SB 147

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 147 (Senator Manno)
Finance

State Personnel - Employees in Legislative Branch of State Government - Sick Leave Incentive Program

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This bill makes employees of the Legislative Branch eligible to participate in the Sick Leave Incentive Program.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: General fund expenditures increase by approximately $418,000 in FY 2015 to compensate Legislative Branch employees for unused sick leave; those costs are assumed to grow by 4.4% annually. Beginning in FY 2017, State pension contributions (general funds) decrease by approximately $11,000 due to reductions in creditable service for unused sick leave. Savings continue to accrue annually according to actuarial assumptions. No effect on revenues.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	$0	$0	$0	$0	$0
GF Expenditure	417,900	436,300	444,500	464,500	485,400
Net Effect	($417,900)	($436,300)	($444,500)	($464,500)	($485,400)

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

Local Effect: None. The bill applies only to State employees.

Small Business Effect: None.

Analysis

Current Law:

Sick Leave Incentive Program

Only State employees in the State Personnel Management System and Transportation Service Human Resources Management System are eligible to participate in the Sick Leave Incentive Program. State employees earn 15 days of sick leave per year.

The program provides two types of incentive payments to employees in participating units based on their use of sick leave. Employees who maintain a balance of at least 240 hours of unused sick leave as of December 31 may receive payments under the following scenarios:

- payment for up to 40 hours of unused sick leave per calendar year if the employee has used no more than 40 hours of sick leave during the calendar year; or
- payment for up to 56 hours of unused sick leave per calendar year if the employee has used no more than 24 hours of sick leave during the calendar year.

In both cases, the employee must maintain the 240-hour balance even after receiving payment for unused leave. For a part-time employee, payments, sick leave usage rates, and sick leave balances are prorated based on the employee's percentage of full-time employment.

For the purpose of determining eligibility for the program, the following does not qualify as sick leave usage:

- bereavement leave;
- sick leave donated to another employee or to the State Employees' Leave Bank; or
- sick leave taken in accordance with the federal Family and Medical Leave Act.

Pension Credit for Unused Sick Leave

At retirement, a member of the State Retirement and Pension System is entitled to one additional month of creditable service for every 22 days of unused sick leave. If the member has fractional unused sick leave adding to 11 or more days, the member is entitled to one additional month of creditable service. However, a member may not accumulate and, therefore, convert to creditable service more than 15 days of sick leave per year. Unused sick leave does not count toward eligibility service, but once an employee is eligible for retirement, the extra leave can increase the member's benefit payment.

Background: The Governor's proposed fiscal 2015 budget includes 748.0 full-time equivalent positions in the Legislative Branch, including 365.0 in the General Assembly and 383.0 in the Department of Legislative Services (DLS). This staffing level has remained constant for at least the past three fiscal years.

The Sick Leave Incentive Program was established by Chapter 179 of 2000 as an effort to reduce employees' use of sick leave. The concept behind it was that reduced use of sick leave would lead to reductions in the use of overtime and temporary labor, ultimately saving the State money. It began as a pilot program involving the Division of Correction, Department of Natural Resources, and the Department of Housing and Community Development. Funding for the program remained steady at approximately $350,000 annually through fiscal 2005. In the early stages of the pilot program, evaluations showed significant reductions in the use of sick leave, particularly among correctional officers. However, those reductions evaporated in succeeding years, and funding for the program was discontinued in the fiscal 2006 budget. It has not been funded since then.

State Fiscal Effect:

Program Costs

Although funding for the program has not been budgeted for Executive Branch employees since fiscal 2005, it is assumed that funding for Legislative Branch employees would be provided beginning in fiscal 2015. DLS conducted an analysis of sick leave balances and usage in fiscal 2013 and determined that, based on actual usage and program guidelines, payouts for unused sick leave would have totaled $383,416 if the program had been in place during fiscal 2013. Assuming 4.4% annual growth in employee salaries, and given stable staffing levels in the Legislative Branch, DLS concludes that the cost in fiscal 2015 would be $417,899 and increase by 4.4% each year thereafter.

Reducing the use of sick leave by itself does not reduce expenditures because employees are paid for the time whether they use the sick leave or not. Savings are generated only if reduced use of sick leave leads to reduced costs for overtime or temporary labor. In fiscal 2013, overtime expenditures in the Legislative Branch totaled $191,000. Therefore, even if all overtime costs were eliminated, which is unlikely, the program would still have had a net cost of $227,000. DLS does not anticipate a substantial reduction in overtime expenses since most sick leave is not used during the legislative session, when most overtime expenses are incurred.

Pension Costs

As members of the State Retirement and Pension System, employees receive additional service credit for unused sick leave when they retire. Employees who wish to be paid for unused sick leave have an incentive to reduce their use of it on an annual basis, thereby increasing their sick leave balance. However, that balance decreases by the amount for which they are paid. To the extent that an employee chooses to receive payment for unused sick leave, it will reduce the balance available for increased pension benefits. There is no fiscal effect for employees who choose not to be paid for their unused sick leave because they have no additional incentive to save their sick leave.

When the program was created, it was estimated that employees who opted to be paid for unused sick leave would lose an average of approximately two months of creditable service toward their pension. Early reports on the program also found that about 25% of eligible employees had the minimum sick leave balance necessary to qualify for payments.

Therefore, DLS estimates that 25% of Legislative Branch employees qualify for and receive payments for unused sick leave each year. This assumption means that those employees have two fewer months of unused sick leave when they retire, thereby reducing their creditable service. Based on these assumptions, the General Assembly's consulting actuary estimates that State pension liabilities decrease in the first year by a total of $103,000, and the normal cost decreases by $4,000. The first payments under the program would be made in fiscal 2015 and be reflected in the June 30, 2015 actuarial valuation, which establishes contribution rates for fiscal 2017. Therefore, State pension contributions would decrease by an estimated $11,000 in fiscal 2017, with future savings accruing according to actuarial assumptions. Since Legislative Branch employees are paid only with general funds, the savings affect only general fund expenditures.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Department of Legislative Services

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mm/ljm

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