HB 1087

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 1087 (Delegate Dobson, *et al.*)
Appropriations

St. Mary's College and Morgan State University - Workforce Flexibility Act

This pension bill establishes an early retirement incentive plan for State employees of St. Mary's College and Morgan State University who are members of the Employees' Retirement System and the Employees' Pension System. The proposal does not apply to professors or other employees of these institutions who are members of the teachers' systems or the Optional Retirement Program (ORP). The bill is effective June 1, 1999.

Fiscal Summary

State Effect: General fund expenditures of the two institutions would decrease by approximately $170,800 in FY 2000 due to salary savings offset somewhat by administrative costs and leave payouts, then decrease by approximately $257,700 in FY 2001 due to salary savings offset somewhat by actuarial costs. Out-year expenditures reflect projected increases in actuarial costs. Revenues would not be affected.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	$0	$0	$0	$0	$0
GF Expenditures	(170,800)	(257,700)	(252,300)	(246,700)	(240,700)
Net Effect	$170,800	$257,700	$252,300	$246,700	$240,700

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

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

Bill Summary: Employees' systems members as of January 1, 1998 who are employees of the two institutions on June 1, 1999 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, 2000. 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 1996) and University System of Maryland Workforce Flexibility Act of 1998 (HB 199, Chapter 675 of 1998) for university system employees. 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.

The employees would receive the early retirement incentive in addition to the pension enhancement provided last year under Chapter 530 (HB 987) of 1998 for members of the Employees' Pension System (EPS). Under the prior early retirement windows noted above under Chapter 353 of 1996 and Chapter 675 of 1998, the eligible State general employees and University of Maryland employees received the early retirement incentive based on the prior, unenhanced EPS benefit. University of Maryland employees who retired under the incentive in Chapter 675 last year were not eligible for the enhancement under Chapter 530.

All eligible employees' systems members would have from July 1, 1999 through August 31, 1999 to apply for early retirement. An application to take early retirement would be irrevocable, with exceptions. All eligible applicants would retire on October 1, 1999, or the first day of the month following the month in which they become eligible.

The equivalent of 60% of the vacated employees' systems positions must be abolished. The general fund allocation of the two institutions 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 institution may defer the retirement of up to 50% of retiring employees' systems members, to no later than June 30, 2000. 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 the institutions. The institutions would have the option to pay the liability in less than five years.

State Expenditures: The State Retirement Agency advises that there are 92 employees' systems members who would be eligible for the early retirement incentive plan. Under SB 1 of 1996, 50.5% of eligible Employees' Retirement System (ERS) members elected to retire early, while only 19.4% of eligible EPS members elected. Based on these participation rates, it is estimated that 32 people will elect to participate, as illustrated below:

Estimated Participation - Combined

		Eligible	Estimated Participation	Average Salary
Morgan State				
	ERS	15	8	$46,100
	EPS	77	15	$32,800
	Subtotal	92	27	
St. Mary's				
	ERS	6	3	$37,000
	EPS	11	2	$30,300
	Subtotal	17	5	
Total		**109**	**32**	

Morgan State University - Fiscal 2000 and Future Year Savings

Sixty percent of employees' systems positions at Morgan State University, or 16 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 the institutions' other revenue sources, such as tuition and grants).

Morgan State University - Payroll of Participating Employees

	Number	Salaries & Fringes
Total Eligible & Payroll (incl. fringe benefits)	92	$4.2 million
Total Estimated Participation (30%)	27	$839,200
Positions & Salaries eliminated (60%)	16	$503,500

Elimination of the 16 positions will result in gross salary savings of approximately $503,500. The bill requires that at least 60% of this savings, or $302,100, be attributable to the general fund share of the institutions' revenue. These general fund savings, however, would be reduced by: $88,100 to account for the October 1 retirement date; $67,100 for leave payout; and $7,400 for administrative costs for the State Retirement Agency. The resulting net salary savings for fiscal 2000 is $139,400 in general funds. It is estimated that the institutions will save an additional $93,000 in non-general funds.

Morgan State University - FY 2000 Savings

	GF Share	Non-GF Share	Total
60/40 Fund Split	$302,100	$201,400	$503,500
60/40 Position Split	10	6	16
Less 3.5 months of service in FY 2000	(88,100)	(58,700)	(146,900)
Less leave payout	(67,100)	(44,700)	(111,900)
Less SRA administrative costs	(7,400)	(5,000)	(12,400)
FY 2000 Net Salary Savings	$139,400	$93,000	$232,400

Numbers may not total due to rounding.

