SB 802

Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 802 (Senator Pipkin)
Budget and Taxation

Upper Shore Community Mental Health Center - Early Retirement

This bill allows members of the Employees' Pension System (EPS) whose jobs at the Upper Shore Community Mental Health Center have been abolished to qualify, under specified circumstances, for early service retirement benefits.

The bill takes effect July 1, 2010, and terminates December 31, 2010.

Fiscal Summary

State Effect: Negligible decrease in State pension liabilities and annual contributions beginning in FY 2013. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to EPS members employed by the Upper Shore Community Mental Health Center on or after July 1, 2009, and whose jobs are abolished on or after August 1, 2009. Eligible members must be at least 54 years old and have at least 25 years of service in the State Retirement and Pension System.

EPS members who qualify under the bill are entitled to receive an early service retirement allowance, subject to the benefit reductions calculated for all members who qualify for early retirement.

Current Law: EPS members qualify for a normal (full) service retirement benefit after earning 30 years of eligibility credit or when they reach age 62 with at least 5 years of eligibility credit. Their initial retirement benefit is equal to the product of their average final compensation, years of service, and multiplier of 1.2% for service credit earned before 1998 and 1.8% for service credit earned after 1998.

EPS members also qualify for an early service retirement if they have between 15 and 30 years of eligibility service credit and are between the ages of 55 and 62. Members who receive an early retirement benefit are subject to a benefit reduction equal to 0.5% of the normal service retirement benefit for each month before the member reaches age 62.

EPS members who leave State service prior to retirement with at least five years of eligibility service credit are entitled to a vested benefit when they reach normal retirement age (62). They are also entitled to an early retirement benefit (including the benefit reduction) when they reach age 55.

Background: On November 18, 2009, the Board of Public Works approved a recommendation from the Department of Health and Mental Hygiene (DHMH) to close the Upper Shore Community Mental Health Center and abolish all of its employee positions. The measure was approved as part of the Governor's cost containment initiatives to bring State spending in line with reduced revenue projections for fiscal 2010. The center is slated to close in February 2010.

State Fiscal Effect: DHMH, which administers the Upper Shore center, advises that 85 of the 89 employees' positions are to be abolished on February 28, 2010. According to DHMH, one individual meets the eligibility criteria established by the bill, but no additional information was provided about the individual. Therefore, for the purpose of this analysis, the General Assembly's actuary:

- assumes an average final compensation of $50,000,
- allocates 11 of the 25 years of service to post-1998 service credit and the remainder to pre-1998 credit;
- uses a blended male/female mortality rate; and
- expects that, in the absence of the bill, the individual would claim an early retirement benefit at age 55.

Based on these assumptions, the bill's fiscal effect stems from the individual claiming an early retirement benefit one year earlier than allowed under current law, subject to the mandatory reduction. Typically, any change that allows an individual to retire earlier increases State pension liabilities because benefits are paid out over a longer period of time. However, the actuary advises that the additional 6% benefit reduction for the additional year of benefits (0.5% x 12 months) required by the bill is greater than the actuarial adjustment that would normally be made to reflect the earlier-than-expected retirement for someone at that age. Therefore, the bill results in a $2,210 decrease in State pension liabilities. Amortizing that decrease over 25 years results in a savings of approximately $150 annually in State pension contributions beginning in fiscal 2013.

To the extent that the individuals' characteristics are different from those used by the actuary, the actual fiscal effect may vary. However, the overall effect is still expected to be negligible.

Additional Information

Prior Introductions: None.

Cross File: HB 338 (Delegate Sossi, *et al.*) - Appropriations.

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

Fiscal Note History: First Reader - March 2, 2010
ncs/rhh

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510