

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
 Third Reader - Revised

Senate Bill 972

(Senator Guzzone)

Budget and Taxation

Appropriations

Correctional Officers' Retirement System - Membership

This bill makes specified employees of the Maryland Department of Health (MDH) and the Department of Public Safety and Correctional Services (DPSCS) members of the Correctional Officers' Retirement System (CORS) as a condition of their employment. It also requires the Board of Trustees of the State Retirement and Pension System (SRPS) to transfer service credit earned by affected employees in the Employees' Retirement System (ERS) or Employees' Pension System (EPS) to CORS, unless an affected employee opts not to have service credit transferred. However, members who transfer into CORS with no creditable service in EPS from before July 1, 2008, are not eligible to opt out of the transfer of service. **The bill takes effect July 1, 2024; some provisions related to transfer of service credit terminate June 30, 2025.**

Fiscal Summary

State Effect: State pension liabilities increase by *approximately* \$13.7 million, and the normal cost increases by *approximately* \$2.5 million. Amortizing the increase in liabilities over 10 years and adding the full normal cost results in State pension contributions increasing by *approximately* \$4.87 million in FY 2027. Those costs increase annually thereafter 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.

(in dollars)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	0	2,922,000	2,988,000	3,060,000
SF Expenditure	0	0	974,000	996,000	1,020,000
FF Expenditure	0	0	974,000	996,000	1,020,000
Net Effect	\$0	\$0	(\$4,870,000)	(\$4,980,000)	(\$5,100,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: An individual who is employed in the job classifications listed below on or after July 1, 2024, is a member of CORS as a condition of employment. An individual who is employed in any of the listed positions on or before June 30, 2024, is eligible to retire from CORS if vested in CORS with a combined total of at least 20 years of *eligibility* credit in CORS and either EPS or ERS:

- a correctional maintenance regional manager in DPSCS; and
- an employee of Eastern Shore Hospital Center, Thomas B. Finan Center, Potomac Center/Secure Evaluation and Therapeutic Treatment Program, Spring Grove Hospital Center, Springfield Hospital Center, Regional Institute for Children and Adolescents-Baltimore, or John L. Gildner Regional Institute for Children and Adolescents in any of the following positions:
 - a CAMH associate – CI
 - a developmental disability associate – CI;
 - a direct care assistant – CI;
 - a licensed practical nurse – CI;
 - a resident associate SETT – CI;
 - a security attendant I, II, or III;
 - a security attendant manager I or II; or
 - a security attendant supervisor.

Any individual who retires under this provision is entitled to a normal service retirement benefit based on *creditable* service in CORS. Affected members are exempt from a requirement in current law that they remain in CORS for at least five years before they are eligible for CORS benefits.

If any of the affected employees is granted an ordinary disability benefit, the SRPS Board must calculate and pay the ordinary disability benefit that is greater under either CORS or EPS.

Current Law: Eligibility for CORS membership has been expanded in recent years from just correctional officers in the first six job classifications and security attendants at the Clifton T. Perkins Hospital Center to now also include:

- correctional dietary, maintenance, and supply workers (Chapter 340 of 2006);
- correctional laundry workers and designated employees of Maryland Correctional Enterprises (Chapters 408 and 409 of 2008);
- correctional case management specialists, supervisors, and managers (Chapters 218 and 219 of 2016);

- parole and probation agents, supervisors, and regional administrators (Chapters 688 and 689 of 2017);
- specified counselors, social workers, psychologists, and recreation officers within DPSCS (Chapter 690 of 2017);
- specified detention center employees of the Department of Juvenile Services (DJS) and specified supervisory positions within DPSCS (that had been inadvertently omitted from earlier legislation) (Chapter 579 of 2018); and
- specified case management workers and group life managers in DJS (Chapter 147 of 2022).

