HB 456

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 456 (Delegate Cadden)
Appropriations

Retirement and Pensions - Retirement Allowances

This pension bill establishes an early retirement incentive plan for State employee members of the employees' retirement (ERS) and pension systems (EPS). Members with at least 25 years of service who are age 50 or over may elect, between July 2 and August 31, 1996, to retire October 1, 1996 and receive two additional months of credit for each year of creditable service. The additional service credit provided as an incentive can be used in determining retirement eligibility. The increase in the State's actuarial liability resulting from this incentive plan will be amortized over five years (beginning in fiscal 1998). The Department of Budget and Fiscal Planning must eliminate at least 60% of the vacated positions by November 1, 1996, except as discussed below.

The bill provides for the delayed early retirement of those eligible members who work in units of State government which have more than 5% of their eligible workforce eligible to participate in this early retirement incentive plan.

The first $10 million in salary savings resulting from eliminating these positions would be credited to the general fund, the next $2 million would go to the Sunny Day Fund, the next $3 million would go to the general fund, and any remaining savings would go to the Rainy Day Fund.

Fiscal Summary

State Effect: Significant personnel expenditure decrease beginning in FY 1997 and significant retirement expenditure increase beginning in FY 1998, both as discussed below. One-time special fund administrative expenditure increase of $197,000 in FY 1997. Revenues would not be affected.

Local Effect: None.

Fiscal Analysis

State Expenditures: There are three significant areas of fiscal impact: (1) salary savings; (2) retirement costs; and (3) administrative costs.

Salary Savings

The bill provides that 60% of the retiring members positions be abolished from the State budget. Salary savings would result from the elimination of positions included in the budget. The salary savings estimates set forth in **Exhibit 1** are based on the following assumptions: (1) the average salary of eligible members of the retirement system is $37,500 and the average salary of eligible members of the pension system is $34,600; (2) fringe benefits at the rate of 18% of salary; (3) an annual health insurance subsidy of $3,926; (4) retiring employees have 45 days of unused annual leave, or $7,314; and (5) on average, all abolished positions will be vacant for eight months in fiscal 1997. Based on these assumptions, each abolished position would result in a savings of $23,475 in fiscal 1997 and $46,184 on an annualized basis.

Retirement Costs

The State's actuary estimates that the retirement incentive provided in the bill (two months of additional service credit for each year of service) would increase the actuarial liabilities of the systems at the rate of $81.4 million for each 1,000 members receiving the benefit. The bill requires that the actuarial liabilities created by the incentives be amortized and funded over five years. Thus, first year annual retirement contributions would increase by $17.1 million per 1,000 members. These costs would increase by 5% each year until the liability is fully funded.

The State's actuary has identified 4,507 members of the employees' systems who will be at least age 50 and have at least 25 years of service as of July 2, 1996 (ERS - 1,883/ EPS - 2,624). **Exhibit 1** below presents the estimated salary savings and actuarial costs for fiscal 1997 and on an annualized basis assuming that 40%, 50%, or 60% of the eligible members would elect to retire and receive the bill's incentives.

Exhibit 1
($ in millions)

	FY 1997		FY 1998 - 2001		
Participation Rate	Positions Abolished	Salary Savings	Annual Salary Savings	Annual Retirement Costs	Net Annual Savings
40%	1,082	25.4	50.0	30.9	19.1
50%	1,350	31.7	62.4	38.6	23.8
60%	1,620	38.0	74.8	46.3	28.5

Administrative Costs

Eleven contractual employees at a cost of approximately $140,000 would be needed to implement the provisions of this bill. An additional $57,000 in operating expenses would be needed, as follows: (1) overtime - $20,000; (2) data processing - $10,000; (3) postage and communications material - $15,000; (4) actuarial services - $10,000; and (5) counseling meetings - $2,000. Thus, retirement agency expenditures could increase by an estimated $197,000 in fiscal 1997 only to implement the early retirement incentive proposal offered in this bill.

Additional Comments: The Department of Fiscal Services advises that approximately 1,500 members of the employees' retirement and pension systems will retire in fiscal 1997 under current law. Fiscal Services further advises that the estimated salary savings are dependent upon the abolishment of positions with average salaries from $34,600 to $37,500. If the positions abolished by the Governor have salaries below this level, realized salary savings could be greatly reduced. Further, this estimate does not include any adjustment to reflect promotions or salary increases for other employees that result from employees retiring as a result of this bill. Finally, long-term salary savings are dependent upon a permanent reduction in the size of the State workforce. If additional positions are created in the future as a result of this downsizing, salary savings would be significantly reduced.

Information Source(s): Milliman and Robertson, Inc.; Maryland State Retirement Agency; Department of Fiscal Services

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