

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 633
Appropriations

(Delegate Cox)

State Retirement and Pension System - Military Service - Purchase of Credit

This bill allows a member of the State Retirement and Pension System (SRPS) who has earned the maximum five years of service credit for prior military service to purchase an additional five years of service credit for prior military service. To purchase the additional credit, the member must pay, in a lump sum at retirement, the full actuarial value (annuity reserve and pension reserve) of the additional service credit. The bill does not apply to SRPS members who are not eligible to claim military service credit for past service because they receive credit for that same service from another retirement system. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: No discernible effect on State pension liabilities or contribution rates, as discussed below; in addition, the purchases authorized by the bill are already allowed under current law. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law:

Military Service Credit

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 (SRA).

However, SRPS members or vested 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.

Full Cost Purchases

Members of SRPS (except for members of the Judges' Retirement System and Legislative Pension Plan) may purchase, at full cost, up to 10 years of service credit for specified past employment, including past employment with the federal government. SRA advises that its legal counsel has determined that past service with the federal government includes military service. Thus, most SRPS members are already eligible to purchase additional credit, at full cost, for past military service.

A full cost purchase means the member pays the full actuarial value of the credit being purchased, including all employee contributions (with interest) and employer contributions that would have been paid for that credit.

Background: SRA advises that it has identified 474 current members who have claimed the 5 years of military service credit and, thus, would be eligible to purchase additional credit under the bill (if they served more than 5 but fewer than 20 years in active service). The Department of Legislative Services (DLS) notes that individuals can claim their military service any time after accruing the required 10 years of SRPS service, including at the time of retirement. Thus, the total number of individuals who may be eligible to purchase the additional credit may be larger. SRA does not know how many current members have prior military service (until they request the credit), so a reliable estimate of the potential number of individuals who are eligible to purchase the additional credit is not feasible. The General Assembly's consulting actuary has identified, based only on their age and SRPS service, almost 22,000 active members who *could* be eligible, but the actual number is likely substantially smaller as most of those individuals likely do not have prior military service.

Retirement benefits are based on a formula that includes years of service, average final compensation, and a statutory benefit multiplier. Compensation levels and benefit multipliers vary tremendously among the different plans within SRPS, so the value of a single year of service also varies tremendously. Thus, the cost to purchase one year of purchased credit varies widely among the different plans. The actuary estimates that the cost to a member to purchase five years of additional credit runs from a low of 120% of current compensation for members of the Teachers' Pension System (TPS) or the Employees' Pension System (EPS) to a high of 210% of current compensation for members of the State Police Retirement System.

State Expenditures: In the absence of reliable information on how many individuals are qualified to purchase additional service credit and how many would choose to do so, a reliable estimate of the bill's effect on State pension liabilities and contributions is not feasible.

Moreover, as the purchases authorized by the bill are full cost purchases, in theory the additional credit should not result in a net change in pension liabilities since the full value of the additional credit is being paid. In practice, the actuary advises that differences in the assumptions used by SRPS to calculate the cost of a purchase and assumptions used to calculate annual pension liabilities and contribution rates often result in a modest actuarial savings to the system for each purchase made (although this can vary by plan and member). Conversely, a purchase of service credit may lead to a member retiring earlier than would otherwise be possible, which generally increases pension liabilities since benefits are being paid over a longer period of time. The net effect of these opposing factors cannot be estimated, but it is assumed to be negligible.

The actuary advises that, on average, a purchase of five years of additional credit results in a first-year net increase of between \$1,600 and \$2,500 per member in State pension contributions for TPS and EPS members, and a net savings of between \$700 and \$4,200 per member for members of the various law enforcement plans. DLS concludes that the bill has no discernible effect on State pension liabilities or contribution rates, given (1) that the purchases authorized by the bill are already allowed under current law; (2) the unlikelihood of members paying more than a year's salary for the additional credit; and (3) the relatively minimal effect on State pension contributions.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - February 26, 2020
mr/vlg

Analysis by: Michael C. Rubenstein

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