

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 368

(Senators Waldstreicher and Gile)

Budget and Taxation

Appropriations

State Retirement and Pension System - Military Service Credit - Eligibility

This bill expands the definition of “military service” as it relates to service credit in the State Retirement and Pension System (SRPS) to include service after May 7, 1975, with (1) the commissioned corps of the Public Health Service; (2) the National Oceanic and Atmospheric Administration (NOAA); or (3) the Coast and Geodetic Survey. Any member with qualifying service may claim service credit for service in those branches that precedes or interrupts membership in SRPS, as specified in current law. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: No effect until FY 2027; a reliable estimate of the total cost is not feasible, but is likely minimal, as discussed below. In FY 2027, the average cost to the State for a member of SRPS to claim the maximum five years of service credit ranges from \$5,100 to \$11,400, 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: No effect until FY 2027; a reliable estimate of the total cost is not feasible, but is likely minimal, for the same reason as for State plans. Any per-member costs resulting from members claiming credit for military service under the bill are likely similar to those for State plans. No effect on revenues.

Small Business Effect: None.

Analysis

Current Law:

Military Service

“Military service” means [emphasis added]:

- induction into the armed forces of the United States for training and service, as specified;
- membership in a reserve component of the armed forces of the United States (1) on active duty or ordered or assigned to active duty or (2) on active duty for training or inactive duty for training that interrupts a member’s service;
- enlistment into the armed forces of the United States;
- membership in the Maryland National Guard; or
- **for a person separated from employment on or after July 1, 1991, active duty with the commissioned corps of the Public Health Service, NOAA, or the Coast and Geodetic Survey for specified periods of time ending May 7, 1975.**

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 1 year of additional service credit for each year of *active military duty* performed prior to membership in SRPS, up to a maximum of 5 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 4 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. Under the bill, members whose State service is interrupted by service in any of the three specified services would also be eligible for service credit during that time, as long as they return to State employment, as specified in current law.

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/Local Expenditures: Neither SRPS nor the Department of Legislative Services is aware of how many members or former members have served or will serve in any of the three specified services, 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 five years of additional service credit (the maximum allowed under current law) 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, 2024, but SRPS is not aware of any service credit due until a member or former member claims the credit, which will not occur until after the effective date (*i.e.*, fiscal 2025). Any service credit awarded in fiscal 2025 is reflected in the actuarial valuation as of June 30, 2025, which calculates employer contributions for fiscal 2027. Therefore, there is no fiscal effect until fiscal 2027.

The actuary advises that approximately 104,000 active and terminated vested members have at least 10 years of service and would be eligible for up to 5 years of service for qualifying service that preceded membership under the bill; more active members may reach 10 years of service in future years, but they are not factored into this analysis. Similarly, any members whose service is interrupted in the future are not factored into this analysis. The number of active and terminated vested members who actually claim the

credit is likely minimal; the State Retirement Agency advises that 259 members claimed military service credit in fiscal 2023.

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

Exhibit 1
Average Cost of Five Years of Service Credit, by Plan
Fiscal 2027

	<u>Average Cost</u> <u>Per Member</u>
Teachers' Retirement System	\$9,500
Teachers' Pension System	7,100
Employees' Retirement System	7,300
Employees' Pension System	5,100
Correctional Officers' Retirement System	6,100
State Police Retirement System	9,500
Law Enforcement Officers' Pension System	8,200
Judges' Retirement System	11,400

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.

Additional Information

Recent 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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