


MARYLAND
DEPARTMENT OF
BUDGET & MANAGEMENT

LARRY HOGAN
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BOYD K. RUTHERFORD
Lieutenant Governor

DAVID R. BRINKLEY
Secretary

MARC L. NICOLE
Deputy Secretary

May 1, 2019

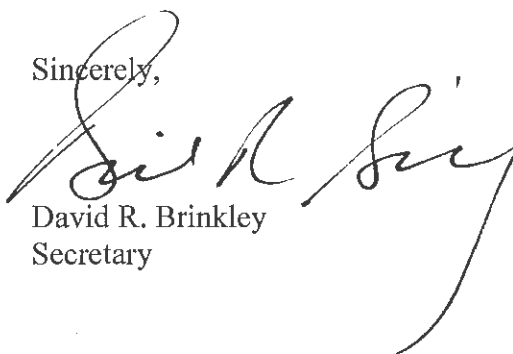
Victoria Gruber
Executive Director
Department of Legislative Services
Legislative Services Building
90 State Circle
Annapolis MD 21401

Dear Ms. Gruber:

In accordance with the provisions of Chapter 774 (Personnel and Pensions – Phased Retirement Plan) of the Acts of the 2018 Session, I am submitting the required report on the development of recommendations for a phased retirement plan. This report has been developed by the Department of Budget and Management in consultation with the State Retirement Agency.

If there are any questions regarding the information provided in this report, please do not hesitate to contact me or Cynthia A. Kollner, Executive Director of the Office of Personnel Services and Benefits, at 410-767-4716.

Sincerely,



David R. Brinkley
Secretary

Enclosure

Cc: R. Dean Kenderdine, Executive Director, Maryland State Retirement and Pension System
Cynthia A. Kollner, Executive Director, Office of Personnel Services and Benefits, DBM
Barbara Wilkins, Director of Government Relations, DBM

MSAR 11664

SECOND REPORT ON PHASED RETIREMENT FOR THE STATE PERSONNEL MANAGEMENT SYSTEM

In accordance with the provisions of Chapter 774 (Personnel and Pensions – Phased Retirement Plan) of the Acts of the 2018 Session, the Department of Budget and Management (the Department) and the State Retirement Agency (SRA) are required to submit a report and regularly scheduled follow ups on the development of recommendations for a phased retirement plan.

This is the second of four required reports on the implementation of a phased retirement program in the State Personnel Management System. The initial report to the Department of Legislative Services (DLS) was submitted on January 1, 2019. This follow up report was requested on or before May 1, 2019, with another report due on or before July 31, 2019. The July 31st report will offer finalized recommendations for a phased retirement plan. On or before December 1, 2019, recommendations for suggested statutory changes to implement a phased retirement plan must be submitted.

Background

In the initial report, the Department determined that a phased retirement program model that focuses on key employee positions would be the most advantageous for the State. Generally, phased retirement programs allow retiring employees to continue to work for a finite period of time at some part-time level of employment. These programs are designed to ease retiring employees out of the workforce while transitioning their institutional knowledge and critical duties to new or existing workers. Limiting the program to key positions would prevent agencies from losing the critical knowledge of key employees and allowing agencies to maintain control over program costs resulting from overlapping positions.

The Department determined that key positions are those having expert knowledge in a functional area critical to the agency's mission. These positions are encumbered by employees with either specialized or institutional knowledge. These are positions that, if vacant, would impact the agency's ability to meet mission critical objectives. Typically, these are not front-line worker positions.

Action Items in Progress

1) Agency Surveys

With this model in mind, we surveyed a representative sample of eight agencies of State government to request that they identify key employee positions and we are awaiting responses. Although we do not have that information to share in this interim report, we can offer some preliminary thoughts on the types of positions that might meet the definition of "key". In larger organizations, these positions might be the Chief Information Officer, Chief Financial Officer, and directors of divisions that fulfill mission critical functions. Generally speaking, it would not be positions at the executive level because those positions, while critical to day-to-day function, experience turnover on a fairly regular basis.

2) Exclusive Bargaining Representative Input

The legislation that established the reporting schedule and timetable also requires that the process involve the labor unions which represent State employees. Therefore, we also have contacted the exclusive representatives of bargaining units within the State Personnel Management System to seek their input on the issue of phased retirement. We expect to incorporate their feedback in the third report, which is due by July 31, 2019.

3) Maryland State Pension Law Barrier Identification

Additionally, we are seeking guidance on how best to deal with the current barriers to a phased retirement program in State government. As noted in the previous report, Maryland State pension law includes provisions that would prohibit an employee from partially retiring and continuing to work for the State in substantially the same position without a break in service. We also have to contend with the issue of earnings limitations since a number of key positions are unlikely to fall within the five existing worker type exceptions to the earnings limitations law.

4) Tax Consequence Guidance

The Department is also working with SRA to seek guidance from tax counsel to address the issue of service retirement distributions and normal service retirement. In light of the prohibition of distributions prior to normal service retirement age, a determination is needed regarding whether a phased retirement program would satisfy provisions of the Internal Revenue Service (IRS) if participation was limited to members who had reached normal service retirement age.

The Comprehensive Plan

The Department hopes to have answers to the In Progress Action Items for the July 1 report so that a comprehensive phased retirement program plan can be developed. At that point, we will begin to determine what types of changes to Maryland's Pension Law need to be made in order for a program to work within the confines of the current IRS rules.