Exhibit 1 delineates key provisions for CORS and EPS. As the exhibit shows, Chapter 110 of 2006 phased in a higher EPS employee contribution rate, from 2.0% in fiscal 2006 to 5.0% in fiscal 2009. Chapter 397 of 2011 made additional changes, raising the member contribution rate to 7.0% and reducing the benefit multiplier to 1.5% for members hired after June 30, 2011. Prior to July 1, 1998, EPS was noncontributory for most members.

“Eligibility service” means service credit that is recognized for determining eligibility for a retirement benefit. In general, a member of EPS receives one year of eligibility service credit for completing at least 500 hours of employment in a fiscal year. “Creditable service” is service credit that is recognized for computing a retirement benefit. In general, it equals eligibility service credit plus credit for unused sick leave.

Title 37 of the State Personnel and Pensions Article governs transfers from EPS to another contributory pension system (like CORS). Under Title 37, a “new system” means the system into which the member is transferring service credit, and “previous system” means the system from which the individual is transferring. Members transferring creditable service from EPS to another contributory system must pay the member contribution rates in effect for the period of service covered by the transferred service credit, plus interest. They are also refunded any accumulated contributions in the previous system that are in excess of the member contributions required by the new system.

Under the terms of Title 37, therefore, EPS members transferring creditable service to CORS have to pay the difference between the contribution rate paid to EPS, if any, and the 5.0% CORS contribution rate, plus interest, for any service credit earned prior to fiscal 2009, when the EPS member contribution rate was less than the 5.0% CORS contribution. For service credit earned prior to 1998, they likely must pay the full CORS contribution of 5.0% (plus interest) since EPS was noncontributory for most members. However, they will also receive credit for the higher member contributions (7.0%) paid in EPS since June 30, 2011, because those contributions are also transferred to CORS and credited to their account. Any net deficiency in their member contributions results in an actuarial

reduction to their benefit at the time of retirement. The Department of Legislative Services (DLS) notes that there is no actual transfer of assets between plans because CORS and EPS/ERS are considered a single plan for the purpose of valuing their assets and liabilities.

Exhibit 1
Pension Plan Provisions

	Employees' Pension System		
	<u>Hired Before July 1, 2011</u>	<u>Hired After June 30, 2011</u>	<u>CORS</u>
Normal Retirement Age	62 ¹	65 ²	55 ³
Years of Service for Normal Retirement	30	Age and service add to 90	20
Employee Contribution	None prior to 1998 2.0% (1998-2006) 3.0% in 2007 4.0% in 2008 5.0% (2009-2011) 7.0% after June 30, 2011	7.0%	5.0%
Benefit Multiplier	1.8% (after 1998) 1.2% (before 1998)	1.5%	1.818%

CORS: Correctional Officers' Retirement System

¹ Retiree must have at least 5 years of service.

² Retiree must have at least 10 years of service.

³ Retiree must have 5 years of service if hired before July 1, 2011; otherwise, retiree must have 10 years of service if hired on or after July 1, 2011.

Source: Maryland Annotated Code; State Personnel and Pensions Article

Under the terms of Title 37, therefore, EPS members transferring creditable service to CORS have to pay the difference between the contribution rate paid to EPS, if any, and the 5.0% CORS contribution rate, plus interest, for any service credit earned prior to fiscal 2009, when the EPS member contribution rate was less than the 5.0% CORS contribution. For service credit earned prior to 1998, they likely must pay the full CORS contribution of 5.0% (plus interest) since EPS was noncontributory for most members. However, they will also receive credit for the higher member contributions (7.0%) paid in EPS since June 30, 2011, because those contributions are also transferred to CORS and credited

to their account. Any net deficiency in their member contributions results in an actuarial reduction to their benefit at the time of retirement. DLS notes that there is no actual transfer of assets between plans because CORS and EPS/ERS are considered a single plan for the purpose of valuing their assets and liabilities.

In general, under Title 37, an individual who retires from a new system within five years of transferring to that system receives benefits for the transferred credit that would have been payable under the previous system. However, the bill exempts affected individuals from this provision of Title 37.

