

Department of Legislative Services
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FISCAL AND POLICY NOTE
Revised

Senate Bill 425

(Senator Peters)

Budget and Taxation

Appropriations

State Retirement and Pension System - Military Service Credit - Eligibility

This bill reduces from 10 to 7 the number of years of creditable service that a member or vested former member of the State Retirement and Pension System (SRPS) needs to claim credit for military service that preceded membership in SRPS.

The bill is effective July 1, 2008.

Fiscal Summary

State Effect: Total State pension liabilities increase by an estimated \$3.4 million. Amortizing those liabilities over 25 years yields a first year cost of \$230,000 beginning in FY 2010. Those costs grow annually according to actuarial assumptions and are assumed to be divided 60% general funds, 20% special funds, and 20% federal funds.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	138,000	149,400	161,400	174,600
SF Expenditure	0	46,000	49,800	53,800	58,200
FF Expenditure	0	46,000	49,800	53,800	58,200
Net Effect	\$0	(\$230,000)	(\$249,000)	(\$269,000)	(\$291,000)

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

Local Effect: Total pension liabilities for participating governmental units (PGUs) increase by \$484,000, with a first year amortized cost of \$32,000 in FY 2010. That cost is expected to grow annually according to actuarial assumptions.

Small Business Effect: None.

Analysis

Current Law: Any member or vested former member of the State Retirement and Pension System who accrues 10 years of creditable service may receive one year of additional service credit for each year of active military duty performed prior to membership in SRPS, up to a maximum of five years.

However, members or vested former 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 under:

- Social Security; or
- the National Railroad Retirement Act; or
- Title 3 or Title 10 of the U.S. Code (National Guard and Reserve pensions).

Members or vested former members who received military service credit for disability benefits from any pension or retirement system may also claim military service credit from SRPS.

Background: Prior to July 1, 2006, only active SRPS members with at least 10 years of creditable service were eligible to receive one year of service credit for each year of military service performed prior to State service, up to five years. Moreover, military service credit given to members was applied to their retirement allowance at the accrual rate in effect at the time they claimed the credit. Many eligible members, on the advice of SRPS counselors, claimed the credit as soon as they were eligible (*i.e.*, upon attaining 10 years of creditable service) so they would not forget to claim it at the time of their retirement or departure from State service, which would likely occur many years later. However, members who claimed their credit prior to the 1998 or 2006 benefit enhancements received a lower accrual rate for their military service credit than if they had waited to claim that credit at the time of their retirement.

Chapter 277 of 2006 allows vested former members who have not claimed their military service credit prior to leaving State service to claim military service credit, provided they had the required 10 years of creditable service. The State Retirement Agency (SRA) reports that only about 20 vested former members have claimed military service credit since the enactment of Chapter 277. The law also requires, beginning October 1, 2006, that military service credit granted to members and vested former members be applied to their retirement allowance at the accrual rate in effect at the time of their retirement. Because of the 2006 benefit enhancement, this provision of Chapter 277 caused State

pension liabilities to increase by \$21.6 million and State pension contributions to increase by \$1.3 million beginning in fiscal 2008.

State Fiscal Effect: SRA has no way of knowing whether a member is eligible for military service credit for service that preceded membership in SRPS until the member files a request for the credit upon reaching 10 years of service. Therefore, there is no definitive way to determine how many SRPS members with fewer than 10 years of service are eligible for military service credit. SRA reports that 4,257 active and vested former members have claimed military service credit, which represents approximately 5% of active and former vested members who have at least 10 years of service. Eligible members claim an average of two years of service credit for military service that preceded SRPS membership.

The bulk of this bill's fiscal impact stems from the additional service credit that will be claimed by members who are eligible for military service credit and who leave SRPS with at least 7 but fewer than 10 years of service credit. These individuals will now be eligible to claim up to five years of service credit for which they otherwise would not have been eligible.

The actuarial assumptions regarding employee turnover were just updated for the June 30, 2007 actuarial valuation based on actual experience within the various SRPS plans. Applying those turnover assumptions to current SRPS membership, and the assumption that at least 5% of members and vested former members are eligible for military service credit, the DLS actuary estimates that approximately 36 members each year will reach 7 years of service, claim military service credit, and terminate with fewer than 10 years of service. This analysis also assumes that, on average, these individuals will claim two years of military service credit.

For State employees in that group, the actuary estimates that State pension liabilities will increase by \$3,445,000. Amortizing those liabilities over 25 years yields a first year cost of \$230,000 in fiscal 2010. That cost grows annually according to actuarial assumptions, and is assumed to be divided 60% general funds, 20% special funds, and 20% federal funds.

Additional liabilities could be incurred to the extent that members who are eligible for military service credit and who are near retirement age, but have fewer than 10 years of service, may choose to retire sooner than they had planned after claiming their credit. These costs are expected to be minimal and have not been quantified.

Local Fiscal Effect: For employees of participating governmental units (PGUs), the actuary estimates that local pension liabilities increase by \$484,000. Amortizing that

liability over 25 years yields a first year cost of \$32,000 spread across more than 100 PGUs. Those costs increase annually according to actuarial assumptions.

Additional Information

Prior Introductions: A similar bill, HB 170 of 2007, was heard by the House Committee on Appropriations but no further action was taken.

Cross File: HB 175 (Delegate Aumann, *et al.*) – Appropriations.

Information Source(s): Mercer Human Resources Consulting, Maryland State Retirement Agency, Department of Legislative Services

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Analysis by: Michael C. Rubenstein

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