Total (general fund and non-general fund) annual out-year salary savings from the elimination of 16 positions is estimated at $503,500. These savings assume that <u>these positions are not refilled</u>, either formally or through position substitution. Offsetting these salary savings are the actuarial costs associated with the early retirement incentive. The State's actuary informally estimates that the first year (fiscal 2001) actuarial cost of the incentive would be $140,900, increasing 5% per year for four years thereafter.

Based on these estimates, general fund net salary savings are estimated at $217,600 in fiscal 2001, 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 the institutions are estimated at $201,400 in fiscal 2001, also declining in the out-years.

Morgan State University - Fiscal 2001 Savings

	GF Share	Non-GF Share	Total
60/40 Fund Split	$302,100	$201,400	$503,500
less Actuarial Costs*	($84,500)	($56,400)	$140,900
FY00 Savings	$217,600	$145,000	$362,600

*Actuarial costs increase 5% per year through 2005.

St. Mary's College - Fiscal 2000 and Future Year Savings

Sixty percent of employees' systems positions at St. Mary's College, or three 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 the institutions' other revenue sources, such as tuition and grants).

St. Mary's College - Payroll of Participating Employees

	Number	Salaries & Fringes
Total Eligible & Payroll (incl. fringe benefits)	17	$722,800
Total Estimated Participation (30%)	5	$176,800
Positions & Salaries eliminated (60%)	3	$106,100

Elimination of the three positions will result in gross salary savings of approximately $106,100. The bill requires that at least 60% of this savings, or $63,600, be attributable to the general fund share of the institutions' revenue. These general fund savings, however, would be reduced by: $18,600 to account for the October 1 retirement date; $12,400 for leave payout; and $1,400 for administrative costs for the State Retirement Agency. The resulting net salary savings for fiscal 2000 is $31,300 in general funds. It is estimated that the institutions will save an additional $20,900 in non-general funds.

St. Mary's College - FY 2000 Savings

	GF Share	Non-GF Share	Total
60/40 Fund Split	$63,600	$42,400	$106,100
60/40 Position Split	2	1	3
Less 3.5 months of service in FY 2000	(18,600)	(12,400)	(30,900)
Less leave payout	(12,400)	(8,300)	(20,700)
Less SRA administrative costs	(1,400)	(900)	(2,300)
FY 2000 Net Salary Savings	$31,300	$20,900	$52,200

Numbers may not total due to rounding.

Total (general fund and non-general fund) annual out-year salary savings from the elimination of the three positions is estimated at $160,100. These savings assume 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 informally estimates that the first year (fiscal 2001) actuarial cost of the incentive would be $39,100, increasing 5% per year for four years thereafter.

Based on these estimates, general fund net salary savings are estimated at $40,200 in fiscal 2001, 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 the institutions are estimated at $26,800 in fiscal 2001, also declining in the out-years.

St. Mary's College - Fiscal 2001 Savings

	GF Share	Non-GF Share	Total
60/40 Fund Split	$63,600	$42,400	$106,100
less Actuarial Costs*	($23,460)	($15,640)	($39,100)
FY00 Savings	$40,200	$26,800	$67,000

*Actuarial costs increase 5% per year through 2005.

Summary

In total, it is estimated that the bill will result in net general fund salary savings of $170,800 in fiscal 2000 based on the elimination of 19 positions, after taking into account the October 1 effective date, leave payouts, and administrative costs. General fund savings in fiscal 2001 are estimated to be $257,800 based on annualization of the salary savings less actuarial costs. A summary of the bill's estimated impact is illustrated below:

Summary

Estimated Participants	32
Positions Eliminated	19
FY 2000 General Fund Net Salary Savings (gross savings less start-up, leave payout, and admin.)	$170,800
FY 2000 Administrative Costs: State Retirement Agency (based on prorated cost of USM early retirement)	$14,700
FY 2001 General Fund Net Savings (gross salary savings less actuarial costs)	$257,800
FY 2001: First Year Actuarial Costs (paid annually through 2005; increasing 5% per year)	$180,000

The per person actuarial cost of the enhancement under this bill is higher than under previous early retirement incentive bills because the incentive for EPS members is in addition to the enhanced benefit under last year's Chapter 530 (HB 987) of 1998.

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

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ncs/jr

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