

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 163
Appropriations

(Delegate Otto)

Budget and Taxation

Law Enforcement Officers' Pension System - Crisfield Police Department

This bill requires, if the Crisfield Police Department becomes a participating governmental unit (PGU) in the Law Enforcement Officers' Pensions System (LEOPS), that membership in LEOPS be mandatory for all current law enforcement officers employed by the Crisfield Police Department. It further entitles current Crisfield law enforcement officers to eligibility and creditable service in LEOPS for their prior service in the Crisfield Police Department. The bill also specifies the provisions in current law that govern the transfer of credit from the Employees' Pension System (EPS) to LEOPS for affected members. **The bill takes effect June 1, 2023.**

Fiscal Summary

State Effect: None. The bill affects only PGUs.

Local Effect: Contingent on the City of Crisfield electing to participate in LEOPS as a PGU, pension liabilities for the City of Crisfield increase by \$1.0 million, and total employer contributions increase by \$120,700, as of the city's decision to join LEOPS. No material effect on pension liabilities or employer contributions for other LEOPS PGUs. No effect on local revenues.

Small Business Effect: None.

Analysis

Bill Summary/Current Law: LEOPS was established on July 1, 1990, with participation a condition of employment for specified public safety officers. Members of LEOPS earn 2.0% of their average final compensation (AFC) for each year of creditable service. Vested

members qualify for a normal service retirement benefit at age 50 or with at least 25 years of creditable service. However, the normal service allowance is capped at 65% of AFC, meaning that members stop accruing benefits after 32.5 years of service ($2\% \times 32.5 = 65\%$). Chapter 784 of 2018 increased the cap on LEOPS normal service retirement from 60% to 65% of AFC.

Counties and municipal corporations in the State are eligible to participate in LEOPS as PGUs. If 60% of the law enforcement officers in an eligible governmental unit petition to become members of LEOPS, the legislative body of the eligible local government may approve their participation.

Title 37 of the State Personnel and Pensions Article governs the conditions under which members of one State or local pension system can transfer service credit to another State or local pension system. 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 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. As the City of Crisfield participates in the noncontributory benefit within EPS, participating members have not made any member contributions for their time in EPS. Under Title 37, they would have to make payments equivalent to 7% of their compensation for every year of past service, plus interest.

However, the bill exempts the transfer of service for Crisfield law enforcement officers from Title 37, so the individuals who are transferring credit do not have to make up the difference between employee contributions for their past service. Instead, the Crisfield Police Department is responsible for making up the difference through annual liability payments to LEOPS. The Department of Legislative Services notes that normally a PGU does not require authorizing legislation to join LEOPS; however, Crisfield requires State legislation in order to exempt its members from Title 37.

Local Expenditures: The City of Crisfield currently participates as a PGU in the noncontributory EPS benefit for its employees, including law enforcement officers. If Crisfield elects to allow the Crisfield Police Department to become a LEOPS PGU, the State Retirement Agency advises that eight law enforcement officers with a covered payroll of \$407,861 from the Crisfield Police Department are eligible for the transfer of membership and service credit under the bill. The employer contribution rate increases from 7.79% pay in EPS to 36.91% in LEOPS. Therefore, Crisfield’s annual employer contribution initially increases by \$118,769 each year.

In addition, the eight officers account for \$380,989 in accrued pension liabilities under EPS but are projected to account for \$1.4 million in liabilities after transferring to LEOPS. As a result, total pension liabilities for Crisfield increase by \$1.0 million. The unfunded portion of those liabilities is amortized, resulting in an annual “new entrant liability” payment of \$1,888, which is added to the annual employer contribution discussed above. Therefore, Crisfield’s total employer contribution increases by approximately \$120,700 annually. Any increase in employer contributions would begin upon the election to join LEOPS.

Based on the actuarial analysis conducted by the system’s actuary, total employer liabilities within the municipal LEOPS pool increase only marginally, resulting in no discernible increase in employer contributions for other PGUs already in LEOPS.

Additional Comments: If the Crisfield Police Department becomes a LEOPS PGU, participating members will contribute 7% of their compensation annually, compared with not making any member contributions under the noncontributory EPS benefit.

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See SB 958 and HB 1445 of 2022.

Designated Cross File: SB 68 (Senator Carozza) - Budget and Taxation.

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

Fiscal Note History: First Reader - January 17, 2023
js/ljm Third Reader - March 20, 2023

Analysis by: Michael C. Rubenstein

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