Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 619 (Delegate James)
Appropriations Budget and Taxation

State Contributory Law Enforcement Officers' Pension System - Transfer of Service Credit

This bill allows a member of the contributory Law Enforcement Officers' Pension System (LEOPS) who meets specified criteria to transfer past creditable service credit from the Employees' Pension System (EPS) to LEOPS.

The bill takes effect July 1, 2010, and terminates December 31, 2010.

Fiscal Summary

State Effect: None. The bill affects only participating governmental units (PGUs) within the State Retirement and Pension System.

Local Effect: Pension liabilities increase by approximately $158,800 for PGUs that participate in LEOPS, resulting in a $10,600 increase in employer contributions in FY 2012. The increased cost is shared among all PGUs in LEOPS, and grows minimally each year according to actuarial assumptions. Pension liabilities and employer contributions decrease minimally for PGUs participating in EPS.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to a contributory LEOPS member employed by the Harford County Sheriff's Office on or after August 1, 2008, who previously was a member of the noncontributory EPS during specified periods of past employment with the Maryland Port Administration and Harford County Sheriff's Office. The transfer of service credit must be done in accordance with Title 37 of the State Personnel and Pensions Article, which governs transfers of credit between State and/or local pension plans.

Current Law: Under Title 37, an individual may transfer service credit between State and/or local pension plans within one year of becoming a member in a new system. Members who miss the one-year deadline may request a waiver from the Executive Director of the State Retirement Agency, but only if there has not been a break in service between leaving one pension system and transferring to another. If the waiver request is denied, the member may appeal to the full board of trustees. Under regulations adopted by the board, a waiver may be granted only if the member's former or current employer certifies that the member was not advised of the one-year limitation.

Title 37 further requires that, when an individual transfers service credit from noncontributory EPS to LEOPS, the State Retirement and Pension System transfers the member's accumulated contributions, plus interest, from EPS to LEOPS; since EPS was noncontributory, no employee contributions are transferred. Employer contributions made on the member's behalf are not transferred. The member is not required to pay the difference in employee contributions between the noncontributory EPS and the 4% LEOPS contribution that the member would have had to pay if (s)he had been a member of LEOPS. However, when the member retires, his or her retirement allowance is subject to an actuarial reduction for any portion of the transferred EPS credit earned after June 30, 2000.

If an individual retires within five years of transferring into a new system, the benefits payable based on the transferred credit may not be greater than the benefits payable by the member's former plan.

Background: EPS was established in 1980 as a noncontributory plan for most State and PGU employees. However, any compensation above the Social Security wage base was subject to a 5% employee contribution. Only a small fraction of State and PGU employees earned more than the wage base, which is adjusted annually for inflation and was $106,800 in 2009. Chapter 530 of 1998 transformed EPS into a contributory plan, requiring employee contributions of 2% on all earnable compensation and enhancing retirement benefits. All State employees were required to participate in the contributory EPS, but PGUs were given the opportunity to choose the contributory plan or remain in the noncontributory plan. All but 8 of approximately 120 PGUs opted for the enhanced plan. Chapter 110 of 2006 again enhanced retirement benefits for EPS members and required a 5% employee contribution. PGUs were once again given the option of enrolling in the enhanced plan, but the same eight PGUs opted to remain in the noncontributory plan.

There are approximately 120 PGUs participating in the State Retirement and Pension System.

LEOPS offers more generous retirement benefits than noncontributory EPS, as shown in **Exhibit 1.** LEOPS members can retire earlier than EPS members and enjoy a substantially higher benefit multiplier for each year of service than EPS members.

Exhibit 1
Pension Plan Provisions

	LEOPS	Noncontributory EPS
Normal Retirement Age	50	62[1]
Years of Service for Normal Retirement	25[2]	30
Employee Contribution	4%	None
Benefit Multiplier	2.0% of AFC	1.2% of AFC

AFC = average final compensation

[1]Retiree must have at least five years of service.
[2]LEOPS members stop earning creditable service after 30 years.

Source: *Maryland Annotated Code*, State Personnel and Pensions Article

Both EPS and LEOPS are open to PGUs and maintain a separate municipal pool that is funded only with local contributions. Harford County government employees participate in EPS, while the Harford County Sheriff's Office participates in LEOPS.

Local Fiscal Effect: The State Retirement Agency is aware of one individual who meets the bill's criteria. The individual left employment with Harford County in 1992 and did not return until 2008; due to the break in service, the member is neither eligible for a transfer of credit under current law nor a waiver. All of the member's 13 years and 2 months of prior service with EPS was earned before 1998, when EPS was still noncontributory. Therefore, the member is not subject to a reduced retirement allowance since none of the credit was earned after June 30, 2000. However, the member is still subject to the five-year enrollment period to earn the higher LEOPS benefits.

Assuming the member remains employed with the sheriff's office for at least five years, the General Assembly's actuary estimates that actuarial liabilities for PGUs increase by $158,800 because the credit earned under EPS will provide substantially more generous benefits under LEOPS and because employer contributions to cover those liabilities do not transfer. Amortizing those liabilities over 25 years yields an increase in employer contributions of $10,600 in fiscal 2012, which increases slightly each year according to actuarial assumptions. Those increased costs are shared among all PGUs that participate in LEOPS. Pension liabilities and employer contributions decrease for PGUs participating in EPS as the costs are now borne by LEOPS. There is no impact if the member is reemployed for less than five years.

Additional Information

Prior Introductions: None.

Cross File: SB 480 (Senator Robey) - Budget and Taxation.

Information Source(s): Mercer Human Resources Consulting, Maryland State Retirement Agency, Department of Legislative Services

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ncs/rhh

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