Department of Legislative Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 199 (Chairman, Appropriations Committee)
(Departmental - University System of Maryland)
Appropriations

University System of Maryland Workforce Flexibility Act

This departmental bill establishes an early retirement incentive plan for certain State employees of the University System of Maryland (USM). The bill applies to USM members of the Employees' Retirement System and the Employees' Pension System. The proposal does not apply to USM members of the teachers' systems or the Optional Retirement Program (ORP). The bill is effective June 1, 1998.

Fiscal Summary

State Effect: General fund expenditures to USM would decrease by approximately $4.1 million in FY 1999 due to salary savings offset somewhat by administrative costs and leave payouts, then decrease by approximately $5.8 million in FY 2000 due to salary savings offset somewhat by actuarial costs. Out-year expenditures reflect projected increases in actuarial costs. Revenues would not be affected.

($ in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	$0	$0	$0	$0	$0
GF Expenditures	($4.1)	($5.8)	($5.7)	($5.6)	($5.5)
Net Effect	$4.1	$5.8	$5.7	$5.6	$5.5

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

Local Effect: None.

Small Business Effect: USM has determined that this bill has minimal or no impact on small businesses (attached). Legislative Services concurs with this assessment. (This assessment does not reflect any amendments to the bill).

Fiscal Analysis

Bill Summary: Employees' systems members as of January 1, 1998 who are USM employees on June 1, 1998 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, 1999. These are generally the same eligibility criteria as under the Workforce Reduction Act of 1996, the early retirement incentive program for State employees (SB 1, Chapter 353 of the Acts of 1996). Members who participate would receive one month of additional service credit for each year of creditable service (excluding service credit earned through unused sick leave). Up to 18% (three years) of the reduction for early retirement would be eliminated.

All eligible employees' systems members would have from July 1, 1998 through August 31, 1998 to apply for early retirement. An application to take early retirement would be irrevocable, with exceptions. All eligible applicants would retire on October 1, 1998, or the first day of the month following the month in which they become eligible.

Sixty percent of the vacated employees' systems positions must be abolished. USM's general fund allocation will be reduced by an amount equal to at least 60% of the total salaries and fringe benefits of the positions eliminated.

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. Each USM institution may defer the retirement of up to 50% of retiring employees' systems members, to no later than June 30, 1999. The retirement allowance for these members is based on the higher of the allowance of the date they were first eligible to retire or the date they actually retired.

Any increased liability will be funded over five years and would be the obligation of USM. USM would have the option to pay the liability in less than five years if it chose. Employees of the University of Maryland Medical System (UMMS) who are currently State employees and meet the above criteria would be eligible for early retirement; the Medical System would be liable for the actuarial costs of these early retirements.

The bill allows USM and UMMS employees who are separated from employment (laid off) and who have at least 20 years of service to participate in the early retirement. Laid-off USM and UMMS employees who do not participate in the early retirement are entitled to up to one year of free health insurance. In the case of USM layoffs, the university may deduct the cost of providing health insurance to these employees from the early retirement savings that would have otherwise reverted to the general fund under this bill.

State Expenditures: The State Retirement Agency has identified 1,522 USM employees' systems members who would be 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 454 people will elect to participate, as illustrated below:

	Eligible	Est. Participation	Average Salary
Employees' Retirement System	509	257	$38,206
Employees' Pension System	1,013	196	$33,018
Total	1,522	454	

In addition, at least 23 State employees of the University of Maryland Medical System would be eligible for the early retirement incentives. (The number eligible as a result of the layoffs cannot be determined but is assumed to be less than 10). Since the medical system will pay the actuarial costs and retain any savings, these employees are not included in the analysis below. UMMS will also pay the cost of the additional health insurance.

Fiscal 1999 Savings

Sixty percent of employees' systems positions, or 272 positions, would be abolished. Expenditures associated with the bill can be divided into two categories: general fund expenditures and non-general fund expenditures (i.e., expenditures associated with USM's other revenue sources, such as tuition and grants).

Participation		
	Number	**Salaries & Fringes ($ million)**
Total Eligible & Payroll	1,522	$52.9
w/fringe @ 17% + health ins.		$68.4
Total Participating (29.8%)	454	$21.1
Positions & Salaries eliminated (60%)	272	$12.7

Elimination of the 272 positions will result in salary savings of approximately $12.7 million. The proposal requires that at least 60% of this savings, or $7.6 million, be attributable to the general fund share of USM revenue. These general fund savings, however, would be reduced by: $2.2 million to account for the October 1 retirement date; $1.1 million for leave payout; and $127,400 for administrative costs for the State Retirement Agency. The resulting net salary savings for fiscal 1999 is $4.1 million in general funds. It is estimated that USM will save an additional $2.8 million in non-general funds.

FY99 Savings ($ millions)			
	GF Share	**Non-GF Share**	**Total**
60/40 Fund Split	$7.6	$5.1	$12.7

60/40 Position Split	163	109	272
Less 3.5 months of service in FY99	($2.2)	($1.5)	($3.7)
Less leave payout	($1.1)	($0.7)	($1.9)
Less SRA administrative costs	(0.1)	(0.1)	(0.2)
FY99 Net Salary Savings	$4.1	$2.8	$6.9

Thus, of the resulting $6.9 million in net salary savings, $4.1 million will be attributable to general funds. The bill specifies that USM's general fund appropriations be reduced accordingly and a contingent reduction in USM's appropriation is included in the budget bill. (USM may first deduct the cost of providing health insurance to certain laid-off employees.) The remaining $2.8 million in savings will accrue to USM.

Fiscal 2000 and Out Years

Out-year savings will result from the reduction of 272 positions and $12.7 million in personnel expenditures, to the extent that these positions are not refilled, either formally or through position substitution. Offsetting these salary savings are the actuarial costs associated with the early retirement incentive. The State's actuary did not provide a formal actuarial valuation for this bill; however, based on last year's fiscal note, it is estimated that the first year (fiscal 2000) actuarial cost of the incentive would be $2.9 million, increasing 5% per year for four years thereafter.

Based on these estimates, general fund net salary savings are estimated at $5.8 million in fiscal 2000, declining in the out years due to increased actuarial costs. (Salary savings are likely to decline as well, but the extent of the decline cannot be reliably estimated.) Non-general fund savings accruing to USM are estimated at $3.8 million in fiscal 2000, declining to $3.6 million in 2003.

Out-Year Savings ($ in millions)			
	GF Share	Non-GF Share	Total
60/40 Fund Split	$7.6	$5.1	$12.7
less Actuarial Costs*	($1.8)	($1.2)	($3.0)
FY00 Savings	$5.8	$3.9	$9.7
*Actuarial costs increase 5% per year through 2004			

Information Source(s): State Retirement Agency, University System of Maryland, Milliman & Robertson, Inc.

Fiscal Note History:	First Reader - February 3, 1998
lc	Revised - Updated Information - March 16, 1998
	Revised - House Third Reader - March 24, 1998
	Revised - Enrolled Bill - May 7, 1998

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