HB 1064

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 1064 (Chairman, Appropriations Committee)
(Departmental - University of Maryland System)
Appropriations

University of Maryland System Workforce Flexibility Act

This departmental bill establishes an early retirement incentive plan for certain State employees of the University of Maryland System (UMS). The bill applies to UMS members of the Employees' Retirement System, the Employees' Pension System (together, the employees' systems), the Teachers' Retirement System, and the Teachers' Pension System (together, the teachers' systems). The proposal would not include teachers in the Optional Retirement Program (ORP). The bill is effective June 1, 1997.

Fiscal Summary

State Effect: General fund expenditures to UMS would increase by approximately $1.2 million in FY 1998 due to administrative costs and leave payout, then increase by approximately $1.6 million in FY 1999 due to actuarial costs offset somewhat by salary savings from abolished employees positions. Out-year expenditures reflect projected increases in actuarial costs. Revenues would not be affected. Indeterminate net effect on expenditures by UMS, due to indeterminate salary savings.

(in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$0.0	$0.0	$0.0	$0.0	$0.0
GF Expenditures	1.2	1.6	2.0	2.4	2.9
Net Effect	($1.2)	($1.6)	($2.0)	($2.4)	($2.9)

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

Local Effect: None.

Small Business Effect: UMS has determined that this bill has minimal or no impact on small businesses (attached). Fiscal Services agrees with this assessment.

Fiscal Analysis

Bill Summary: Employees' systems members as of January 1, 1997 who are UMS employees on June 1, 1997 are eligible if they have 30 years of creditable service, or 25 years of such service and they are at least 50 years old, or if they are otherwise eligible to retire on or before June 30, 1998. These are generally the same eligibility criteria as under last year's early retirement incentive program for State employees (SB 1, Chapter 353 of the Acts of 1996). Employees' systems members may apply for the early retirement incentive plan between July 1, 1997 through August 29, 1997.

Teachers' systems members as of January 1, 1997 who are UMS employees on June 1, 1997, however, must have at least 25 years of creditable service and be at least 60 years old, or otherwise be eligible to retire. Teachers' systems members would have a window from July 1, 1997 through September 30, 1997 to apply for early retirement. An application to take early retirement would be irrevocable, with exceptions.

Employees' systems applicants would retire on October 1, 1997. Teachers' systems applicants would retire on July 1, 1998. Up to 50% of teachers' systems members at each UMS institution could be deferred until as late as June 30, 1999. Members who participate would receive one month of additional service credit for each year of creditable service. Up to 18% (three years) of the reduction for early retirement would be eliminated.

The proposal would abolish 60% of the number of positions vacated by employees' systems members. Savings in salaries and fringe benefits must equal at least the sum of the percentages of the salary and fringe benefits which is provided by State appropriation for each employee vacated position. These salary savings -- less the accumulated annual leave payout, which would be paid by the State -- constitutes "net salary savings." UMS's general fund appropriation will be reduced by such net salary savings.

No more than 2% of employees' systems members may be reemployed in a contractual or temporary position in any branch of State government; any reemployment by an employees' systems member requires Board of Public Works approval. There are no reemployment restrictions on teachers' systems retirees.

Any increased liability will be funded over five years beginning July 1 of the year after the retirements. UMS would have the option to pay the liability in less than five years if it chose.

State Expenditures: The Retirement Agency has identified 2,420 UMS personnel who are eligible for the early retirement incentive plan. Under SB 1 of 1996, 50.5% of eligible retirement system members elected to retire early, while only 19.4% of eligible pension system members elected. Based on these participation rates, it is estimated that 809 people will elect to participate, as illustrated below:

	Eligible	Est. Participation	Average Salary
Teachers' Retirement System	676	341	$70,304
Teachers' Pension System	497	96	$58,453
Employees' Retirement System	417	211	$38,206
Employees' Pension System	830	161	$33,018
Total	2420	809	

No teachers' systems positions would be abolished under the bill. Sixty percent of employees' systems positions, or 223 positions, would be abolished. There are three significant areas of fiscal impact: (1) salary savings; (2) retirement costs; and (3) administrative costs.

"Salary Savings"

Sixty percent of the vacated positions (223 positions) must be abolished. The bill provides that UMS's general fund allocation will be reduced by the "net salary savings," which is defined as the savings, if any, that result from the reduced salary and fringe benefit costs of the 223 abolished employees' systems positions (but which may not be less than the share of the total savings that is associated with State general funds of the 372 vacated positions), less the accumulated leave payout (which is to be paid by the State for all retirees).

