

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 82

(Senator Mautz)

Budget and Taxation

Appropriations

Correctional Officers' Retirement System – Talbot County

This bill makes Talbot County detention center officers members of the Correctional Officers' Retirement System (CORS) as a condition of employment, subject to Talbot County beginning participation in CORS. Past eligibility and creditable service with Talbot County transfers to CORS for the affected officers, and they are not subject to specified credit transfer provisions in current law. **The bill takes effect June 1, 2023.**

Fiscal Summary

State Effect: None. The bill affects only Talbot County.

Local Effect: Assuming Talbot County elects to participate in CORS and based on an actuarial analysis as of June 30, 2021, its pension liabilities increase by \$918,300, resulting in an annual increase of \$94,000 in Talbot County's employer pension contribution. No discernible effect on pension liabilities or employer contribution rates for other participating governmental units (PGUs) in CORS. No effect on local revenues.

Small Business Effect: None.

Analysis

Bill Summary/Current Law: In general, when a PGU withdraws or transfers from a State pension plan, assets and liabilities credited to the withdrawing members are calculated in a manner specified by statute. If there is a net withdrawal liability, the withdrawing PGU must make regular payments to the State Retirement and Pension System (SRPS) until the liability is paid off. In the case of transfers to another plan, the assets and liabilities from the original plan are transferred to the members' "new" plan, but they are still subject to the same withdrawal asset/liability calculation.

Title 37 of the State Personnel and Pensions Article governs transfers from the Employees' Pension System (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 difference in 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.

Talbot County is currently a PGU in EPS, but the county seeks to transfer its 38 detention center officers from EPS to CORS. **Exhibit 1** shows the benefit structures for both plans.

Exhibit 1
Pension Plan Provisions

	Employees' Pension System		CORS
	<u>Hired Before July 1, 2011</u>	<u>Hired After June 30, 2011</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

¹ Retiree must have at least 5 years of service.

² Retiree must have at least 10 years of service.

³ Retiree 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

As Exhibit 1 shows, the member contribution rate for EPS was less than the CORS rate of 5% prior to fiscal 2009. Thus, under Title 37, an employee of the Talbot County detention center would have to pay the difference in contribution rates for any prior service credit in EPS before fiscal 2009, with interest. However, the bill exempts them from that requirement.

Local Expenditures: Typically, when a PGU is considering transferring personnel from one State plan to another State plan, it requests that the State Retirement Agency (SRA) conduct an actuarial valuation to determine the costs or benefits associated with the transfer. For a prior version of this bill, Talbot County requested an actuarial valuation of the cost of transferring its detention center officers from EPS to CORS. That analysis was conducted as of June 30, 2021, but the legislation did not pass. However, Talbot County has not requested, and SRA has not conducted, an updated valuation, which would be based on data from June 30, 2022; therefore, this analysis relies on the earlier analysis as of June 30, 2021. To the extent that circumstances (*e.g.*, the demographics of the affected employees or underlying economic conditions) have changed in the intervening year, the fiscal effect may differ from this analysis.

As transferring members are not required to pay the difference in member contribution rates, Talbot County assumes any additional liability from the lack of payment. Assuming Talbot County elects to participate in CORS and based on the withdrawal and new entrant liability calculations by the SRPS actuary as noted above, Talbot County pension liabilities increase by \$918,324, resulting in an annual withdrawal and new entrant liability payment of \$94,000 for 25 years.

The CORS municipal pool is small, so the addition of Talbot County's 38 detention officers increases the size of the pool by 28%, which alters the demographic composition of the group. As a result, unfunded liabilities for the pool actually shrink by \$81,000. This decrease is negligible and has no discernible effect on pension contribution rates for other members of the CORS municipal pool.

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See HB 1476 and SB 997 of 2022.

Designated Cross File: HB 10 (Delegate Adams) - Appropriations.

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

Fiscal Note History: First Reader - January 16, 2023
km/ljm Third Reader - March 14, 2023

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