SB 329

Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 329 (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 on or after July 1, 2025. 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. Finally, the bill makes conforming changes to eligibility criteria for participation in the LEOPS Deferred Retirement Option Program (DROP). **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: State pension liabilities increase by $53.5 million, and the normal cost increases by $4.0 million. As a result, State pension contributions increase by almost $11.2 million in FY 2027. 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 also increase by $200,000 in FY 2026 for programming costs. No material effect on revenues.

($ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	6.69	7.12	7.48	7.86
SF Expenditure	0.20	2.23	2.37	2.49	2.62
FF Expenditure	0	2.23	2.37	2.49	2.62
Net Effect	($0.20)	($11.15)	($11.86)	($12.47)	($13.10)

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

Local Effect: Local pension contributions increase by approximately $6.9 million in FY 2027. These are distributed proportionally (based on payroll) among the estimated

33 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 (now the Alcohol, Tobacco, and Cannabis Commission). In addition, members include specified law enforcement officers and firefighters employed by PGUs that elect to participate in LEOPS.

Deferred Retirement Option Program

LEOPS members are eligible to participate in DROP if they have at least 25 years of creditable service but less than 32 years. Regardless of their date of hire, their time in DROP cannot exceed the lesser of seven years or the difference between their creditable service and 32 years (which is roughly the maximum number of years of creditable service they can accrue – as noted above, currently 32.5 years). 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.

State Expenditures: The bill both provides a benefit enhancement to members of LEOPS and enables them to reach their maximum retirement benefit with fewer years of service (28 years for anyone hired after June 30, 2025, 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, 2025, 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 $53.5 million, and the employer normal cost increases by approximately $4.0 million, which each reflect the higher benefit multiplier for service credit earned after June 30, 2025, and the new actuarial assumptions. That increase will first be recognized with the June 30, 2025 actuarial valuation, which determines contribution rates for fiscal 2027.

Amortizing the liabilities under the system's amortization policy and adding the full increase in the normal cost result in State pension contributions increasing by $11.2 million in fiscal 2027. Costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds and increase annually according to actuarial assumptions.

Programming Costs

The State Retirement Agency advises that the bill's changes require it to reprogram its pension administration system and member portal to reflect the changes in benefit calculations. Therefore, special fund expenditures increase by $200,000 for this purpose.

Deferred Retirement Option Program Provisions

The bill's adjustment of eligibility criteria for the LEOPS DROP has no practical effect on pension liabilities because it maintains current eligibility requirements. As noted above, current law limits participation in DROP to the lesser of seven years or the difference between 32 years and the member's creditable service. This limit is roughly linked to the maximum amount of creditable service that a member can accrue under current law, which is 32.5 years. However, under the bill, new members stop accruing service credit after 28 years (even if they remain in LEOPS for more years), which means that eligibility for DROP can never drop below four years (the difference between 32 and 28). By linking eligibility for DROP to years of employment rather than creditable service, the bill maintains the current limits on DROP participation and, therefore, has no effect on pension liabilities.

Local Expenditures: The actuary calculates that local pension liabilities increase by a combined total of approximately $34.74 million for the estimated 33 PGUs that participate in LEOPS, and their employer normal cost increases by a combined $3.2 million. Amortizing the increased liabilities and adding the full normal cost increase result in PGU pension contributions increasing by approximately $6.9 million in fiscal 2027 and increasing annually thereafter according to actuarial assumptions. The costs are borne on a *pro rata* basis by the estimated 33 PGUs in LEOPS.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 1121 of 2024, SB 264 and HB 929 of 2023, and SB 115 and HB 478 of 2022.

Designated Cross File: None.

Information Source(s): Bolton; Montgomery and Worcester counties; Maryland Municipal League; Town of Bel Air; State Retirement Agency; Department of Legislative Services

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km/ljm

Analysis by: Michael C. Rubenstein

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