SB 692 - Reporting and DROP Clarifying Changes - S
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Testimony in Support of Senate Bill 692
State Retirement and Pension System - Alterations and Clarifications
Senate Budget and Tax Committee
February 13, 2025
9:00 A.M.

Anne Gawthrop
Director of Legislative Affairs
State Retirement Agency

The Board of Trustees for the State Retirement and Pension System wishes to express its support for Senate Bill 692, State Retirement and Pension System - Alterations and Clarifications. Senate Bill 692 is legislation sponsored by the Joint Committee on Pensions at the request of the Board.

A member of the State Police Retirement System (SPRS) may enter the Deferred Retirement Option Program (DROP) if the member has at least 25 and less than 32 years of service and is less than 60 years old. An eligible member may elect to participate in the DROP for a period not to exceed the lesser of:

1. 7 years;
2. the difference between 32 years and the member's service credit as of the date of the member's election to participate in the DROP and retire from the State Police Retirement System; and
3. the difference between age 60 and the member's age as of the date of the member's election to participate in the DROP and retire from the State Police Retirement System.

Provisions in the State Personnel and Pensions Article provide that a member is entitled to receive one month of service credit for employment for a month or a part of a month if member contributions are received for that month. In 2020, legislation was passed that provides that after 28 years of service as a member of the SPRS, a member does not make any further member contributions, effectively capping the service credit a member may earn at 28 years.

Studying how each of these pieces regarding service credit and participation in the SPRS DROP intersect with each other, the State Retirement Agency (Agency) discovered an inconsistency that Senate Bill 692 will clarify. Prior to 2020, SPRS members would continue to make contributions after accruing 28 years of service, and accordingly, continue to earn service credit. A member who continued active membership for 32 years would accrue 32 years of service credit. A member with 32 years of service credit would not be eligible to participate in the SPRS DROP.

With the passage of the 2020 legislation that ended member contributions after 28 years of service, a member who continues active membership after 28 years, will not accrue any additional service credit, capping their service at 28 years, regardless of how long they remain an active SPRS member after that point. Even though their service credit is capped at 28 years, an SPRS member will continue to receive the benefit of any salary increases earned after 28 years of service in the calculation of their average final compensation used to calculate the amount of their benefit at retirement.

The 2020 legislative change to discontinue member contributions and service credit accrual after 28 years of services has also had a corresponding impact on the provisions governing the DROP participation period for the SPRS. For example, a SPRS member who chooses to work 32 years, will only have 28 years of service credit. Because DROP participation is calculated based on the difference between 32 years and the member's service credit when entering DROP, the 2020 law change resulted in the member being eligible to participate in the DROP for four additional years after 32 years of active service (32 – 28 years of service credit). If that member chooses to stay in the DROP for the entire four years, the member will be leaving the DROP with 36 years of employment service and not the 32 years currently provided for in the State Personnel and Pensions Article. In fact, current law could potentially allow a member of the SPRS to work indefinitely after accruing 28 years of service (provided they have not reached the mandatory retirement age of 60), and still be guaranteed four additional years of DROP participation, since their service credit will always be capped at 28 years.

Senate Bill 692 amends the eligibility provisions of the SPRS DROP to clarify that a member is eligible to participate in the DROP for a period not to exceed the difference between 32 years and "***the member's years of employment in a position eligible for membership in the State Police Retirement System***". By removing the reference to "eligibility service" this change will again provide that a member of the SPRS may not participate in the DROP after 32 years of employment with the State Police.

Additionally, Senate Bill 692 also changes the due dates for two mandated reports that the Agency is required to annually submit to the General Assembly. The current statutory due dates make it very difficult for staff for the Agency to complete the required reports in a timely fashion.

We appreciate being given this opportunity to express our support to the Budget and Tax Committee for this legislation and would request a favorable report on Senate Bill 692.

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TESTIMONY – SENATE BILL 692

STATE RETIREMENT AND PENSION SYSTEM– ALTERATIONS AND CLARIFICATIONS

BUDGET & TAXATION COMMITTEE

FEBRUARY 13, 2025

Chair Hettleman and Fellow Committee Members:

Senate Bill 692 is a piece of clarifying that makes a few clerical changes for reporting within the State Retirement and Pension System and particularly clarifies a few provisions for eligibility in the Deferred Retirement Option Program.

Particularly, these changes would include altering reporting dates related to minority business enterprise and adding clarifying language to the retirement provisions within the Deferred Retirement Option Program correlating to the Department of State Police.

This legislation is a simple means to the end of allowing more efficient operations within the State Retirement and Pension System.

For the reasons listed above, I ask for a favorable report of Senate Bill 692.