Economic Impact Statement

Montgomery County, Maryland

Expedited Bill 19-23 — Department of Police – Pension and DRSP Adjustments

SUMMARY

The Office of Legislative Oversight (OLO) anticipates Expedited Bill 19-23 would have a moderate negative impact on economic conditions in the County in terms of the Council's priority indicators. By modifying the eligibility for the Discontinued Retirement Service Plan, pension multipliers, and Social Security integrate age for Group F members, the Bill would increase the actuarial value of income for current and future Montgomery County sworn police officers who participate in the Employees' Retirement System. Based on rates of County residence among retired police officers, approximately half of the income increase likely would go to residents. The remainder would constitute significant capital outflows in the form of government revenue used to fund pension increases for retired police officers who would reside outside the County. Capital outflows would result in forgone economic activity that would negatively impact residents and private organizations. Moreover, capital outflows caused by the policy change would occur indefinitely if current rates of County residence among retired police officers continue. Because there are no indications current residence patterns among current and retired police officers will drastically change, OLO believes the negative impacts of the Bill would be significant in the long term.

BACKGROUND AND PURPOSE OF EXPEDITED BILL 19-23

The Discontinued Retirement Service Plan (DRSP) is a voluntary program in the Montgomery County Employees' Retirement System that allows an employee to collect monthly retirement pension payments in an investment account while actively employed for up to three years. Currently, any sworn police officers in Group F who is at least 46 years old and has at least 25 years of credited service may participate in the DRSP. [1]

The goal of Expedited Bill 19-23 is to implement provisions in the Collective Bargaining Agreement that were negotiated between the County Executive and the Fraternal Order of Police, Lodge 35, Inc. The Bill seeks to do so by making the changes to the County Code regarding retirement plans for sworn police officers in Group F.

If enacted, the Bill would make the following changes to the retirement plans:

- Amend the Discontinued Retirement Service Plan to replace the age and length of service eligibility requirements with eligibility based upon the employee's normal retirement date;
- Amend Group F pension multipliers for the Integrated Retirement Plan which would increase the maximum benefit from 86.4% to 86.6% and increase the value at 25 years of service from 60% to 65%; and

[1] Summary Description for Sworn Police Personnel in Retirement Group F.

- Adjust the Social Security integration age.[2]

To estimate the Bill's fiscal impact to the Montgomery County Employee's Retirement System, GRS performed an actuarial analysis, which is summarized in the Office of Management and Budget's Fiscal Impact Statement. See **Table 1** for the annual and total fiscal impacts of the Bill.

Table 1. Estimated Fiscal Impacts of Expedited Bill 19-23

Retirement Change	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	Total
DRSP Eligibility	$120,327	$123,937	$127,654	$131,485	$135,429	$135,429	$774,261
SS Integration Age	$1,220,578	$1,257,196	$1,294,911	$1,333,759	$1,373,771	$1,373,771	$7,853,986
Pension Multiplier	$0	$1,440,820	$2,968,089	$3,057,130	$3,148,845	$3,243,310	$13,858,194
Total	**$1,340,905**	**$2,821,953**	**$4,390,654**	**$4,522,374**	**$4,658,045**	**$4,752,510**	**$22,486,441**

Data Source: Office of Management and Budget

The Council introduced Expedited Bill 19-23, Department of Police – Pension and DRSP Adjustments, on behalf of the County Executive on April 11, 2023.

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess, both, the impacts of Expedited Bill 19-23 on residents and private organizations in terms of the Council's priority economic indicators and whether the Bill would have a net positive or negative impact on overall economic conditions in the County.[3]

In this statement, OLO estimates how much of the pension increase likely would go to resident and nonresident households. The amount that would likely go to nonresident households represents the magnitude of the capital outflow.

Because OLO does not know how County revenues used to fund the pension increases would otherwise be used in the absence of enacting the Bill, OLO limits the scope of the analysis to the economic impacts of increased pension payments. That is, this analysis does not account for the economic impacts of alternative government spending in the amount of the capital outflow.

The analysis here draws on the following sources of information:

- OMB's Fiscal Impact Statement for Expedited Bill 19-23; and
- Data on the residence of active and retired Montgomery County Police Department (MCPD) employees provided by the Office of Human Resources (OHR).

[2] Introduction Staff Report for Expedited Bill 19-23.
[3] Montgomery County Code, Sec. 2-81B.

