

Department of Legislative Services
Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 276

(Senator McKay)

Budget and Taxation

Appropriations

Law Enforcement Officers' Pension System - Frostburg City Police Department

This bill requires, if the Frostburg City 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 Frostburg City Police Department. It further entitles current City of Frostburg law enforcement officers to eligibility and creditable service in LEOPS for their prior service in the Frostburg City 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 the City of Frostburg.

Local Effect: Contingent on the City of Frostburg electing to participate in LEOPS as a PGU, total employer contributions increase by \$130,300 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. The member contribution is 7% of earnable compensation.

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 Frostburg participates in the contributory benefit within EPS, participating members have contributed 2% of their compensation for their time in EPS. Under Title 37, they would have to make payments equivalent to 5% of their compensation for every year of past service (the difference between 2% under EPS and 7% under LEOPS), plus interest.

However, the bill exempts the transfer of service for the City of Frostburg’s 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 Frostburg City 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, the City of Frostburg requires State legislation in order to exempt its members from Title 37.

Local Expenditures: The City of Frostburg currently participates as a PGU in the contributory EPS benefit for its employees, including law enforcement officers. If the city elects to allow the Frostburg City Police Department to become a LEOPS PGU, the State Retirement Agency advises that 12 law enforcement officers with a covered payroll of \$576,008 from the Frostburg City Police Department are eligible for the transfer of membership and service credit under the bill. The employer contribution rate increases from 8.89% of pay in EPS to 36.91% in LEOPS. Therefore, the City of Frostburg’s annual employer contribution initially increases by \$161,397 each year.

However, the withdrawal of 12 officers from EPS results in an actuarial credit for the City of Frostburg. This credit is determined by comparing the unfunded accrued liability of the withdrawing officers from EPS with the value of that unfunded accrued liability in LEOPS after accounting for a transfer of assets between the two plans. The system's actuary advises that this calculation results in a new entrant credit of \$381,852. That credit is amortized over 25 years, resulting in an annual new entrant credit of \$31,138, which is subtracted from the annual employer contribution discussed above. Therefore, the city's total employer contribution increases by approximately \$130,259 annually. Any increase in employer contributions would begin upon the election to join LEOPS and increase thereafter according to actuarial assumptions.

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

Additional Comments: If the Frostburg City Police Department becomes a LEOPS PGU, participating members will contribute 7% of their compensation annually, compared with 2% for the contributory EPS benefit.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 792 (Delegates Buckel and Hinebaugh) - Appropriations.

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

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