

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 695

(Senator Jennings, *et al.*)

Budget and Taxation

Appropriations

State Retirement and Pension System - Military Service Credit

This bill allows a member or former member of the State Retirement and Pension System (SRPS) to receive service credit at the rate of four months for each full year of attendance at a United States service academy that *preceded* employment, up to a total of 16 months. It also allows a member of a State or local retirement or pension system to receive the same credit for attendance at a United States service academy that *interrupts* employment. Service credit received under the bill is subject to an overall cap of five years of military service credit in current law. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: No effect until FY 2026, but a reliable estimate of the total cost is not feasible, as discussed below. In FY 2026, the average cost to the State for a member of SRPS to claim the maximum 16 months of service credit ranges from \$1,200 to \$3,600, depending on the plan to which the member belongs. Out-year costs increase according to actuarial assumptions and are assumed to be allocated 60% general funds, 20% special funds, and 20% federal and other funds. No effect on revenues.

Local Effect: As the bill is expected to apply in only a limited number of circumstances, it has no discernible effect on local pension liabilities or employer contributions, as discussed below.

Small Business Effect: None.

Analysis

Current Law:

Credit for Military Service That Precedes Employment

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.

A member of the Maryland National Guard or a reserve component of the U.S. Armed Forces who is not activated for military service receives service credit at the rate of four months for each full year of service in the Maryland National Guard or reserves, up to 36 months.

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.

Credit for Military Service That Interrupts Employment

In general, a member of a State or local retirement or pension system must receive service credit for a period of absence from employment while in military service if (1) the member returns to active employment and (2) membership in a State or local retirement or pension system is a requirement of employment. Service credit awarded for an absence due to military service cannot exceed five years. For a member of a State system, the service credit applies to the individual's retirement allowance using the accrual rate in effect at the time the individual retires.

For SRPS members, the five-year cap on military service credit applies to the combined total of credit earned for military service during or prior to employment.

State Expenditures: Neither SRPS nor the Department of Legislative Services is aware of how many members have attended United States service academies, so a reliable estimate of the bill's effect is not feasible. However, the General Assembly's consulting actuary has calculated the employer costs associated with 16 months of additional service credit (the maximum allowed by the bill) for the average member of each State plan. As the cost of service credit varies by age and tenure (e.g., the cost of the thirtieth year of service is higher than the cost of the fifth year of service), this analysis covers only the average cost across current active members (the cost for vested former members is likely similar). Actual costs for each individual likely vary from the average.

The bill takes effect July 1, 2023, so members would not be able to claim the additional service credit until fiscal 2024. Any service credit awarded in fiscal 2024 is reflected in the actuarial valuation as of June 30, 2024, which calculates employer contributions for fiscal 2026. Therefore, there is no fiscal effect until fiscal 2026.

Exhibit 1 includes the average employer cost to the State for a member of each of the SRPS plans to receive 16 months of service credit under the bill.

Exhibit 1
Average Cost of 16 Months of Service Credit, by Plan
Fiscal 2026

	<u>Average Cost Per Member</u>
Teachers' Retirement System	\$2,500
Teachers' Pension System	1,600
Employees' Retirement System	1,800
Employees' Pension System	1,200
Correctional Officers Retirement System	1,400
State Police Retirement System	2,600
Law Enforcement Officers' Pension System	2,000
Legislative Pension Plan	1,300
Judges' Retirement System	3,600

Source: Bolton

The total cost to the State depends on the number and distribution of SRPS members who claim military service credit under the bill, and how much credit they claim. Those costs

are assumed to be allocated 60% general funds, 20% special funds, and 20% federal and other funds. Out-year costs increase according to actuarial assumptions.

Local Expenditures: The bill applies to members of local pension plans only if their attendance at a United States service academy interrupts their employment with a local government. Although this may be the case for some local employees, it likely is not a common occurrence. Therefore, the bill has limited applicability to local governments. To the extent it does apply to some members of local pension plans, the costs per member listed above are likely comparable for local pension plans.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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