Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 264 (Senator Jackson)
Budget and Taxation

Law Enforcement Officers' Pension System - Benefits

This bill increases the normal service retirement benefit multiplier for members of the Law Enforcement Officers' Pension System (LEOPS), from 2.0% to 2.5%, for creditable service earned after June 30, 2023. The bill also raises the cap on LEOPS normal service retirement benefit payments from 65% of average final compensation (AFC) to 70% of AFC; member contributions cease when a member reaches the new 70% cap on benefits. **The bill takes effect July 1, 2023**.

Fiscal Summary

State Effect: State pension liabilities increase by $45.5 million, and the normal cost increases by $3.2 million. As a result, State pension contributions increase by $7.46 million in FY 2025. 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. Special fund expenditures increase by $100,000 in FY 2024 for reprogramming. No material effect on revenues.

(in dollars)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	4,476,000	4,758,000	4,974,000	5,382,000
SF Expenditure	100,000	1,492,000	1,586,000	1,658,000	1,794,000
FF Expenditure	0	1,492,000	1,586,000	1,658,000	1,794,000
Net Effect	($100,000)	($7,460,000)	($7,930,000)	($8,290,000)	($8,970,000)

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

Local Effect: Local pension contributions increase by approximately $4.74 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. Members of LEOPS 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. LEOPS members stop making member contributions after 32.5 years (which is when current members reach the 65% benefit cap with a 2.0% multiplier).

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 and firefighters employed by PGUs that elect to participate in LEOPS.

State Expenditures:

Pension Costs

The bill both provides a benefit enhancement to members of LEOPS and also enables them to reach their maximum retirement benefit with fewer years of service (28 years for anyone hired after June 30, 2023, compared with 32.5 years under current law). Current LEOPS members will have a bifurcated benefit using a 2.0% multiplier for service before July 1, 2023, and a 2.5% multiplier for service on or after that date. Therefore, they will reach the 70% benefit cap between 28 years and 32.5 years of service, depending on when they began service.

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. The adjustments also assume that fewer LEOPS members leave before reaching retirement because the higher benefit and earlier maximum benefit provide an incentive to remain in the plan.

With these adjustments, the General Assembly’s consulting actuary estimates that State pension liabilities increase by $45.53 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, 2023, and the new actuarial assumptions. That increase will first be recognized with the June 30, 2023 actuarial valuation, which determines contribution rates for fiscal 2025. 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 $7.46 million in fiscal 2025. Costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds and increase annually according to actuarial assumptions.

State Retirement Agency Programing Costs

State Retirement Agency (SRA) advises that the change in benefit multiplier requires it to reprogram the Maryland Pension Administration System to provide the enhanced benefits, including appropriate cost-of-living calculations. It estimates the cost of reprogramming the system to be $265,000 over six months. The Department of Legislative Services disagrees and believes that the reprogramming can be completed at a cost of $100,000. SRA's administrative costs are funded through a combination of special and reimbursable funds; this analysis assumes that special funds are used.

Other State/Local Expenditures

SRA's administrative expenses are funded through an administrative fee paid by participating employers, including the State and local governments. Therefore, expenditures for participating employers increase by a total of $100,000 due to higher fees to cover the cost of the reprogramming; as fee increases for individual employers are minimal, those expenditures are not reflected in this analysis.

Local Expenditures: The actuary calculates that local pension liabilities increase by a combined total of approximately $29.7 million for the estimated 22 PGUs that participate in LEOPS, and their employer normal cost increases by a combined $2.5 million. Amortizing the increased liabilities and adding the full normal cost increase result in PGU pension contributions increasing by approximately $4.74 million in fiscal 2025 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 Information

Prior Introductions: Similar legislation has been introduced within the last three years. See SB 115 and HB 748 of 2022 and HB 659 of 2020.

Designated Cross File: HB 929 (Delegate Reilly, *et al.*) - Appropriations.

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

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