# HB 1305

## Department of Fiscal Services

Maryland General Assembly

## FISCAL NOTE

House Bill 1305 (Delegate Menes, *et al.*)
Appropriations

**Workforce Reduction Act - Laid Off Employees - Closure of Facility**

This pension bill allows State employee members or former members of the Employees' Retirement System (ERS) or the Employees' Pension System (EPS) who were laid-off as a result of the closure of a State facility after December 31, 1995 and before July 1, 1997 and whose positions were not abolished to participate in an early retirement incentive program identical to last year's Workforce Reduction Act (SB 1, Chapter 353 of the Acts of 1996).

In addition, for those same employees who did not retire before July 1, 1997 or do not retire under the early retirement incentive of this bill, the State would pay the entire cost of health insurance premiums for those employees to receive the same health insurance coverage the employees received while employed by the State, for a period of not more than 12 months after filing an application for health insurance coverage but not later than June 30, 1998, or until those former employees are covered by another employer subsidized health insurance plan through another employer, whichever comes first. The bill is effective June 1, 1997.

## Fiscal Summary

**State Effect:** Expenditures would increase by $25,000 in FY 1997 for one month of health insurance costs. FY 1998 expenditures would increase by $275,000 for health insurance costs. FY 1999 expenditures would increase by $101,000 for actuarial retirement costs, increasing 5% per year based on actuarial assumptions.

| (in dollars) | FY 1997 | FY 1998 | FY 1999 | FY 2000 | FY 2001 |
|---|---|---|---|---|---|
| GF/SF/FF | $0 | $0 | $0 | $0 | $0 |
| GF/SF/FF Expend. | 25,000 | 275,000 | 101,000 | 107,000 | 111,000 |
| Net Effect | ($25,000) | ($275,000) | ($101,000) | ($107,000) | ($111,000) |

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

**Local Effect:** None.

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

## Fiscal Analysis

**Bill Summary:** An employee who elects the early retirement incentive would apply for retirement between June 1, 1997 and July 1, 1997 and retire on July 1, 1997. The early retirement incentives are identical to those provided under SB 1 of 1996, as discussed below. Early retirement 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). 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 Department of Budget and Management is responsible for notifying employees who were laid-off during the covered period that they may be eligible for health insurance or retirement benefits under the bill.

**State Expenditures:** State expenditures under the bill would derive from: (1) retirement costs; and (2) health insurance costs. The bill would apply to State employees laid-off during the relevant period. The Department of Budget and Management (DBM) advises that 104 employees laid-off from the Great Oaks Center during the relevant period would be subject to this bill. DBM advises that it is not aware of any other laid-off employees who would be eligible. To the extent that there are additional laid-off employees who would be eligible, these fiscal estimates will increase.

*Retirement Costs*

The State Retirement Agency advises that it has not reviewed the personnel histories of the 104 employees, but estimates 15 members may be eligible for early retirement under this proposal. It is assumed that these members have 20 years of service and an average salary of approximately $35,000. This bill has not been forwarded to the State's actuary for a detailed actuarial analysis. Based on the above data, however, the actuary was able to offer an informal estimate. The increased actuarial liabilities to the system are estimated to be $465,000. These liabilities would be amortized over five years, beginning in fiscal 1999 with a first-year payment of $101,000. Future year payments would increase by 5% per year consistent with actuarial assumptions.

*Health Insurance Costs*

The bill provides up to 12 months of health insurance coverage if the former employee is not already reemployed and does not take early retirement. According to an advice of counsel, DBM would be required to provide health, prescription, and vision coverage to these former employees at no cost to the individual. DBM advises that such coverage would cost the State $280 a month, or $3,360 per year. Thus, the maximum annual cost to the State would be approximately $300,000 if 89 people (104 eligible less 15 early retirees) applied for such coverage.

The bill is effective June 1, 1997. Assuming all 89 people apply for coverage immediately, fiscal 1997 costs would be approximately $25,000, increasing to $275,000 in fiscal 1998. DBM advises that it has a reserve fund to pay for the costs of such benefits until the appropriate agency, in this case, the Department of Health and Mental Hygiene, can be charged for the costs. It is assumed that 89 eligible former employees are eligible and will remain eligible for the entire 12 months. To the extent that they have already found reemployment or become reemployed during the covered period, the costs will be reduced.

In total, expenditures would increase by $25,000 in fiscal 1997 for health insurance costs. Fiscal 1998 expenditures would increase by $275,000 for health insurance costs. Fiscal 1999 expenditures would increase by $101,000 for actuarial retirement costs, increasing 5% per year based on actuarial assumptions. The health insurance expenditures would be general funds; the actuarial retirement costs would be incorporated into State employer contribution rates that would affect all fund types.

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

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