SB 139

Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 139 (Senator Jackson, *et al.*)
Budget and Taxation Appropriations

State Police Retirement System and Law Enforcement Officers' Pension System - Deferred Retirement Option Program - Alterations

---

This bill allows members of the State Police Retirement System (SPRS) or the Law Enforcement Officers' Pension System (LEOPS) to remain in the Deferred Retirement Option Program (DROP) for up to two additional years. SPRS and LEOPS members already participating in DROP may elect to extend their time in DROP in accordance with the bill's limitations; an election must be made by December 31, 2023. **The bill takes effect July 1, 2023.**

Fiscal Summary

State Effect: No effect in FY 2024. State pension contributions (general and special funds) *decrease* by $400,000 in FY 2025; out-year savings reflect actuarial assumptions, as discussed below. No effect on revenues.

(in dollars)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Revenues	$0	$0	$0	$0	$0
GF/SF Exp.	0	(400,000)	(410,000)	(420,000)	(430,000)
Net Effect	$0	$400,000	$410,000	$420,000	$430,000

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

Local Effect: Local pension contributions for local law enforcement agencies participating in LEOPS decrease minimally beginning in FY 2025, as discussed below. No effect on revenues.

Small Business Effect: None.

Analysis

Bill Summary:

State Police Retirement System Members Hired Before July 1, 2011

SPRS members who became employed before July 1, 2011, are eligible for DROP if they:

- have at least 22 years and less than 32 years (instead of 30 years) of eligibility service; and
- are younger than age 60.

State Police Retirement System Members Hired On or After July 1, 2011

SPRS members who became employed on or after July 1, 2011, are eligible for DROP if they:

- have at least 25 years and less than 32 years (instead of 30 years) of eligibility service; and
- are younger than age 60.

All Members of the State Police Retirement System and Law Enforcement Officers' Pension System

Regardless of when SPRS and LEOPS members are employed, current and future participants in DROP may participate in DROP for, at most, 7 years. Specifically, they may participate in DROP for no longer than the lesser of:

- 7 years; or
- the difference between 32 years and the member's eligibility service when the member entered DROP.

Current Law: An SPRS member is eligible to retire at age 50 or after accumulating 22 years of eligibility service (if hired before July 1, 2011) or 25 years of eligibility service (if hired on or after July 1, 2011). A member must retire at age 60. The retirement allowance is equal to 2.55% of average final compensation (AFC) multiplied by the number of years of creditable service. The retirement allowance is subject to a cap of 71.4% of AFC (the equivalent of 28 years of service).

LEOPS was established on July 1, 1990, with participation a condition of employment for specified public safety officers; local law enforcement agencies may elect to participate in

LEOPS as participating governmental units (PGUs). 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.

SPRS and LEOPS members are eligible to participate in DROP. For SPRS, members hired before July 1, 2011, are eligible to participate if they have at least 22 years of eligibility service but less than 30 years. SPRS members hired on or after July 1, 2011, and all LEOPS members are eligible for DROP if they have at least 25 years of eligibility service but less than 30 years. Regardless of their date of hire, their time in DROP cannot exceed 5 years (some members are subject to shorter limits if their time in DROP will cause them to pass age 60 or their maximum number of years of service). During the DROP period, members continue employment at their regular salary but are deemed to be retired and do not earn any additional service credit. The retirement allowance is placed in an account earning 4% annual interest. At the end of the DROP period, the lump sum held in the DROP account is paid to the member, who must then terminate employment and receive a regular retirement allowance.

Chapters 725 and 726 of 2018 allowed members of SPRS to remain in DROP for up to one additional year (five years instead of four years). The Acts also expanded the window during which they could join DROP by one or two extra years of eligibility service, depending on when they were hired.

State Expenditures: The actuary advises that, as of June 30, 2022, there were 118 members of SPRS and 102 members of LEOPS (including 28 employed by PGUs) enrolled in DROP.

Depending on how they are structured by plan sponsors and used by eligible members, deferred retirement programs can either increase or decrease plan liabilities. In some instances, they can create an incentive for members to retire sooner than they otherwise would, thereby increasing pension liabilities. In other cases, the financial terms of the plan can generate savings for the plan sponsor (in this case, the State). For this bill, based on current actuarial methodologies and assumptions used for this analysis, adding two years to DROP eligibility for SPRS actually results in a *reduction* in liabilities and contributions, as discussed below.

The bill allows SPRS and LEOPS members to remain in DROP for up to two additional years, but it does not allow them to enter DROP sooner than they can under current law. Therefore, the bill is not expected to have a meaningful effect on retirement rates, which is often the biggest factor in calculating the cost of DROP plans. To the extent that the change does prompt members to retire sooner, the savings discussed below likely are not realized and the net result could be higher costs to the State.

Although the bill allows SPRS and LEOPS members to remain in DROP for up to two additional years, it likely does not result in the average tenure in DROP increasing by even one full year. The actuary advises that some members enter DROP too late (either with regard to their age or their years of service) to remain in for the full five years currently allowed, so those individuals do not benefit from the extension to seven years. Therefore, the bill is assumed to increase the average time in DROP by slightly less than one year (from 4.5 years to 5.3 years for SPRS and from 4.8 years to 5.7 years for LEOPS).

DROP participants earn 4% annually on their DROP accounts, but the system assumes that assets earn 6.8% annually. Therefore, the actuary advises that additional time in DROP (assuming no change in retirement rates) translates into minimal net actuarial savings to the system since the system is assumed to earn more from its investments than it is paying to DROP participants in the form of interest on their accounts. As a result, State pension liabilities decrease by a total of $2.78 million ($1.57 million for SPRS and $1.21 million for LEOPS), and the normal cost decreases by a total of $150,000 ($80,000 for SPRS and $70,000 for LEOPS). Amortizing the liability decrease over the remaining years of the system's closed 25-year amortization period and adding the normal cost reduction results in State pension contributions decreasing by $400,000 in the first year ($220,000 for SPRS and $180,000 for LEOPS).

The bill's changes are first recognized during the June 30, 2023 actuarial valuation, which determines State pension contributions for fiscal 2025, so any savings are first recognized in fiscal 2025. Out-year savings reflect actuarial assumptions. Compensation for State troopers and other law enforcement officers is paid almost entirely with general and special funds.

Local Expenditures: LEOPS members employed by PGUs are also eligible for the increased tenure in DROP. Based on current actuarial assumptions, local pension liabilities decrease by approximately $850,000 and the normal cost decreases by $70,000. Amortizing the liability decrease and adding the normal cost reduction results in local pension contributions decreasing by $150,000 in fiscal 2025 and by similar amounts in each succeeding year according to actuarial assumptions. Those savings are shared among approximately 20 PGUs that participate in LEOPS.

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See SB 346 and HB 1422 of 2022.

Designated Cross File: HB 298 (Delegate Bridges) - Appropriations.

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

Fiscal Note History: First Reader - January 31, 2023
rh/ljm Third Reader - March 17, 2023

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510