

Department of Legislative Services
 Maryland General Assembly
 2020 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 622 (Senator Rosapepe)
 Budget and Taxation

Correctional Officers' Retirement System - Membership

This bill makes specified employees of the Department of Juvenile Services (DJS) members of the Correctional Officers' Retirement System (CORS) as a condition of their employment. It also allows service credit earned in the Employees' Pension System (EPS) to be combined with service credit in CORS for specified individuals and requires service credit to be combined for specified individuals. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: State pension liabilities increase by approximately \$2.4 million and the normal cost increases by approximately \$340,000. Amortizing the increase in liabilities over the remaining years of the 25-year closed amortization and adding the full normal cost results in State pension contributions increasing by \$710,000 in FY 2022. 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 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	426,000	444,000	462,000	480,000
SF Expenditure	0	142,000	148,000	154,000	160,000
FF Expenditure	0	142,000	148,000	154,000	160,000
Net Effect	\$0	(\$710,000)	(\$740,000)	(\$770,000)	(\$800,000)

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 following job classifications on or before June 30, 2020, 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 the Employees' Retirement System (ERS):

- residential group life manager;
- youth center cook or cook lead;
- food service worker or supervisor; or
- maintenance assistant, chief, mechanic, mechanic senior, or supervisor.

Any individual who retires under this provision is entitled to a normal service retirement benefit based on *creditable* service in CORS. Provisions in current law related to the transfer of service credit do not apply to individuals affected by the bill. By January 1, 2021, the State Retirement Agency must notify individuals affected by the bill of their *right* to transfer service from EPS or ERS to CORS.

Individuals affected by the bill who do not have creditable service in EPS before July 1, 2008, must have their service credit in EPS transferred to CORS and combined with future CORS service. If any of these individuals is granted an ordinary disability benefit, the Board of Trustees of the State Retirement and Pension System (SRPS) must calculate and pay the ordinary disability benefit that is greater under either CORS or EPS.

Current Law/Background: 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 the Department of Public Safety and Correctional Services (DPSCS, Chapter 690 of 2017); and
- specified detention center employees of DJS and specified supervisory positions within DPSCS (that had been inadvertently omitted from earlier legislation) (Chapter 579 of 2018).

Although 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 DJS, the bill affects approximately 125 individuals currently employed in the specified positions.

Exhibit 1 shows the 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.

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%	1.82% of AFC

AFC: average final compensation

CORS: Correctional Officers' Retirement System

¹Retiree must have at least 5 years of service.

²Retiree must have at least 10 years of service.

³Retiree 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

Chapter 397 also raised the vesting requirement from 5 to 10 years for all members of SRPS hired on or after July 1, 2011. However, Chapters 608 and 609 of 2012 allow a

member of any SRPS system who was a member on June 30, 2011, and who transfers into another SRPS system on or after July 1, 2011, without a break in employment (of more than 30 days) to be subject to the same requirements for the new system that were in effect on June 30, 2011. For the purposes of this bill, individuals who were members of EPS before July 1, 2011, and who transfer to CORS under the bill, require only 5 years (instead of 10) to vest in CORS. Individuals who joined EPS on or after July 1, 2011, and transfer under the bill will still need 10 years to vest in CORS.

“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 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.

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.

On the liability side, several competing factors affect the fiscal effect of the bill. On the one hand, some service credit in EPS accrued 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. Under the bill, that service credit may 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.

A countervailing factor is the bill's requirement that members vest in CORS (either 5 or 10 years) before they retire with a CORS benefit. This may cause some individuals to remain employed longer than they otherwise would or not to transfer creditable service to CORS. Delayed retirements reduce State pension liabilities because payments are made for fewer years. The exemption from the provision of Title 37 has no fiscal effect because individuals affected by the bill have to wait at least 5 years to vest in CORS before retiring anyway.

The bill's fiscal effect varies depending on the number and demographic characteristics of the current EPS members who elect to transfer prior creditable service in EPS to CORS. If a substantial number of affected employees with lots of creditable service accrued prior to 1998 elect to transfer, the effect is greater because all of that credit is paid at the 1.818% multiplier instead of 1.2%. The bill requires anyone hired since July 1, 2008, to transfer their service credit from EPS to CORS. This includes everyone hired since July 1, 2011, who are currently earning a benefit of 1.5% in EPS, which increases the cost because that service credit is also being paid at the higher 1.818% rate under the bill.

Finally, the analysis assumes that any individual who is within 5 years of retirement under EPS elects *not* to transfer creditable service to CORS but rather elects to retire with an EPS benefit. This is due to the fact that the individual would have to remain in CORS for 5 or 10 years in order to vest and retire with a CORS benefit. Given that the individual is within 5 years of retirement, the actuary assumes that the individual does not elect to work longer but instead chooses to retire with an EPS benefit. Otherwise, the analysis assumes that all other affected individuals for whom data is available elect to transfer creditable service to CORS and retire with a CORS benefit after vesting with either 5 or 10 years of service.

Based on the data provided by DJS, the General Assembly's actuary has determined that 19 of the members affected by this bill are eligible for retirement within 5 years.

The General Assembly's actuary advises that, with these assumptions, State pension liabilities increase by \$2.4 million, and the normal cost increases by \$340,000. State pension liabilities are amortized over the remaining years of a closed 25-year amortization period. Therefore, adding the increased normal cost to the annual amortization payment results in a first-year cost of \$710,000 in fiscal 2022. 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.

For the purposes of this estimate, the actuary calculated the effect of members earning the more generous CORS benefit rather than the EPS benefit and assumed the liabilities are incorporated in the June 30, 2020 valuation. Therefore, the fiscal effect begins in fiscal 2022. However, the full effect of the bill will not be known until affected members who are not required to transfer their service credit notify the system whether they intend to transfer service credit from EPS to CORS. In most cases, they will notify the system after the bill's effective date (they must be told of the opportunity to transfer credit by January 2021), so the transfers will not be recognized until the June 30, 2021 valuation, which determines contribution rates for fiscal 2023. Thus, the actual fiscal impact of the bill will depend on the number of individuals who elect to transfer service credit to CORS and the timing of those transfers and may be less than the actuary's estimate.

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

Individuals with at least 20 years of service credit are not eligible to retire immediately from CORS. The bill specifies that, prior to retiring from CORS, they must be vested in CORS; as they are new members, they must acquire either 5 or 10 years of service credit, depending on when they first joined EPS.

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

Additional Information

Prior Introductions: None.

Designated Cross File: HB 778 (Delegate M. Jackson) - Appropriations.

Information Source(s): Department of Juvenile Services; State Retirement Agency; Bolton; Department of Legislative Services

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