Normal retirement age for most CORS members is age 55 if they have vested; they can also retire with 20 years of service regardless of age.

State Expenditures: As noted above, EPS/ERS and CORS are considered a single plan for actuarial reasons, so the employer contribution rates for each plan are the same. Also, current EPS members transferring creditable service to CORS have to make up any difference in member contributions. Therefore, any difference in member contributions has no effect on plan assets. Moreover, even though the bill applies to members of both ERS and EPS, all affected members are assumed to participate only in EPS (ERS was closed to new members in 1980). Based on data provided by MDH and DPSCS, the bill affects 805 individuals currently employed by MDH and 5 individuals employed by DPSCS.

State pension liabilities increase because service credit in EPS accrues at a lower benefit level than CORS, whether at the 1.2% level, prior to 1998, or the 1.5% level, for those hired on or after July 1, 2011. For EPS service between July 1, 1998, and June 30, 2011, benefits accrued at 1.8% (and still accrue at that level for those hired before July 1, 2011), which is slightly below the 1.818% rate for CORS. Under the bill, all service credit must be paid at the 1.818% CORS level for individuals who transfer creditable service from EPS to CORS. This factor increases State pension liabilities because accrued credit is being paid at a higher level.

The bill requires the SRPS Board to transfer the service credit on June 30, 2025; members have 11 months to opt out of the transfer – they must do so by June 1, 2025. However, this analysis assumes that all affected individuals for whom data is available transfer all prior creditable service to CORS and retire with a CORS benefit (*i.e.*, they do not opt out of the transfer of credit). To the extent that some affected members do opt out, the fiscal effect may be less. Based on the date of transfer, this analysis assumes that transferred credit is first recognized in the June 30, 2025 valuation, which determines contribution rates for fiscal 2027. Therefore, the fiscal effect begins in fiscal 2027.

The General Assembly's actuary advises that, with these assumptions, State pension liabilities increase by \$13.7 million, and the normal cost increases by \$2.5 million.

Beginning July 1, 2024, new gains and losses each year are amortized over between 10 and 15 years; for this analysis, the actuary advises that 10 years is appropriate because the average expected future service for affected members is 9 years. Therefore, adding the increased normal cost to the annual amortization payment results in a first-year cost of \$4.87 million in fiscal 2027. Out-year pension costs increase according to actuarial assumptions. State pension costs in the combined employees' system (which includes both CORS and EPS) are assumed to be split 60% general funds, 20% special funds, and 20% federal/other funds.

This analysis does not include the effect of future individuals hired into the affected positions, including currently vacant positions.

Despite the number of individuals affected by the bill, the State Retirement Agency can likely process credit transfers with existing resources.

Additional Comments: The actuarial analysis conducted for this bill was based on an earlier version that affected 806 MDH employees and no DPSCS employees. Amendments to the bill added a net total of 4 individuals (810 total). As the amendments did not materially change the number or demographics of affected members, the actuarial analysis was not redone for the current version of the bill.

DLS notes that security attendants at the Clifton T. Perkins Hospital Center are already covered by CORS and, therefore, Clifton T. Perkins is not specified as one of the hospital centers covered by the bill. Most of the other position titles in the bill are not used at Perkins; however, MDH advises that one individual at Perkins, a resident associate supervisor SETT – CI, is excluded from the bill.

Additional Information

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

Designated Cross File: HB 1005 (Delegate McCaskill) - Appropriations.

Information Source(s): Bolton; Department of Budget and Management; Maryland Department of Health; State Retirement Agency; Department of Legislative Services

Fiscal Note History:
rh/ljm

First Reader - February 21, 2024

Third Reader - March 26, 2024

Revised - Amendment(s) - March 26, 2024

Analysis by: Michael C. Rubenstein

Direct Inquiries to:

(410) 946-5510

(301) 970-5510