VARIABLES

The primary variables that would affect the economic impacts of enacting Expedited Bill 19-23 are the following:

- total annual pension payments; and
- place of residence.

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Residents

OLO anticipates Expedited Bill 19-23 would have overall negative impacts on County residents in terms of the Council's priority economic indicators.

Resident MCPD Employees

The Bill would primarily benefit current and future sworn police officers in Group F. By modifying the eligibility for the Discontinued Retirement Service Plan, pension multipliers, and Social Security integrate age for Group F members, Montgomery County sworn police officers who participate in the Montgomery County Employees' Retirement System would receive an increase in the actuarial value of income during their future retirement.

Importantly, the Bill's impacts to County residents (as well as businesses) largely would depend on how many affected police officers *reside within the County*. Data provided by the Office of Human Resources (OHR) on the residence of *active* and *retired* County employees as of May 2022 indicate that 55% of both active and retired MCPD personnel reside in the County. See **Table 2**.

Thus, OLO anticipates approximately half of the total income increase would positively impact County residents.

Table 2. Place of Residence for Active and Retired MCPD Personnel as of May 2022

	Montgomery, MD	Other Jurisdictions
Active MCPD Personnel	983	817
	55%	45%
Retired MCPD Personnel and Beneficiaries	94	76
	55%	45%

Data Source: Office of Human Resources

Capital Outflow

While County-based MCPD retirees would benefit from the Bill, OLO believes its overall economic impact on residents would be negative because it likely would result in a significant capital outflow in the form of government revenue flowing out of the County to nonresident households.

Table 3 presents estimates of the amount of County contributions that would go towards resident and nonresident pension earnings, based on the Bill's estimated fiscal impact estimates and the rate of residence among retired MCPD personnel. (See Tables 1 and 2.) As shown below, OLO estimates that the pension increase would be $12.4 million for residents and $10.1 million for nonresidents over the next six fiscal years.

Table 3. County Contributions by Residence

	County Contributions	Residents 55%	Nonresidents 45%	Difference
FY2024	$1,340,905	$737,498	$603,407	$134,091
FY2025	$2,821,953	$1,552,074	$1,269,879	$282,195
FY2026	$4,390,654	$2,414,860	$1,975,794	$439,065
FY2027	$4,522,374	$2,487,306	$2,035,068	$452,237
FY2028	$4,658,045	$2,561,925	$2,096,120	$465,805
FY2029	$4,752,510	$2,613,881	$2,138,630	$475,251
Six-Year Total	**$22,486,441**	**$12,367,543**	**$10,118,898**	**$2,248,644**

Data Sources: Office of Management and Budget; Office of Human Resources

In sum, the Bill would increase pension earnings for MCPD retirees who would reside in the County during retirement. However, given the magnitude of the capital outflow, the Bill would result in forgone economic activity that would negatively impact residents in terms of the Council's priority economic indicators.

Businesses, Non-Profits, Other Private Organizations

OLO anticipates enacting Expedited Bill 19-23 would have mixed, yet overall negative, impacts on private organizations in the County. Higher pension payments to residents likely would increase household spending on goods and services, benefiting certain County-based businesses. However, as indicated in **Table 3**, the Bill would result in significant capital outflows, which would result in forgone economic activity that would negatively impact private organizations in terms of the Council's priority economic indicators.

Net Impact

In sum, based on the rates of County residence among currently retired and active MCPD personnel, Expedited Bill 19-23 likely would generate significant capital outflows in the form of government revenue used to fund pension increases for retired MCFRS employees who would reside outside the County. Capital outflows would result in forgone economic activity that would negatively impact residents and private organizations in terms of the Council's priority economic indicators. Moreover, if rates of County residence among MCPD retirees continue, capital outflows caused by the change in the pension plan would occur indefinitely. OLO sees no indication current residence patterns among MCPD employees and retirees will drastically change. Therefore, OLO believes the negative impacts of the Bill would be significant in the long term.

DISCUSSION ITEMS

Not applicable

WORKS CITED

Montgomery County Code. Sec. 2-81B, Economic Impact Statements.

Montgomery County Council. Introduction Staff Report for Expedited Bill 19-23, Department of Police – Pension and DRSP Adjustments. Introduced on April 11, 2023.

Summary Description for Sworn Police Officers in Retirement Group F. July 2015. Montgomery County Employee Retirement Plans.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the Bill under consideration.

AUTHOR

Stephen Roblin (OLO) prepared this report.