Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 655 (Delegate Rosenberg)
Appropriations

1997 Workforce Reduction Act

This pension bill establishes an early retirement incentive plan similar to last year's incentive plan (SB 1, Chapter 353 of the Acts of 1996) for State employee members of the employees' retirement (ERS) and pension systems (EPS). Members are eligible to participate if they are currently eligible to retire or have at least 25 years of service and are age 50 or over. Unused sick leave is not counted as creditable service for eligibility purposes. Members must apply between July 1 and September 1, 1997. Participants receive one month of additional service credit for each year of creditable service. Up to 18% (three years) of the reduction for early retirement is eliminated. The increase in the State's actuarial liability resulting from this incentive plan will be amortized over five years (beginning in fiscal 1999).

The Department of Budget and Management must eliminate at least 60% of the vacated positions by November 1, 1997, with exceptions. 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 workforce eligible to participate in the early retirement incentive plan. No more than 2% of employees retiring under the bill may be reemployed in a contractual or temporary position in any branch of State government. The earnings limitation for participating employees is based on the retirement benefit received including that portion of the benefit resulting from the incentives received for early retirement.

The bill does not apply to employees of: (1) the Judicial branch of government; (2) an institution of higher education (defined); or (3) off-budget agencies. General fund savings in excess of $10 million resulting from the bill will be transferred to the Rainy Day Fund.

Fiscal Summary

State Effect: Decrease of personnel expenditures beginning in FY 1998 and increase in retirement expenditure beginning in FY 1999, both as discussed below. One-time special fund administrative expenditure increase of $504,100 in FY 1998. Revenues would not be affected.

($ in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF/SF/FF Rev.	$0	$0	$0	$0	$0
GF Expenditures	($15.7)	($21.1)	($20.8)	($20.4)	($20.1)
SF Expenditures	($4.7)	($7.0)	($6.9)	($6.8)	($6.7)
FF Expenditures	($5.2)	($7.0)	($6.9)	($6.8)	($6.7)
Net Effect	($25.6)	($35.2)	($34.7)	($34.1)	($33.4)

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

Local Effect: None.

Small Business Effect: None. The bill would not directly affect small businesses.

Fiscal Analysis

State Expenditures: The Retirement Agency has identified 6,804 employees who are eligible for the early retirement incentive plan, including approximately 5,500 employees who were eligible under last year's early retirement incentive plan and 1,300 newly-eligible employees. Based on last year's participation rate, it is estimated that 1,816 employees will participate (51% of eligible ERS members and 19% of EPS members; 27% overall). This should result in elimination of 1,090 full-time equivalent (FTE) positions, although the figure may be slightly lower due to participation by quasi-local State employees such as local health department employees. 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 are based on the following assumptions: (1) the average salary of eligible members of the Employees' Retirement System (ERS) is $36,629 and the average salary of eligible members of the Employees' Pension System (EPS) is $29,691; (2) fringe benefits at the rate of 18% of salary; (3) retiring employees have 50 days of unused annual leave, or approximately $6,400 per person; and (4) on average, all abolished positions will be vacant for 3.5 months in fiscal 1998.

Based on the estimated participation of 1,816 employees, 1,090 positions would be eliminated (1,816 x 60%) resulting in a fiscal 1998 savings of $26.1 million (all funds) and $46.7 million in fiscal 1998 and beyond.

Retirement Costs

Retirement costs are estimated in two areas: (1) cost of one additional month of service credit for each year of service; and (2) 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 $53.1 million. These additional liabilities must be funded over five years beginning in fiscal 1999. The 1999 payment would $11.5 million. These costs would increase by 5% each year until the liability is fully funded, as shown below.

Actuarial Costs

1999	$11.5 million
2000	$12.1 million
2001	$12.7 million
2002	$13.3 million
2003	$14.0 million

Administrative Costs

To cover the administrative costs of SB 1, the Retirement Agency has 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 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 $504,100.
Such costs would be required to provide information to employees eligible for the incentive program and to process retirement requests. Administration of SB 1 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 will not be incurred again.

Summary: Based upon the fiscal estimates presented above, fiscal 1998 expenditures could decrease by $25.6 million. Out-year expenditures could decrease by approximately $35.2 million beginning in fiscal 1999, as illustrated below.
Decrease in Expenditures ($ in millions)

	1998	1999	2000	2001	2002
Salary Savings	$26.1	$46.7	$46.7	$46.7	$46.7
Actuarial Costs (Increase)	0.0	(11.5)	(12.1)	(12.7)	(13.3)
Administrative Costs (Increase)	(0.5)	0.0	0.0	0.0	0.0
Net Effect	$25.6	$35.2	$34.7	$34.1	$33.4

It is estimated that such reductions would be split 60%, 20%, and 20% between general, special, and federal funds respectively.

Additional Comments: The Department of Fiscal Services advises that approximately 1,500 members of the employees' retirement and pension systems will retire in fiscal 1998 under current law. Further, Fiscal Services' 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. Moreover, 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): State Retirement Agency, Milliman & Robertson, Inc., Department of Fiscal Services

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