HB 480

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 480 (Delegate Griffith) (Chair, Joint Committee on Pensions)
Appropriations

State Retirement and Pension System - Unused Sick Leave - Creditable Service

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This bill prohibits a member of the State Retirement and Pension System from receiving creditable service for unused sick leave if the member's employer has compensated the member for the member's unused sick leave.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: Total State pension liabilities decrease by $53.5 million, and normal costs decrease by $2.7 million. State pension contributions (general funds only) decrease by $6.2 million in fiscal 2010. Those savings are presumed to grow according to actuarial assumptions.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	(6,236,000)	(6,454,000)	(6,680,000)	(6,914,000)
Net Effect	$0	$6,236,000	$6,454,000	$6,680,000	$6,914,000

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

Local Effect: Total PGU pension liabilities decrease by $4.4 million and normal costs decrease by $263,000. Amortizing the liability savings over 25 years and adding the lower normal cost results in total PGU pension contributions declining by $555,000 in fiscal 2010. DLS notes that only three PGUs will share in these savings because only three of them compensate retirees for unused sick leave

Small Business Effect: None.

Analysis

Current Law: Except for members of the Judges Retirement System and the Legislative Pension Plan, SRPS members are entitled to one month of creditable service for every 22 days of unused sick leave at the time of retirement. They are entitled to an additional month of creditable service if, after calculating service at the above rate, they have at least 11 more days of unused sick leave. Members may not earn more than 15 days of sick leave each year; members whose employers provide more than 15 days of sick leave have their unused sick leave reduced by the appropriate amount before it is used to calculate creditable service.

Creditable service is used to calculate the *amount* of a member's pension benefit, but does not count toward the calculation of a member's *eligibility* for a pension benefit.

The State pays all employer contributions for members of the Teachers' Retirement System (TRS) and the Teachers' Pension System (TPS).

Background: State employees receive 15 days of sick leave each year with no limit on the amount they can accumulate. The State does not compensate employees in cash for unused sick leave, so State employees are not affected by this proposal.

However, the State Retirement Agency reports that at least 33 of 113 PGUs indicate that they pay their employees for at least some portion of unused sick leave, and that they also report all unused sick leave to SRPS for the purpose of calculating additional creditable service.

State Fiscal Effect: Based on data provided by SRA and the system's actuary, DLS assumes that the average retiree claims six months of creditable service for unused sick leave. Since some employers pay retirees the cash value of all of their unused sick leave and some pay only a portion of the value, DLS further assumes that affected retirees will lose an average of two months of creditable service by not being able to claim unused sick leave for which they are compensated. This assumes that their employers continue to offer cash payments for unused sick leave and that the employees continue to accept it. The General Assembly's actuary advises that this is likely since cash payments are typically worth more than additional service credit.

According to the SRA survey of employers, 13 of the State's local school systems pay their teachers for some or all of their unused sick leave. These 13 school systems account for 60% of the teachers in the State. Thus it is assumed that 60% of the members of TRS/TPS members will lose two months of creditable service. Further, SRA identified three county governments that participate as PGUs and pay for unused sick leave. Although this is a small number of PGUs, together they account for about one-third of

PGU employees in the Employees' Pension System (one of the counties is a very large employer). Therefore, it is assumed that one-third of PGU employees will also lose two months of creditable service under this proposal.

Total State pension liabilities therefore decrease by $53.5 million, and normal costs decrease by $2.7 million. Amortizing the liability decrease over 25 years and adding in the lower normal costs results in annual State pension contributions decreasing by $6.2 million beginning in fiscal 2010. The savings are reflected entirely in general funds because TRS/TPS employer contributions are paid entirely out of general funds. Those savings are presumed to grow according to actuarial assumptions.

Local Fiscal Effect: Total PGU pension liability decreases by $4.4 million and normal costs decrease by $263,000. Amortizing the liability savings over 25 years and adding the lower normal cost results in total PGU pension contributions declining by $555,000 in fiscal 2010. DLS notes that only three PGUs will share in these savings because only three of them compensate retirees for unused sick leave.

Additional Information

Prior Introductions: None.

Cross File: SB 376 (Senator McFadden, *et al.*) (Chair, Joint Committee on Pensions) – Budget and Taxation.

Information Source(s): Mercer Human Resources Consulting, Maryland State Retirement Agency, Department of Budget and Management, Department of Legislative Services

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