

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 981
Appropriations

(Allegany County Delegation)

Correctional Officers' Retirement System - Membership

This bill makes all current and future employees of the Department of Public Safety and Correctional Services (DPSCS) serving in specified positions members of the Correctional Officers' Retirement System (CORS) as a condition of their employment. An individual who is in one of the specified positions on or before June 30, 2017, 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 the Employees' Pension System (EPS) or Employees' Retirement System (ERS). Any such individual who retires under this provision is entitled to a normal service retirement benefit based on *creditable* service in CORS. By October 1, 2017, the State Retirement Agency must notify individuals affected by the bill of their *right* to transfer *creditable* service from EPS or ERS to CORS (there is *no requirement* in the bill to transfer creditable service).

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: Based on the assumptions described below, State pension liabilities increase by \$3.2 million and the normal cost increases by \$310,000. Amortizing the increase in liabilities over the remaining years in the closed 25-year amortization period and adding the normal cost result in first-year State pension contributions increasing by \$580,000 in FY 2019; out-year expenditures increase according to actuarial assumptions, and costs are assumed to be allocated 60% general funds, 20% special funds, and 20% federal/other funds. No effect on revenues.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	348,000	372,000	402,000	438,000
SF Expenditure	0	116,000	124,000	134,000	146,000
FF Expenditure	0	116,000	124,000	134,000	146,000
Net Effect	\$0	(\$580,000)	(\$620,000)	(\$670,000)	(\$730,000)

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: The bill applies to employees of DPSCS who are in the following positions:

- alcohol and drug associate counselor, counselor lead, counselor provisional, or counselor supervisor;
- alcohol and drug professional counselor, counselor provisional, or counselor supervisor;
- alcohol and drug supervised counselor or counselor provisional;
- mental health professional counselor, graduate professional counselor, professional counselor advanced, or professional counselor supervisor;
- psychologist, psychology associate, or psychology associate doctorate; or
- social worker, social worker advanced, social worker supervisor, or social work regional supervisor.

Current Law/Background: Eligibility for CORS membership is limited to (1) correctional officers in the first six job classifications; (2) security attendants at the Clifton T. Perkins Hospital Center; (3) correctional dietary, maintenance, supply, and laundry officers; (4) designated employees of Maryland Correctional Enterprises; (5) certain local detention center officers; (6) specified correctional officers serving as security chiefs, facility administrators, assistant wardens, or wardens; and (7) correctional case management specialists, supervisors, or managers.

It is assumed that all current individuals affected by the bill participate only in EPS (rather than ERS, which was closed to new members in 1980); **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.

“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.

**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

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
HB 981/ Page 3

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 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. Only after five years can benefits be paid for the transferred credit in accordance with the benefit formula in 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.

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.

Chapter 340 of 2006 included 647 correctional dietary, maintenance, and supply workers in CORS. Chapters 408 and 409 of 2008 added correctional laundry workers and designated employees of Maryland Correctional Enterprises. Chapters 218 and 219 of 2016 added correctional case management specialists, supervisors, and managers.

DPSCS advises that the bill affects 96 current employees in the specified positions.

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 if the affected individuals elect to 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 requirement in current law that individuals remain in CORS for at least 5 years before retiring in order to earn the CORS benefits, and the bill's requirement that they vest in CORS (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 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%. Similarly, if a substantial number of recent hires, currently earning a benefit of 1.5% in EPS, elect to transfer service credit, the cost also is higher.

DPSCS provided age, service, salary, and gender information for the affected positions. In some cases, salary data was provided for job titles and was applied to appropriate individuals in those job titles.

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 at least 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 10 years of service. Those individuals also have to reconcile any contribution deficiency under Title 37 resulting from the transfer.

The General Assembly's actuary advises that, with these assumptions, State pension liabilities increase by \$3.2 million, and the normal cost increases by \$310,000. State pension liabilities are amortized over the remaining years of a closed 25-year amortization period. These costs would first be recognized in the June 30, 2017 valuation, which determines State pension contributions for fiscal 2019. Therefore, adding the increased normal cost to the annual amortization payment results in a first-year cost of \$580,000 in fiscal 2019. 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.

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 10 years of service credit.

Additional Information

Prior Introductions: None.

Cross File: SB 664 (Senators Edwards and Serafini) - Budget and Taxation.

Information Source(s): Bolton Partners; Department of Public Safety and Correctional Services; State Retirement Agency; Department of Legislative Services

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