Salary costs for the retiring employees are estimated at $23.3 million. After accounting for an average 3.5 months of employment prior to retirement, fiscal 1998 salary savings are estimated at $16.5 million. Sixty percent of these savings -- which must be recouped under the bill -- equals $9.9 million.

It is estimated that State general funds account for approximately 48% of UMS's education and general expenditures. Under the bill, the State would be entitled to 48% of the mandated fiscal 1998 savings, or $4.8 million. The State, however, would pay the accumulated leave to all retirees, including teachers' systems members (whose positions would not be abolished.) Based on the actual costs of SB 1 of 1996, this cost is estimated to be $6,800 per person, for a total of $5.5 million. The "net salary savings," based on these assumptions, would result in a net expenditure by the State of over $700,000 in fiscal 1998.

In summary, "net salary savings" for fiscal 1998 are therefore estimated to be as follows:

Annual Salaries of 372 Positions Vacated:	$23.3 million
Salaries net of 3.5 months of service in FY 1998:	$16.5 million
Sixty Percent of Salaries of Vacated Positions:	$9.9 million
State General Fund Share of Salary Savings (48%):	$4.8 million
State Accumulated Leave Payout Costs:	$5.5 million
Net Cost to State of "Net Salary Savings":	($746,000)

Fiscal 1999 and out-year savings would be approximately $6.7 million (or 48% of 60% of the $23.3 million in annual salaries and fringe benefits of the vacated positions).

Retirement Costs

Retirement costs are estimated in two areas: (1) the cost of one additional month of service credit for each year of service; and (2) the cost of eliminating up to three years of the actuarial reduction. The State's actuary estimates that the retirement incentive provided in the bill (the additional service credit and partial elimination of the actuarial reduction) would increase the actuarial liabilities of the systems by a total of $38.5 million. These additional liabilities must be funded over five years beginning the fiscal year after each retirement. The 1999 payment would $8.3 million. These costs would increase by 5% each year until the liability is fully funded, as shown below.

Actuarial Costs

	Total
1999	$8.3 million
2000	$8.7 million
2001	$9.2 million
2002	$9.6 million
2003	$10.1 million

It is assumed that the State, through general fund expenditures, would absorb the entire actuarial cost. If UMS, through other revenue sources, were to absorb a portion of these costs, then general fund expenditures would be reduced.

Administrative Costs

To cover the administrative costs of SB 1 of 1996, the Retirement Agency submitted two budget amendments, one for fiscal 1996 and one for fiscal 1997. Together, these amendments total $760,209. Assuming that actual expenditures for administering SB 1 of 1996 will be 10% less than predicted in the budget amendments, and further reducing the administrative costs for this proposal to take into account the reduced number of eligible employees, it is estimated that administrative costs for this proposal would total $411,700.

Such costs would be required to provide information to employees eligible for the incentive program and to process retirement requests. Administration of SB 1 of 1996 required substantial overtime, contractual personnel, and material costs; it is expected that the same would be true for this proposal. Certain computer charges for programming incurred for SB 1 of 1996 will not be incurred again.

Summary: Based upon the fiscal estimates presented above, State general fund expenditures for fiscal 1998 could increase by $1.2 million due to administrative costs and accumulated leave payments. Out-year expenditures could increase by $1.6 million beginning in fiscal 1999 due to actuarial costs, offset somewhat by salary savings, as illustrated below. Out-year expenditures reflect actuarially-assumed 5% per year increases.

Changes in State General Fund Expenditures ($ in millions)

	1998	1999	2000	2001	2002
Salary Expenditures	$0.7	($6.7)	($6.7)	($6.7)	($6.7)
Actuarial Costs	0.0	8.3	8.7	9.2	9.6
Administrative Costs	0.4	0.0	0.0	0.0	0.0
Net Effect	($1.2)	($1.6)	($2.0)	($2.4)	($2.9)

The net effect on the University of Maryland System cannot be determined precisely at this time. While the total actuarial costs are clear (and noted above), the total salary savings are indeterminate. While the savings for the abolished ECS positions can be estimated, it is not clear what salary savings (if any) can be associated with the vacated teachers positions, all of which may be refilled.

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

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