

Department of Legislative Services  
 Maryland General Assembly  
 2020 Session

FISCAL AND POLICY NOTE  
 Third Reader

House Bill 588  
 Appropriations

(Delegate M. Jackson)

Budget and Taxation

State Police Retirement System and Law Enforcement Officers' Pension System -  
 Member Contributions

This bill exempts members of the State Police Retirement System (SPRS) and the Law Enforcement Officers' Pension System (LEOPS) from making member contributions when they stop accruing benefits. Specifically, SPRS members stop making contributions when they reach 28 years of service, and LEOPS members stop making contributions when they reach 32 years and 6 months of service. **The bill takes effect July 1, 2020.**

Fiscal Summary

**State Effect:** State pension contributions increase by \$230,000 in FY 2022, and increase annually thereafter according to actuarial assumptions. They are assumed to be allocated 60% general funds, 20% special funds, and 20% federal 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	138,000	156,000	162,000	168,000
SF Expenditure	0	46,000	52,000	54,000	56,000
FF Expenditure	0	46,000	52,000	54,000	56,000
Net Effect	\$0	(\$230,000)	(\$260,000)	(\$270,000)	(\$280,000)

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

**Local Effect:** Local pension contributions increase by \$50,000 in FY 2022, and increase annually thereafter according to actuarial assumptions. Those costs are distributed among approximately 22 participating governmental units (PGUs) in LEOPS. No effect on local revenues.

**Small Business Effect:** None.

## Analysis

### Current Law:

#### *State Police Retirement System*

SPRS is a defined benefit pension plan for sworn members (State Troopers) and cadets of the Department of State Police. Membership in SPRS is a condition of employment for the specified individuals. The member contribution for SPRS is 8% of earnable compensation. Members hired before July 1, 2011, are eligible for a normal service retirement at age 50 or after completing 22 years of service. Members hired on or after July 1, 2011, are eligible for a normal service retirement at age 50 or after completing 25 years of service.

SPRS members earn a normal service retirement benefit equal to 2.55% of their average final compensation (AFC) for each year of service, up to a maximum benefit of 71.4% of AFC. At the current benefit accrual rate, the maximum benefit is earned after 28 years of service. Except for the Secretary of State Police, SPRS members have mandatory retirement at age 60. As of June 30, 2019, SPRS had 1,364 active members with an average age of 36.4 years and an average of 12.1 years of service.

#### *Law Enforcement Officers' Pension System*

LEOPS is a defined benefit pension plan for sworn police officers in specified law enforcement positions in State government; local PGUs can also participate in LEOPS. The member contribution for LEOPS is 7% of earnable compensation. Members are eligible for a normal service retirement at age 50 or after completing 25 years of service.

LEOPS members earn a normal service retirement benefit equal to 2.0% of their AFC for each year of service, up to a maximum benefit of 65% of AFC. At the current benefit accrual rate, the maximum benefit is earned after 32 years and 6 months of service. There is no mandatory retirement age for LEOPS members. As of June 30, 2019, LEOPS had 2,683 active members with an average age of 41.0 years and an average of 10.8 years of service.

Under current law, SPRS and LEOPS members continue to pay member contributions after reaching their respective maximum benefit accrual levels.

**Background:** As of June 30, 2019, the General Assembly's consulting actuary has identified 20 active members in SPRS who have reached the 28-year service threshold, and 23 active members of LEOPS who have reached the 32.5-year of service threshold, including 10 LEOPS members employed by PGUs.

**State Expenditures:** The Department of Legislative Services notes that, although SPRS and LEOPS members who reach 28 years and 32.5 years of service, respectively, no longer accrue years of service toward their retirement benefits, their accrued benefits continue to grow due to subsequent salary increases, which raise their AFC. Therefore, foregone member contributions cause State contributions to increase to make up the difference in the normal cost (the value of benefits earned in a given year). Due to the limited number of affected members, the increase is modest.

The General Assembly's consulting actuary advises that State pension contributions increase beginning in fiscal 2022, as any change in member contributions is first recognized in the actuarial valuation as of June 30, 2020, which determines State contributions for fiscal 2022. State pension contributions increase by \$180,000 for SPRS and by \$50,000 for State members of LEOPS, for a total increase of \$230,000 in fiscal 2022. Those contributions increase annually thereafter according to actuarial assumptions, and they are assumed to be allocated 60% general funds, 20% special funds, and 20% federal and other funds.

The bill is not expected to affect retirement rates for members of SPRS and LEOPS. The prospect of not paying member contributions may cause more members to continue working beyond the threshold years, but any such change is expected to be small and incremental and, thus, is not reflected in this analysis.

This analysis only reflects the costs associated with current members who have already surpassed the respective threshold years in SPRS and LEOPS. To the extent that current and future members of SPRS and LEOPS elect to continue working beyond the threshold years, State pension costs continue to grow in the out-years.

**Local Expenditures:** Among the approximately 22 PGUs that participate in LEOPS, employer contributions increase approximately \$50,000 beginning in fiscal 2022. Those contributions increase annually thereafter according to actuarial assumptions and are distributed proportionally, based on member payroll, among the 22 participating PGUs.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** SB 587 (Senators Griffith and Serafini) - Budget and Taxation.

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

**Fiscal Note History:** First Reader - February 7, 2020  
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Analysis by: Michael C. Rubenstein

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