HB 762

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 762 (Delegates McKee and Shank)
Appropriations

Retirement and Pensions - State Employees - Credit for Unused Sick Leave

This bill allows some State employees in the State Retirement and Pension System (SRPS) to receive additional sick leave credits when they retire that count as additional creditable service for purposes of calculating their retirement allowances. State employees who are about to retire with at least 16 years of State service and with more than 50% of the sick leave credits they earned during their employment can receive up to four times the amount of unused sick leave they have left, and thereby increase their creditable service.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: State pension liabilities increase by $253.6 million, resulting in increased State pension contributions of $15.6 million in FY 2008 and increasing thereafter according to actuarial assumptions.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	$0	$0	$0	$0	$0
GF/SF/FF Exp.	0	15,600,000	16,200,000	16,900,000	17,500,000
Net Effect	$0	($15,600,000)	($16,200,000)	($16,900,000)	($17,500,000)

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

Local Effect: None. The bill only applies to State employees, not members of participating governmental units.

Small Business Effect: None.

Analysis

Bill Summary: State employees who are about to retire with at least 16 years of State service and at least 50% of the sick leave credits they earned during their employment can earn additional sick leave credits upon their retirement under the following terms:

- employees who are about to retire with at least 50% but less than 70% of their sick leave credits receive twice the amount of sick leave they have at retirement;
- employees who are about to retire with at least 70% but less than 80% of their sick leave credits receive three times the amount of sick leave they have at retirement; and
- employees who are about to retire with at least 80% but less than 100% of their sick leave credits receive four times the amount of sick leave they have at retirement.

Current Law: At the time of their retirement, all members of SRPS except those in the Judges' Retirement System and the Legislative Pension Plan receive their unused sick leave as creditable service in SRPS. For every 22 days of unused sick leave, they receive one month of creditable service. If the remaining number of unused sick leave credits totals at least 11 days, they receive one additional month of creditable service. Members may not exchange unused sick leave for eligibility credits.

Background: Eligibility credit is used to determine whether a member of SRPS is eligible to receive a pension benefit, while creditable service is used to calculate an eligible member's actual pension benefit. By earning additional creditable service by exchanging unused sick leave, members can increase their pension benefits.

State Retirement Agency records do not segregate "State service" as specified in the bill from other types of eligible service. Therefore, the agency would be unable to certify whether a member had 16 years of State service. The agency would also be dependent on all other State agencies to provide data on total sick leave earned by each member about to retire so it could determine the rate at which to exchange unused sick leave for creditable service. Currently, the agency only receives data on unused sick leave for each retiring member from other State agencies, not total sick leave credits earned during employment.

State Expenditures: The percentage of State employees who would retire with at least 50% of their accrued sick leave cannot be reliably estimated. The Department of Budget and Management (DBM) reports that the average employee used 115.2 hours of sick leave in fiscal 2005, or 14.4 days. Employees earn 15 days of sick leave each year, so DBM's estimate indicates that most employees use all of their sick leave, and therefore would retire with almost no unused sick leave. However, the State Retirement Agency estimates that on average a State employee at retirement receives about six months of additional creditable service, or 132 days of unused sick leave. That represents about one-third of the maximum amount of sick leave a State employee can earn in 30 years (at the rate of 15 days a year). Reconciling these two disparate estimates is difficult, but it does seem clear that at least half of State employees do not have 50% of their total accrued sick leave remaining at retirement.

Therefore, this analysis assumes that 50% of retirees would retire with less than 50% of their accrued sick leave and would not be affected by this bill. Moreover, it assumes that 30% of retirees would have between 50% and 70%, 10% would have between 70% and 80%, and 10% would have between 80% and 100%. These assumptions yield an estimate that the average State employee would receive 7.2 months of additional creditable service.

Under these assumptions, the State's actuary informally estimates that total State pension liabilities would increase by $253.6 million. Amortizing that amount over 25 years yields an increase in State pension contributions of $15.6 million in fiscal 2008, with annual increases following actuarial assumptions.

Additional Comments: The State Retirement Agency notes that the bill does not benefit a State employee who retires with 100% of his or her accrued sick leave.

Additional Information

Prior Introductions: HB 1337 of 1998 received an unfavorable report from the House Appropriations Committee.

Cross File: None.

Information Source(s): Milliman USA, Maryland State Retirement Agency, Department of Budget and Management, Department of Legislative Services

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ncs/jr

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