcohol and Tobacco Commission. In addition, members include specified law enforcement officers employed by PGUs that elect to participate in LEOPS.

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 earlier, at a younger age.

With these adjustments, the General Assembly's consulting actuary estimates that State pension liabilities increase by $43.7 million, and the employer normal cost increases by approximately $3.2 million, which each reflect the higher benefit multiplier for service credit earned after June 30, 2022, and the new actuarial assumptions. That increase will first be recognized with the June 30, 2022 actuarial valuation, which determines contribution rates for fiscal 2024. 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 $6.98 million in fiscal 2024. Costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds and increase annually according to actuarial assumptions.

Local Expenditures: The actuary calculates that local pension liabilities increase by a combined total of approximately $26.6 million for the estimated 22 PGUs that participate in LEOPS, and their employer normal cost increases by a combined $2.0 million. Amortizing the increased liabilities and adding the full normal cost increase result in PGU pension contributions increasing by approximately $3.97 million in fiscal 2024 and further increasing annually thereafter according to actuarial assumptions. The costs are borne on a *pro rata* basis by the estimated 22 PGUs in LEOPS.

Additional Comments: This bill is identical to House Bill 103 of 2019 and to House Bill 659 of 2020, but it has a substantially higher projected cost than the projected cost for each of those bills. Specifically, the first-year State pension contribution projected for this bill is 35% higher than the first-year projected State contribution for House Bill 659. The actuary advises that several demographic and assumption differences between fiscal 2019 and 2021 account for the higher cost. These differences include a lower discount rate, a higher baseline employer contribution for LEOPS, a higher baseline LEOPS payroll, and a shorter amortization period due to the system's closed amortization schedule, among other factors. The Department of Legislative Services notes that the first-year projected State contribution for House Bill 659 was also considerably higher than that for House Bill 103 for many of the same reasons.

Additional Information

Prior Introductions: HB 659 of 2020 had a hearing in the House Appropriations Committee, but no further action was taken on the bill. HB 103 of 2019 was withdrawn after a hearing in the House Appropriations Committee.

Designated Cross File: None.

Information Source(s): Bolton; Maryland Association of Counties; Maryland Municipal League; State Retirement Agency; Department of Budget and Management; Department of Legislative Services

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