HB 534

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 534 (Delegate Kach, *et al.*)
Appropriations

Employees' Retirement and Pension Systems - University of Maryland Medical System Corporation

This bill provides the 1998 pension enhancement to Employees' Pension System members who are employees of the University of Maryland Medical System (UMMS) Corporation. UMMS is required to pay the additional liabilities that result from the enhanced benefit. Certain retirees of UMMS receive a 3% compound cost-of-living adjustment (COLA), versus the current 3% simple COLA. Alternatively, the bill offers certain UMMS members an early retirement incentive similar to those offered to State employees in 1996 and other University of Maryland personnel in 1998.

The bill takes effect June 1, 2000.

Fiscal Summary

State Effect: Total increase in pension normal costs and liabilities of $18.9 million, resulting in annual pension expenditures by the UMMS (off-budget private corporation) of $1.2 million in FY 2002, increasing 5% per year based on actuarial assumptions. One-time administrative expenditures of $50,000 (special funds) for the State Retirement Agency to implement the bill.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
UMMS Revenues	$0.0	$0.0	$0.0	$0.0	$0.0
UMMS Expend.	0.0	1.2	1.3	1.4	1.4
Net Effect	$0.0	($1.2)	($1.3)	($1.4)	($1.4)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law and Background: In 1984, the University of Maryland Medical System was "privatized." In 1989, State employees who had worked for the University Hospital when that agency was part of State government were offered an incentive program by UMMS to switch from State employment to corporate employment (UMMS-C, for short). As part of that incentive program, those employees who switched remained members of the State Retirement and Pension System (as part of a closed group) with UMMS treated as a withdrawn governmental unit and paying the appropriate pension liabilities for these employees. In short, these members remained in the Employees' Pension System (EPS) or the Employees' Retirement System (ERS), but as the employees of a withdrawn employer.

Those employees who did not elect to participate in the incentive program remained State employees (UMMS-S for short) and active members of their respective State pension systems (either the EPS or the ERS) under the University of Maryland while working for UMMS.

Employees of UMMS-C who are members of the Employees' Pension System receive the pre-enhancement, two-tiered pension benefit formula. These UMMS-C members, like employees of withdrawn governmental units, were not eligible for either the pension enhancement under Chapter 530 of 1998 (HB 987) or the early retirement incentive under Chapter 353 of 1996 for State employees (SB 1) and Chapter 675 of 1998 (HB 199) for other University of Maryland personnel. Under Chapter 675, UMMS-S members had the option of electing the pension enhancement or the early retirement incentive.

Under the pre-enhancement formula, UMMS-C members receive 0.8% per year of service for average final compensation under the Social Security integration level and 1.5% per year of service for average final compensation above the integration level. On average, members earn between 1% and 1.1% of average final compensation for each year of service, depending on salary at retirement. Members make no contribution except 5% over the Social Security wage base, currently $76,200. Retirees receive a simple 3% cost-of-living adjustment (COLA).

Bill Summary: This bill provides UMMS-C employees who are members of the Employees' Pension System or the Employees' Retirement System with two alternatives: (1) participation in the pension enhancement if they meet certain criteria; or (2) election of the early retirement incentive, if they meet other criteria.

Pension Enhancement

Under the bill, the enhancement is available to UMMS-C employees who are: (1) members of the Employees' Pension System; or (2) a few members of the Employees' Retirement System who elected Selection C (bifurcated benefit). Eligible UMMS-C members will receive 1.2% of average final compensation for each year of service prior to July 1, 1998, and 1.4% of average final compensation for each year thereafter. Electing employees must contribute 2% of salary since July 1, 1998 (when the enhancement went into effect). If a member does not pay the missed contributions, the member's benefit will be actuarially reduced. Retirees of UMMS-C receive a 3% compound cost-of-living adjustment (COLA), versus the current 3% simple COLA. UMMS-C is required to pay the additional liabilities that result from the enhanced benefit.

Early Retirement Incentive

Employees' systems members as of January 1, 2000, who are UMMS-C employees on June 1, 2000, 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 two prior early retirement incentives. 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, 2000, through August 31, 2000, to apply for early retirement. An application to take early retirement would be irrevocable, with exceptions. All eligible applicants would retire on October 1, 2000, or the first day of the month following the month in which they become eligible.

The increased liability associated with the early retirement incentive will be funded over 20 years and would be the obligation of UMMS-C.

State Expenditures: There are 636 active employees of UMMS-C (with a payroll of $25.6 million), 535 former vested members, and 217 retirees or beneficiaries who are affected by this bill. Of the active employees, 527 are members of the EPS and would receive the enhancement. Of the 109 ERS members, it is assumed that 50% would take the early retirement incentive, based on experience with the two prior early retirement incentives. (Based on the experience with the university early retirement incentive in 1998, it is assumed that no EPS members would choose the early retirement incentive over the enhancement.)

The withdrawal liability of UMMS must be recalculated, or adjusted to reflect the higher enhanced benefit for both active members and retirees. The State's actuary advises that providing the enhanced benefits to these members and retirees would result in a $18.9 million increase in the present value of future benefits. Of this increase, $17.5 million is associated with the pension enhancement and $1.4 million is associated with the early retirement incentive. Amortizing these liabilities over 20 years (as specified in the bill for the early retirement incentive) would result in a first-year payment of $1.2 million in fiscal 2002, increasing 5% per year thereafter based on actuarial assumptions.

Administrative Expenses

The State Retirement Agency advises that approximately $180,000 will be needed to administer the pension enhancement and early retirement provisions of this bill. The additional expenditures for overtime, contractual employment, or temporary services would be utilized for computer reprogramming, communications, and counseling services (plus an additional unspecified amount for reprogramming the agency's "legacy" computer system until the agency's new computer system is operational). Of this amount, approximately $130,000 is for the pension enhancement and $50,000 for the early retirement incentive.

Legislative Services believes that this cost estimate is excessive. Legislative Services notes that the agency has stated that its new computer system will be operational by October 2000. The new system incorporates both the old and new benefit structures, so any programming should simply involve identifying the employees who will become subject to the enhanced benefit. It is estimated that $25,000 should be adequate to implement the pension enhancement provision of the bill until the new computer system is operational.
An additional $25,000 should be adequate to implement the early retirement incentive, for total administrative expenditures of $50,000.

Additional Comments: Legislative Services and the State's actuary advise that consideration should be given to providing an amortization period for an early retirement incentive that corresponds to the period of time over which any salary savings would be reaped (e.g., five years), rather than the 20 years specified in the bill.

Additional Information

Prior Introductions: HB 735 of 1999, a similar bill, was not reported from the House Appropriations Committee.

Cross File: SB 571 (Senator Harris) - Budget and Taxation.

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

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